Chapter I

A BRIEF REVIEW OF RURAL INDUSTRIALISATION IN WESTERN EUROPE AND SELECTED ASIAN COUNTRIES

This chapter aims at presenting a perspective on rural industrialisation by discussing the historical experiences of selected countries of Western Europe and East Asia. For Western Europe, our discussion would be mainly confined to Britain, although occasional references would be made to Germany. As regards Asia, the countries considered here are Japan and China. The discussion would highlight the essential characteristics of rural industrialisation in the countries mentioned above. These are: (i) the transitional nature of the rural industrialisation between handicrafts and factory system and its relation with the transition from feudalism to capitalism, in the context of Western Europe,\(^1\) (ii) co-existence of the rural industries with the factory in the Asian countries,\(^2\) (iii) effective State intervention in promoting rural industries, as in Japan,\(^3\) and (iv) rural industrialisation under conditions of 'socialism' - the case of China\(^4\).

Rural industries may not necessarily be located in only rural areas. Small towns and sub-urban areas may also be centres where rural industries exist, as these areas provide some infrastructure, including trading services. Further, rural industries are not a homogeneous category - they can comprise 'petty production'\(^5\), primarily based on the putting-out system, small scale capitalist manufacturing and even factory production system. However, the prevalence of these various categories of industries also varies across countries depending on the historical path and stages of development.

In Western Europe rural industries had generally been a part of the transition from manufacture of handicrafts to factory production. These industries emerged and flourished in the phase prior to the

\(^1\) Rural industries in Western Europe flourished during the transitional phase and they declined with the growth of factory production. See Marx (1986a), Ch. XV, Dobb (1963) and Kriedt et al (1981).

\(^2\) Rural industries did not decline with the growth of factory. Contrarily, both the factory and rural industries grew side-by-side while maintaining symbiotic relations. See Lockwood (1954).

\(^3\) Success in industrialisation in the East Asian countries has been attributed to a great extent the effective State policies and their strict implementation. See Takahashi (1969) and Saith (1987).

\(^4\) The Chinese success in rural industrialisation under 'socialism' is also marked by effective State intervention and the co-existence of small industries with factory, see Wheelwright and McFarlane (1970). In the post-reform period, the growth of rural industries can be seen in terms of the economic continuity of the past, particularly the achievement of rural development in the pre-reform period, and still the role played by the State in combining private and cooperative initiative through planning in the later period, see Section III below.

\(^5\) For the definition of petty production see Dobb (1963), pp.85-6.
industrial revolution and then declined with the fast growth of factories. The experiences, however, vary across countries, as for example between Britain and Germany, in terms of the length of transition, the path of transition and the key elements influencing the process. Some Marxian scholars have observed in this context that capitalist development undermined petty production and that pre-modern industries and the pre-factory mode of organisation tended to decline. The process of accumulation and differentiation, these scholars concluded, eventually resulted in a decline of the petty producers giving way to factory production.

In Asia, unlike Western Europe, rural industries continued to exist along with the spread of modern industries in the 20th century. A symbiotic relationship developed between the two forms of enterprises - rural industries were engaged both as assembling units for the large industries and as suppliers of semi-processed inputs. A distinguishing feature of rural industrialisation in the Asian countries has been the role played by the State in promoting industries, as will be described below. However, the nature of State intervention in the two country cases dealt with here are quite different. While in Japan the State regulated the process of industrialisation without getting directly involved in the setting up of industries, in China, till the late 1970s, the State played an active role in the setting up of rural industries. The Chinese Government adopted a decentralised strategy and formed communes which became self sufficient units and produced most of the goods and services for the


7 By 'path' we mean whether the leading role in the capitalist development was played by the big merchants (often aided by the State) who turned to manufacturing or by the emerging small and medium scale independent entrepreneurs who also combined trading. The issue of the transition from feudalism to capitalism, particularly the role of merchant capital in this process of transition was, however, debated between Dobb and Sweezy. Other notable contributors to this debate were Hill, Hilton and Takahashi. See Hilton (1976). For subsequent discussion on these themes see Brenner (1985).

8 Concerning the expansion of the rural industries in the first half of the 19th century see Landes (1969) pp.188-90 and Sharter (1967).

9 See for example Dobb (1963), p. 22.

10 Ibid. See also Takahashi (1976), pp.93-6.


12 Exceptions were the 'strategic industries' which the Government set up for military purposes and promotion of exports. However, excepting the armament industries, the Government sold these industries to private entrepreneurs. See Norman (1940), pp.27-29.

local requirements. Communes manufactured all the necessary tools, implements and machinery, fertilizers, consumer goods and construction materials, by using primarily locally available resources. In the more recent decades, since the initiation of economic reforms, the State has brought about several policy changes, such as, promotion of agriculture and consumer goods sector, and further decentralisation of economic decision making and relying more on the market to provide incentives and guide decisions. However, these reforms notwithstanding there remains an important element of continuity from the previous regime, as will be discussed below.

The discussion in the present chapter would be in four sections. The Western experience of rural industrialisation and its relation with the transition from feudalism to capitalism will be discussed in Section I. In Section II, we shall deal with the experience of Japan. The Chinese experience of rural industrialisation for both the pre- and post-reform periods will be dealt with in Section III. Finally in Section IV, we shall summarise the experiences of the countries mentioned above and try to formulate a scheme for studying rural industrialisation in the present context.

1.1. Rural Industrialisation in Western Europe

The growth of rural industries in Britain and parts of Western Europe, variably termed as proto-industrialisation, has been viewed by the economic historians as a transitional phase between handicrafts and factory, which was roughly between the 14th and 18th centuries. The characteristics of this transitional phase have been brought out in the extensive body of literature that is available. Dobb's seminal study on the emergence of Western capitalism provided the basis for several important contributions subsequently. As opposed to this, but quite unrelated to the former, have been the views expressed by the members of the German Historical School. The different views in regard to the characteristics of the proto-industries, their origin, growth and decline in the context of the transition from feudalism to capitalism would be discussed in this section.

a) Conditions Leading to the Emergence of Proto-Industries

An important characteristic of the proto-industries was that manufacturing activities were primarily organised by the merchant class through the traditional putting-out system. The merchants supplied raw material to peasants/artisans who manufactured the products using traditional techniques and employing family labour, and eventually sold the finished products to the merchants. These

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14 See foot note number 6.
peasant-artisans, who had either insufficient or no land, took up manufacturing for their sustenance but became increasingly subordinated to the merchants for procuring raw materials and selling their products. The dominant role of the merchants, as opposed to a purely intermediary role, arose from the fact that the producers were often affected by market fluctuations which caused them to borrow from the merchants the materials needed and thus get caught in a treadmill of debt. Marx noted that the merchant capital, in the early stages had a purely external relationship to the mode of production, i.e. the 'mode of production remained independent and untouched by Capital'. The merchant was merely 'the man who removes goods produced by the guilds or peasants' in order to gain from the price differences between different productive areas. In the later phase, merchant capital began to establish control over the process of production, partly in order to "deteriorate the condition of the direct producers ... and absorb their surplus labour on the basis of the old mode of production" and partly in order to transform it in the interests of greater profit and the service of wider markets.

Sombart, the founder of the German Historical School, who claimed to have extended Marx's work, provided a different interpretation. He viewed proto-industrialisation as the manifestation of a particular form of capitalist development. He noted that "the history of domestic industry [between 14th and 18th century] is the history of capitalism... disguised in this form capitalism likes to steal its way into an economic region".

The merchant capitalist class, which contributed to the growth of proto-industries, was seen to play an important role in the transition from feudalism to capitalism. The German Historical School saw a determining role being played by merchant capital in the transition. Thus, according to Pirenne, whose views are close to those of the German Historical School, along with the expansion of trade and commerce that began in the 12th century, the merchant capital eventually broke the feudal system and gave birth to capitalism. Pirenne added: "From the accumulated profits of the expanding trade,

15 The process of land alienation and the removal of restriction on the peasants' operation along with the growth of population and the class struggle between peasants and landlords have been discussed by the economic historians. See Aston and Philpin (1985).

16 See Marx (1986c), p.335. A similar observation has also been made by Landes (1969), p.43.


18 See Dobb (1963), p.123. Marx also stated, "The independent and predominant development of capital as merchant's capital is tantamount to the non-subjection of production to capital developing on the basis of an alien social mode of production which is also independent of it" (Marx (1986c), pp.327-28).

19 Ibid, p.335.

small capital grows to become large capital, some of this capital originating in the sphere of commerce, flows over first into the purchase of land and then into production - into the employment of free wage labour in production\textsuperscript{21}.

This study by Pirenne, particularly of the contribution of merchant capital in the dissolution of feudalism and the emergence of capitalist manufacturing entrepreneurs, has been an issue of intense debate among the Marxists\textsuperscript{22}. Dobb, although recognising the importance of the growth of trade in influencing the dissolution of the feudalism, maintained that the crucial factors were the contradictions which arose between the feudal lords and the serfs. The declining population (since 1300) caused a shrinkage of revenue of the lords on the one hand, and rising expenditures by them on luxury goods and on the maintenance of the army on the other hand\textsuperscript{23}. The immediate reaction of the nobility was to raise revenue/rent which led to peasant revolts and also the fleeing of the peasants to urban areas in spite of the restrictions on their movements imposed by the demesne lords\textsuperscript{24}. The variations in the reactions of the nobilities and the outcome of the conflicts between the lords and the peasants in different parts of Europe determined the later development of the regions\textsuperscript{25}.

In Britain, serfdom was abolished, labour rent was replaced by money rent and demesne lands were leased out to tenants who could invest capital\textsuperscript{26}. Brenner also made a similar observation that “with the peasants' failure to establish freehold control over the land, the landlords were able to engross, consolidate and enclose to create large farms and to lease them to capitalist tenants who could afford capital investment”\textsuperscript{27}. This, over time, resulted in a process of polarisation in the countryside:

\begin{itemize}
  \item\textsuperscript{21} Referred to by Dobb (1967), p.5.
  \item\textsuperscript{22} Hilton (1976).
  \item\textsuperscript{23} See, Dobb (1963), pp.48-50. In this regard Postan observed that from 1000 to 1300 there had been a fast growth of population which caused extension of cultivation even into the marginal land. Over time population growth surpassed the growth of agricultural production. This ultimately led to the emergence of a phase of declining population during the 14th century, see Postan (1966), Ch 7. This interpretation of Postan is later labelled as neo-Malthusianism by Brenner. See Brenner (1985), p.13.
  \item\textsuperscript{24} Dobb (1963) pp.49-50.
  \item\textsuperscript{25} Ibid, pp.51-52. This issue has also been thoroughly discussed in Brenner's debate. Brenner argued that the peasants' resistance was successful in France enabling them to establish rights to land. In Eastern Europe failure of the peasants caused intensification of the serfdom (labour rent) which is termed as 'second serfdom', and in England the success was partial: money rent replaced labour rent but the peasantry failed to establish property rights (Brenner (1985), pp.31-7, 46).
  \item\textsuperscript{26} Dobb (1963), pp.59-60.
  \item\textsuperscript{27} Brenner (1985), p.49.
\end{itemize}
a mass of semi-proletariat developed together with capitalist farmers through the process of differentiation among the peasantry.

Sweezy interpreted feudalism exclusively in terms of the relations between landlords and serfs and assumed it as a static system to which trade and urbanisation were external forces. He then brought in Pirenne's model and stated that the external forces of growing trade raised the demand for luxury goods of the nobility, on the one hand, and on the other created space for the serfs to escape from the villages in the face of growing revenue demand by lords, which eventually caused the dissolution of serfdom. Dobb however, reiterated that it was the interaction of trade with class struggle between the lords and the serfs, which led to the break down of feudalism. He pointed out that the "existence of trading bourgeoisie/trading capital in the late medieval period did not automatically dissolve the feudal system; nor were the interests of feudal nobility and traders in conflict with each other."

b) Expansion and Decline of Proto-Industries

As regards the interpretation of the origin and growth of rural industries there exist certain common points as well as important differences in the arguments between the German Historical School and the Marxist economists. The major difference is with regard to the conditions of labour supply to which the former paid much attention, as will be discussed below. However, both groups tried to explain the origin and growth of rural industries primarily in terms of the expansion of trade during the early modern period and the resulting bottlenecks of supply which could no longer be overcome within the framework of the guild system.

It has been argued that urban crafts had been flourishing in the high Middle Ages, a phase that saw the growth of the network of towns or guilds after the process of disintegration of the feudal system had began. This gave rise to a social division of labour sharply demarcating the country and the town. In the former, labourers specialised in agricultural production generating surplus for urban population and in the latter, workers specialised in the art of manufacturing. In course of time, further

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31 A craft guild was an organisation of craft workers specialised in accordance with the type of occupation, in the urban areas. It functioned through (i) internal regulation of works and (ii) monopolisation against outsiders. For a detailed discussion on the guild system, see Weber (1927), Ch. IX. See also, Kriedt et al (1981), p.22 and Dobb (1963), pp.129-33.
32 Dobb, 1963, pp. 70-82.
growth of urban industries tended to be limited because the guilds imposed severe restrictions on the supply of labour, materials, etc. From the 14th century onwards there had been a flight of merchant capital from the town to the countryside where some industries tended to develop and by doing so the merchants avoided guild restrictions. This inflow of merchant capital opened up a new vista of industrial employment in the countryside where the process of differentiation and polarisation had already created a pool of labour force, as referred to above. These rural industries spread in different parts of Europe.

The German School characterised the rural economy in the early medieval period as a 'natural economy' where production was carried on for household or local consumption. These closed social units were opened up with the penetration of money economy and merchant capital into the rural areas. A major part of the traditional manufacturing activities in the rural areas was highly seasonal and meant for own-consumption or the local market; but with the high growth of population and the resultant fragmentation of the family holding a sizeable section of the rural people took up manufacturing as a subsidiary occupation or as an exclusive source of earnings. Initially, some rural export industries were established in the regions where agricultural productivity was low and cultivation was not profitable. Subsequently, these industries were developed in other regions too.

The important factors that contributed to the process of rural industrialisation in Europe, according to the German Historical School, were (i) mercantile expansion, (ii) opening up of hitherto closed social units, (iii) disintegration of the manorial estates, (iv) growth of towns and (v) a sizeable growth of population. The interrelations between these factors, were, however, not analysed. It is also not clear from their analysis how the rising population became the major source of labour supply to the rural

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33 In fact the Guild merchants maintained their monopoly by imposing several restrictions in terms of prices, quality of products and quantity produced, sales, purchases of raw materials, tools, implements, employment of labourers, journeymen, apprentices, installations of looms, etc. For a discussion on the role of city as a retarding factor in the formation period of capitalism see, Weber (1927), Merrington (1976), p.189, Dobb (1963), pp.93-109 and Kriedt et al (1981), p.22.


35 See Hobsbawm (1965).


37 Postan argued that in the late medieval period the population growth exceeded the growth of production. In agriculture, there emerged diminishing productivity and consequently a declining per capita income. See Postan (1966).

38 In the East Central, Eastern Europe and Russia the rural industries developed at the end of 17th century (Kriedt et al, (1981), p.23). See also Hobsbawm (1965).

industries since in a feudal system, population growth did not automatically lead to labour supply to industries in the rural areas. The growing numbers of people were either forced to stick to land by the lords, or escaped to cities. This aspect has also been discussed at length in the Brenner debate referred to above. As regards the spread and the pace of growth of rural industries, Kriedt stated that the merchants rushed to the countryside in increasing numbers to invest their capital in the industries enjoying an expanding market along with the spread of monetisation and trade at domestic and international levels. The continued expansion of the merchants' activities in spatial terms was the primary reason for the enormous rise in industrial production during the period of proto-industrialisation.

The rise of rural industries was accompanied by their considerable dispersion. The explanation for this phenomenon was provided by Landes: "Up to a point the rural manufacture expanded easily by opening new areas - moving from the environs of the manufacturing towns into nearby valleys, invading less accessible mountain regions, spreading like a liquid seeking its level, in this case the lowest possible wage level. It was in this way that the woollen industry filled the dales of Wiltshire and Somerset and came to thrive all along the Welsh marches by the end of the sixteenth century."

The spread of the handicraft industry in the transition period, according to Dobb, took place in two main ways: "Firstly, a section of the merchants at the head of companies such as the Clothworkers, Drapers and Leather-sellers, Cordwainers, Cutlers and Pewterers began to turn their capital towards the encouragement of domestic handicraft production in the countryside and the suburbs of towns on the 'putting-out system' - advancing raw materials to the craftsmen (later supplying as well their actual working implements, as in hosiery knitting), and marketing the finished product. Secondly, the more prosperous among the craftsmen as well as also the kulak element among peasant farmers established their own contacts with the market, and accumulating a little capital themselves organised the putting-out of work to poorer craftsmen on a half-wage half-subcontracting basis."

40 The question may be raised about the conditions of the growth of the industries, particularly the availability labour supply. Laduri's (1966) extension of Postan's neo-Malthusian interpretation into the period 15th to 18th century, in terms of population growth, fragmentation of holdings, and spread of money economy was severely criticised by Brenner (1985) who argued in terms of class struggle between landlords and tenants (see Brenner, 1985, p.49). Secondly, the restrictions imposed by both the demesne lords and the town authorities on the movement of labourers from the country to the cities (Dobb (1963), pp.58-62) kept a significant part of the potential migrants trapped within the countryside, and this might have been the main source of labour supply to the proto-industries in the rural areas.

41 Landes (1969), p.57. Landes further noted, "On the continent the growing woollen fabriques of Verviers and Monschau were seeking their weavers in the Limburg by the mid-eighteenth century, while the cotton manufacturer of Normandy, after covering the Paps de Caux, was spilling over into Picardy" (ibid).
During the Tudor period, the existence of small to middling-sized 'clothiers' was significant in the small country towns and districts which were "apt to be strongholds of the Parliamentary cause in the English Civil War."\(^{43}\)

Dobb indicated that there were two roads to transition as stated by Marx. According to the first, "the [independent] producer becomes merchant and capitalist" (through the process of accumulation and differentiation) which Marx called 'the really revolutionary way', and in the second, 'merchant 'takes possession in a direct way of production': a way which though it 'serves historically as a mode of transition', 'nevertheless cannot by itself do much for the overthrow of the old mode of production, but rather preserves it and uses it as its premise'; and eventually becomes 'everywhere an obstacle to a real capitalist mode of production'\(^{44}\). Elaborating further, Dobb stated that in Germany the putting-out system widely prevailed but it was monopolised by the merchants of the cities. The second path was therefore in evidence\(^{45}\). As regards the first path of transition, Sweezy was inclined to assume that capitalist manufacturing emerged not necessarily from the petty producers but from those moneyed people who straight way entered into factory production without going for the intermediate stage of putting-out\(^{46}\). The entrepreneurs Sweezy had in mind were possibly those whom Mantoux termed as 'artificial' entrepreneurs who survived only with the support of State, or the wealthy businessmen who were reluctant to enter in modern manufacturing and often in alliance with the feudal lords tried to preserve their monopoly and the old mode of operation\(^{47}\).

Takahashi made further clarification of the Dobb view, of the 'first path', arguing that the small- and medium- scale industrial and commercial capitalists who had been engaged in employing artisans became, through the putting-out system, the merchant manufacturer\(^{48}\). At any rate, along with the slow process of accumulation of capital of the emerging entrepreneurial class, there emerged institutions, like those engaged in finance, enabling conversion of accumulated capital into money to


\(^{43}\) Ibid, p.13.

\(^{44}\) Dobb (1967), p.12.

\(^{45}\) Ibid, p.13.

\(^{46}\) Sweezy (1976), p.55.

\(^{47}\) See Dobb (1976), pp.63-4. The 'English revolution' in the 17th century, according to Dobb, was made by the emerging producers of the small and medium-scale against the monopolies of the big merchants, and in favour of free operation of the enterprises.

\(^{48}\) Takahashi (1976), p.94. Takahashi further interpreted 'Way No.2' as the growth of capitalist manufacturing through State protection and patronage and through merchant oligarchies (pp.90-94).
purchase machinery and other capital for investment in industries in which already a slow process of innovation started in the 16th century and 17th century. The process of innovations and investment multiplied leading to the emergence of the factory. And thus, the adoption of the process of mechanisation and bringing production activities under centralised supervision and under single workshed on a large scale can be interpreted simply in terms of the continuation and culmination of the process of invention, innovation, institutional changes, growth of free labour and the evolution of a particular entrepreneurial class.

The German Historical School, on the other hand, interpreted the emergence of capitalist manufacturing in terms of the contradictions which appeared between the laws of family economy and the demand for growth of the industries with the fast expansion of trade and market at the national and international levels.

In the late 18th century England, the possibilities of further expansion of the proto-industrial system were becoming increasingly limited as the possibilities of geographical expansion had been largely exhausted. The proto-industrial system encouraged the growth of production up to a certain level. It could no longer step up productive forces which could sustain a continued output expansion. There was little improvement in the technique of production and the quality of products. The cost per unit of output was rising, particularly because of the rising transport cost, as the merchant tried to reach out to the interior regions for mobilising labour. Furthermore, scarcity of some key-resources

49 It is noted by Usher that for many of the 16th and 17th century industries the obstacle to the use of more power was cost and physical availability quite as much as mechanical difficulty of applying them, with the result that invention at this time merely tended to supplement the works of men and animals and had little influence upon the general structure of industry (cited in Dobb (1963), p. 263).

50 The development of techniques occurs through a series of stages of modifications (Usher (1954), p.63) and their effective application often required complementary innovations in other industries (Rosenberg, 1982).

51 That is the labour supply of a family would depend upon, (i) the consumption requirements of the family and (ii) the availability of spare time after meeting household work of the family members.


53 In this context Kriedt et al (1981) noted that during the boom phase in the late 18th century “when merchant or putter out would mobilize every last productive-reserve, and which manifested itself in backward-bending labour supply curve, the proto-industrial system eventually had to end and make the transition to a different system as the forces of production reached a new level” (p.136). In spinning the labour shortage was more severe leading to imbalances between spinning and weaving sectors (pp.58-9). A similar observation regarding labour shortage has also been made by Landes (1969), p.57.

54 See Kriedt et al (1981), p.136; Mendels (1972). In this context, Landes (1969) observed that “the worsted weavers of the West Riding were buying yarn in the northern dales and as far afield as East
like water-power and timber along with the recruitment of unskilled labour compounded the problem of cost management. This led to a search for labour saving technology and centralised production system\(^{55}\) (i.e. under single worksheen with centralised supervision). In the cotton industry, for instance, Kriedt observed that the "innovation of spinning machines of 1760s and 1770s ... and their installation in central buildings made it possible not only to control part of the production process, but also to eliminate the disequilibrium between yarn and cloth... To be sure, exactly the reverse disequilibrium appeared owing to increasing production of yarn, especially after the steam engine came into use...

Machine spinning called for machine weaving\(^{56}\). The above arguments of the German Historical School seem to be highly stylised. Firstly, it is not clear to what extent labour shortage contributed to the decline of rural industries. The labour shortage of the 18th century referred to by Kriedt, was not likely to be a general problem in Britain\(^ {57}\), it may well have been the shortage of skills in specific industries like textiles. In fact, in the textile industry, it was only several decades after the beginning of the industrial revolution that the factory system became widely prevalent. In cotton textiles, it was not until the 1830s, i.e., more than half a century after the innovations by Arkwright and Crompton, and almost a half-century after Cartwright's invention, that the powerloom came to be widely used. Similarly, in the woollen industry, power machinery only won its victory in the course of the 1850s\(^ {58}\). On the other hand, in other industries like chemicals and iron, the factory emerged much earlier. Some forms of manufactories combining some mechanical innovations and division of labour with centralised supervision, emerged long before the industrial revolution - in the 15th and 16th centuries - in weaving, dying, mining, etc\(^ {59}\). In some of

Anglia. In Lancashire by mid-century, weavers were walking miles to collect the weft needed to keep their women busy, and buying the spinsters with ribbons". Landes, however, did not find any squeeze in profit (p.57).


\(^{57}\) We have already discussed that the process of consolidation of farms and the differentiation of the peasantry already created a mass of wage workers. The enclosure movement substantially detached cottagers from the land making them available for industrial employment (Dobb (1963), p.239). In addition, the mechanisation of some industries displaced labour force from the industry. The evidence of growing resistance by the labourers to mechanisation (Marx (1986a), Ch. XV) also indicates job scarcity rather than labour scarcity.

\(^{58}\) The textile had been the major part of the proto-industries. The textile industries faced labour shortage, see Dobb, 1963, pp.264-5).

\(^{59}\) Ibid, pp.138-39. Mantoux noted that the factory system emerged one, or even several, centuries earlier than the beginning of 'industrial revolution'. He provided numerous evidence of the existence of factories in France, Germany and England in the 16th century (Mantoux (1961), pp. 29, 89). He
these industries "technical developments had already progressed sufficiently far to provide a basis for
the production of a factory type". Paper, gunpowder mills, sugar refinery made further progress in
the late 17th century making factory production relatively simple one.

The proto-industries failed to compete with the rising factories and started declining in the
latter half of the 18th century. However, the proto-industries and the putting-out system continued to
survive in some manufacturing activities long after the growth of the factory. One important aspect
of the co-existence, particularly in textiles and mining, was that a part of the production process was
mechanised and carried on under single workshed (e.g. spinning) and the rest was done through the
putting-out or sub-contracting (e.g. weaving, lace making). This symbiosis of factory organisation
and the putting-out system however did not survive long as the momentum of technological
innovation, growth of factory and mechanisation dissolved the latter system during the closing years
of the 19th century.

In sum, rural industry emerged as a transitional stage in Europe prior to the emergence of
factory system. This transition at first, however, took place in Britain and, in the Continent, industrial
development occurred in response to the 'English challenge'. It may be mentioned in this context that
the European experience of rural industrialisation or the 'proto-industrialisation' thesis (i.e., rural
industrialisation was necessarily a transitional stage, which was a precursor to the development of
modern industries) may not be considered as a general paradigm of development. Or it may be said

however observed that these factories emerged under the royal patronage without which they could
not survive (p.32). It was only in England that some factories emerged in the early 16th century which
were not 'artificial' or 'prompted by outside influence' (p.34).

Dobb (1963), p. 139.

Dobb (1963), pp.139-44. In the manufactures "differentiations of the instruments of labour - a
differentiation whereby implements of a given sort acquire fixed shapes, adopted to each particular
application simplifies, improves and multiplies the implements of labour by adopting them to the
exclusively special functions of each detail labour. It thus creates at the same time one of material
conditions for the existence of machinery, which consists of simple instruments" (Marx (1986a),
p.323). See also the discussion in Dobb (1976) on the negative attitude of feudal institutions in
adopting modern methods of production (pp.65-6).

For example, in textiles, mining, cutlery, leather work, gun making, etc., rural industries existed
to a substantial extent in the middle of the 19th century. See Dobb (1963), pp.264-65, Mantoux (1961),
p.89 and Pollard (1965). Landes (1969) noted that the "economic basis for the survival of the older
modes of production is to be found partly within them, partly in the demands of the factory system
and the general growth attending its development...While the factory is able to turn out more goods
cheaper, the shop can work more economically to special order" (p.118). See also Staley and Morsey
(1965), Chs. 2 and 3.

that the above mode of transition was unique to Europe. In Britain, the transition took place over a long period. Serfdom declined in the 14th century after a long struggle between the serfs and the demesne lords. But as the peasants were unable to gain any secured property rights in land, there emerged a slow process of consolidation of holdings and the differentiation of peasantry creating a class of 'Kulak-type' farmers and semi-free proletariat. In industry, along with the growth of merchant capital, there slowly emerged an independent entrepreneurial class from the ranks of artisans/producers who adopted modern manufacturing, employing hired labour and eventually overthrowing the old mode of production. This transition was what was described above as the first path, the path characterised by Marx as the 'really revolutionary way'. One relevant observation is that a symbiosis of putting-out and factory organisations prevailed in some industries during their transition which has an element of similarity with the East as will be discussed in the following section.

Secondly, the experience of industrial development of China and Japan would suggest a different role of rural industry which, instead of declining, flourished together with urban industries while maintaining symbiotic relations between them.

1.2. Rural Industrialisation in Japan

The pattern of industrialisation, especially the growth of rural industries, that took place after the Meiji restoration in Japan was significantly different from that of Europe. As we have stated above,
rural industries emerged and flourished in the West under the aegis of merchant capital in the pre-industrial revolution phase and the flourishing factory industries caused the decline of the former. The role of merchant capital in the process of transition from the phase of rural industries to the factory industry was, however, debated. Some argued that the big merchants generally had been reluctant to invest in modern manufacturing and attempted to maintain their old method of extracting profit. They held that the modern manufacturers mostly emerged from the rank of petty producers and small traders over a long drawn-out process of accumulation and differentiation. The Western pattern was not followed in Japan where the growth of both rural industries and factory industries became an intrinsic part of modern industrialisation. In other words, unlike in Western Europe, the growth of factory industries in Japan did not result in the disintegration of rural industries, on the contrary some of these rural industries formed symbiotic relations with the factory industries and both grew simultaneously. Moreover, the predominant organisational form of the rural industries, notably putting-out or subcontracting, was also integrated with the large modern industries. This phenomenon of co-existence (but not necessarily of integration) was observed in case of a few industries in Britain too for a brief period, and in the Continent for a relatively longer period, during the transition, as mentioned earlier. But in Japanese industries this symbiosis took a full-fledged capitalist organisational form. The present section is devoted to a discussion of how this happened. We would see that the predominant role in the Japanese transition was played by the samurai and the merchant class. Although the latter had initially refused to participate in modern ventures, over time they adapted to the path initiated by the Samurai entrepreneurs. And the context in which this occurred was one where capitalist development did not emerge through the process of a bourgeois democratic revolution; it was the State which faced with the 'perceived threat of Western colonisation' adopted conscious policies of quick industrialisation so as to strengthen economic and military power.

65 One important aspect of the Dobb-Sweezy debate was with regard to the social background and the condition of the emergence of the capitalist entrepreneurs/manufacturers. Inadequacy of historical material describing the case history of the individual entrepreneurs provided ample room for debate. In Japan, however, case histories of major entrepreneurs are well documented leaving less scope of debate.

66 Moore (1966) observed that the "Restoration was by no means pure class struggle and certainly not a bourgeois revolution... In some of its decisive aspects it was an old fashioned, feudal struggle between the central authority and the fiefs" (p.243). After the Meiji restoration, the industrial development took place under the merchant oligarchy (to be discussed later).

67 Takahashi (1969), p.10: already the Treaty of 1867 snatched Japan's sovereignty rights of customs. In the first three decades of the Meiji era the cabinet was concerned with how to overcome these binding treaty restrictions (ibid, p.13). Moreover, the Western power has colonised parts of China and some East Asian countries. "The informed Japanese of that time had a very deep awareness of the danger facing the country due to foreign pressure" (ibid, p.10). The Meiji government therefore
Given these distinguishing features of Japanese industrialisation, three aspects are required to be analysed in detail: (i) the overall economic conditions within which modern industrialisation began, (ii) the industrialisation strategies adopted by the State in different phases and (iii) the responses of the various social groups and the interactions among them determining the path of industrialisation in general and rural industrialisation in particular.

After two and a half centuries of isolation when Japan opened up under Western pressure in the 1850s and 1860s, her economy was typically feudal in character. There were some 'community industries' scattered over the counties, and a few mining and munitions factories operated by the clan administrations. As foreign trade was strictly prohibited during the period of isolation, the mercantile activities were confined among the counties centering Edo (now Tokyo) where a half of the samurai, clan lords and other nobles of the clans used to reside. As most of the agricultural surplus was extracted and a major part of it was spent in Edo, industrial and service activities were centred round that area. Because of her geographical situation, coastal trading through water transport developed to an extent. Osaka being the traditional port, the development of shipping industry took place around that area. There is evidence of the development of modern type banking and accounting in the pre-Meiji era; still the existing economy was predominantly agrarian in character.

Takahashi estimated that during this period, 80 to 85 percent of the population lived on the land, and of the rest, five to six percent were of the samurai class (military retainers of the feudal lords), another five to six percent belonged to the families of craftsmen and merchants, and the remaining were Buddhist monks, Shinto priests and the like. The economic foundation and the main source of wealth was the rice cultivation carried on by primitive methods which had changed little over centuries. The peasants were poverty stricken and were not free even to choose the crops to be

danger facing the country due to foreign pressure" (ibid, p.10). The Meiji government therefore "painted an image of future in which its great new mission involved an all-out effort quickly to establish a state featuring "national prosperity and national strength" (ibid, p.16).

Ibid, p.50.

Lockwood (1954) noted, "Accompanying the growth of cities in the seventeenth and eighteenth centuries, and fostered by the peace and unity...was a considerable development of manufacturing, mining and interregional trade. The home industry of farm household came to be supplemented by workshop production organised under the clan monopolies or craft guilds... Manufacturing was dispersed through rural villages [these industries were also called 'community industries'] or concentrated in castle towns and centres like Edo and Osaka" (pp.56-57). Trading activities were primarily confined to rice movement from the country to city, mostly in payment of feudal dues. There was only a limited exchange of manufactured goods, namely luxury items. See also Crawcour (1965).

Ibid, pp.56-57.

cultivated\textsuperscript{72}. The entire aristocratic hierarchy of some 270 daimio (territorial lords) and the samurai class was based on this agricultural surplus. Over 40 percent of the peasants' produce\textsuperscript{73} was annually extracted by the daimio and the Shogun (the hereditary Tokugawa dictator) for themselves and a vast army of vassals and retainers exceeding 2 million, and the remainder was barely sufficient to meet the requirements of the rest of the population.

There were several restrictions hindering the growth of the economy: (i) an almost complete ban on foreign trade and travel, and (ii) lack of freedom in occupation and enterprise, and social hierarchy among occupational classes. The traders and artisans were treated as the most inferior classes having no political right or social status\textsuperscript{74}. The Tokugawa rule adopted these stringent means to suppress the growth of any new force that was likely to threaten the feudal structure of the State. On the other hand, internal economic condition demanded a propping up of the forces of production. This was particularly so since the middle of the 18th century when the Shogunate and daimio faced perpetual financial crisis which could no longer be overcome by raising taxes on peasantry\textsuperscript{75}.

In this crisis, the affected class, apart from peasantry, was the samurai who found their rice stipend inadequate to meet the rising requirements\textsuperscript{76} and became impoverished and indebted to the

\textsuperscript{72} Lockwood (1954), p.4.

\textsuperscript{73} Alternative estimates indicate the extraction to be between 50\% and 70\% of the peasants' produce (Norman, 1940, p.23).

\textsuperscript{74} The traditional Japanese ordering of classes was as follows: warriors, farmers, craftsmen and merchants (Shi-no-ko-sho). See ibid, p.11, fn.1.

\textsuperscript{75} The Shogunate had imposed several financial burdens on the daimyo to keep their treasuries empty. These included maintenance of vassals and separate establishments in Edo and undertaking large projects in their clans by daimyo. All these were financed from rice revenues extracted from the peasantry. The daimyo as well as the samurai classes became increasingly dependent on the merchant class for converting their rice into money (even for the transportation and storage of rice).

The debasement of currency (1860) and the consequent inflation heightened economic distress by precipitating a steep rise in commodity prices. This rise together with the violent fluctuation in the price of rice had a disastrous effect upon the Shogunate, the daimyo and their dependents, the samurai. The precarious finances of the Shogunate had now to bear the burden of the extraordinary expenditure on construction of forts, iron foundries, or indemnities for attacks on foreigners, and on the dispatch of envoys abroad - expenses which could not be met by any other devices than by increasing the exaction on agrarian population and by extracting forced loans (goyokin) from the merchants. The fresh exactions which the Shogunate and daimyo made of the peasantry stirred up still more desperate agrarian revolt. See Norman (1940) pp. 14, 15, 19, 41, 42.

\textsuperscript{76} The Shogunate emperor tried to overcome the crisis, in part, by 'disorderly debasement of currency', that is causing inflation (Lockwood, ibid. p.5). See also, Bronfenbrenner (1982), pp.98-99, regarding the decline of the social prestige of the samurai and the rise of social and economic power of business class.
chonin (merchants). A few of the impoverished samurai in some progressive clans adopted manufacturing which was no longer the socially most degraded activity as the established merchant class raised their social prestige and were able to weaken the restrictions on foreign trade and land transfer. This samurai class, especially the debased and lower ranked among them, brought down the Shogunate dynastic rule, and later in the Meiji period became the pioneers in industrial development.

Though the avenues of economic activities expanded in the closing decades of the Shogunate rule, the overall development of production forces remained at too early a stage to overthrow the feudal system. Yet, several feudal restrictions were removed within a decade after Meiji restoration without much resistance. This took place following the growing realisation that national strength could be built only through industrial development and that for this to happen, abolition of feudalism was imperative. Thus, caste hierarchy, restriction on occupation, trade and migration were abolished, property rights were protected, clans were replaced by prefectural Government under unified imperial rule.

The important agrarian reforms introduced by the Meiji Government in the early 1870s were the establishment of private property in land (including enclosure) which could be alienated, and a uniform and compulsory tax (3% of the value of the land) payable in money by the owner of the land. Small peasants working on their own pieces of land suffered much in the reform process due to natural calamities causing crop failure and price fluctuation of rice. They mortgaged or sold the land to the rich peasants and moneylenders and worked as share tenants. Dispossession of the peasants

77 These progressive clans in the face of financial difficulty introduced new manufacturing in order to raise revenue as the traditional source of agriculture was already exhausted.


80 Landes (1965) in his article, "Japan and Europe: Contrast in Industrialisation", provided a vivid description of the contrast between the reactions of the Japanese feudal lords and the German lords at the time of dissolution of their power. It is interesting to note that when the Meiji Government dissolved the clans and replaced by the prefectural administration, the Government assumed all the obligations of the clans, including granting the samurai the rice ration which subsequently converted into money and Government bonds. The last transformation was important one in the sense that the bonds were useable as financial business collateral and the banks could also create money with these bonds as reserve. See Bronfenbrenner (1982), p. 99.

81 Takahashi, ibid, ch.2.

82 Norman, 1940, p.141.

83 Ibid, pp. 143-45.
and growth of tenant holdings thus became a noteworthy feature in the Meiji period.

A similar process of peasant expropriation and concentration of land in fewer hands in England in the 16th to 18th century was accompanied by the emergence of large sized holdings facilitating capital investments and mechanisation. The dispossessed peasantry migrated on a large scale to the cities to join industrial workforce and the remaining worked as wage labour in agriculture. In Japan, however, the process was very complex, it did not precipitate a wholesale exodus of peasants to the cities in the years immediately following the Land Tax Revision. Norman observed that "because of the attractively high rent, the landlord or usurer has not been intent on driving off all the old tenants or peasant proprietors for the sake of taking over the enterprise himself; he has preferred to leave the peasant household working its tiny farm in return for an exorbitant rent". Further, in order to supplement family income the young members, particularly girls, moved to the city only for short periods. Some others had to depend upon domestic supplementary industries, such as spinning, weaving or sericulture. This vast reserve of surplus labour (reserve or potential) attracted small scale manufacturers to the countryside. The advantage of this cheap labour in the countryside was also taken by the big entrepreneurs of the city, as will be discussed later. The other consequence of this agrarian settlement was the insufficient purchasing power of the home market, which in the long run led the Japanese industries to look to the foreign market as the guarantee of future expansion and progress.

The Meiji Government, immediately after assuming power, made immense efforts to develop industries, particularly the armament and heavy industries which were called 'strategic industries'. Like the Continent which had emulated Britain in industrial development, the Japanese Government too tried to assimilate Western technology with which the native people had little knowledge. The Government introduced a number of measures ranging from sending the officials and scholars abroad

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84 Ibid, p.149.
85 Ibid, p.151. In fact, this had a very adverse effect on the development of capitalism in agriculture. The revised Land Tax System, high rent, usury or high interest rates, high profits in grain trade, prevented adoption of large scale farming or investment of capital in land. The question of capitalist development in Japan (in the 1920s) was widely debated among the Marxists in Japan. The 'Koza-ha' group traced the historical development of the "structural" links between the "feudal remnants" in the State (like the emperor system, merchants' oligarchy, etc) and economic backwardness in the countryside indicating the "semi-feudal" character of the emperor system. The "Rono-ha" asserted the primacy of capitalism in contemporary Japan and viewed the State as a composite of bourgeois functions producing policies designed to serve the interests of Japanese capitalism. See Hoston (1986), pp.186-87.
86 Ibid, p.159.
87 Ibid, p.166.
to study Western science and technology, public administration and applied arts, etc., hiring foreign experts to assist the Government in public administration and Government enterprise, and training workers/scholars in the Government owned institutes. It began to construct a modern system of communication, including the first railway line, a steam ship service and postal and telegraphic services, and it actively promoted the development of modern types of bank...it set about the establishment of new manufacturing industries. It had inherited a number of enterprises, including cotton mills, munitions works, shipyards and shipping services from the feudal government, and these it reorganised and expanded. During the 1870s factories with modern equipment were set up by the government in a wide range of industries... The government also gave financial assistance to private firms and sold to them on easy terms machinery which it had imported for the purpose. Most of its properties were, in fact, disposed of to private firms shortly after 1880, and subsequently the development of industries was left mainly to private enterprises. Allen further noted that the means employed for guiding the economy have varied, but one is left with the impression of a determination on the part of the authorities to bring the activities of the private entrepreneurs into conformity with the public purpose. During the last quarter of a century, despite many contrasts with the previous period, both in the state's objectives and the means which it has employed, there can be little doubt that its influence on development has been profound. Till the beginning of this century, public investment was larger than private investment - the former contributing 54 percent of the country's capital formation in 1901. Further, the Japanese Government was very active in improving the quality and quantity of social overheads together with raising military capability.

In the early decades of the Meiji era, the Government also felt the need for developing a new entrepreneurial class as the merchants of the time were busy in maintaining their old business (with a few exceptions like Mitsui) through the old mode of operation and declined to venture into risky

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88 Takahashi, ibid, pp. 115, 153-57.

89 Allen (1980), pp.99-100. Uyeda and Minoguchi (1936) commented that "every company or manufactory deserving of notice in any way has been furnished with capital by the government or has been endowed with special privileges by the same power" (p.19). Norman (1940), however, observed that a major part of the state investment was financed through borrowing from the big merchants (p.111).

90 Ibid, p. 100.

91 Ohkawa and Rosovsky (1973), p. 16. A major part of the State investments included expenditure on public works (rail roads) and military. However, detail break-up of expenditure on various sectors was not given.

92 Ibid.
modern manufacturing and other businesses\textsuperscript{93}. Here the old elite samurai class, whose economic and social positions were slowly deteriorating, took active part in entrepreneurship and management, intellectual pursuits and administrative bureaucracy. "The samurai spirit, a feudal remnant", noted Takahashi, "when stated in modern terms means that they [samurai] transcended all personal gains and desires, and dedicated themselves to the profit of their organisation whether it be the nation, the government, the society...And it was their ethic itself that was the most important human cause of Japan's political and economic development"\textsuperscript{94}. They slowly overcame their traditional contemptuous attitude towards trade and industry, and joined the modern business in increasing numbers under the slogan of "serve the nation through industry" with the spirit of "samurai by heart but businessmen in talent". This special mentality of the samurai businessmen was gradually adopted by the other businessmen and traditional merchants and slowly passed on to the following generation.

In its attempt to promote private initiatives, the Government sold imported machines and equipment and some State owned enterprises\textsuperscript{95} at very low prices and provided them at easy terms and conditions to the emerging entrepreneurs, primarily the samurai, and some rich peasants and the first generation businessmen\textsuperscript{96}. The establishment of modern banks and corporations fostered this growth of enterprises. The conversion of rice stipend of the samurai into bonds which were used as collaterals in securing loans from the banks helped the samurai to set up enterprises\textsuperscript{97}. Subsequently, entrepreneurs from different social backgrounds started pouring into the modern industries setting up numerous small and modern enterprises\textsuperscript{98}. However, most of the newly started enterprises soon fell into the grip of big merchants.

As we have already mentioned, the big merchants who were very close to the Government, showed hesitation in risking their capital in enterprises which required an immense outlay of capital. Big private capital preferred to remain in trade, banking and credit operations particularly in the safe and lucrative field of Government loans\textsuperscript{99}. For the purpose of facilitating exchange and credit as well as centralizing the available capital, the great financial houses, under Government advice and

\textsuperscript{93} This character of the merchant class was similar to the one noted in Britain. See Section I.


\textsuperscript{95} Most of the state owned enterprises were sold to few big merchants (Norman (1940), pp.129-31).

\textsuperscript{96} Lockwood, ibid, p. 118.

\textsuperscript{97} Bronfenbrenner (1982), p.99.

\textsuperscript{98} See Lockwood, ibid, and Norman (1940), p.114.

\textsuperscript{99} Norman (1940), p.111.
protection formed 'Commercial Companies' and 'Exchange Companies'\textsuperscript{100} Norman noted, "From this very early interest in credit and banking operations to the exclusion of other fields of investment, private capital in Japan was given a great start by the government's assumption of old clan debts. Merged with the financial power of the old feudal nobility...private capital has always favored banking as the chief outlet for capital investment...Banking capital, while growing out of all proportion to industrial capital, by the end of the 19th century gave a striking example of concentration, in this way continuously strengthening the position of the financial oligarchy or Zaibatsu. In Japan the concentration of capital... was accelerated by the Government's policy of subsidy and artificial encouragement\textsuperscript{101}.

Further, since 1880, the Government started disposing of a large section of the Government-controlled industry into the hands of the financial oligarchy\textsuperscript{102}. This greatly enhanced the power of the financial oligarchy, especially in view of the very low prices at which the Government sold its model factories\textsuperscript{103}. Norman observed that the "most important is the position of the smaller circle of the Zaibatsu, [namely, Mitsui, Mitsubishi, Sumitomo and Yasuda], ..., which, through the tremendous leverage given by their interlocking control over banking on the one hand and industry and commerce on the other, have been able to swallow lesser industrial concerns\textsuperscript{104}. For instance, those new industries of different scales which emerged as import substitutes, but soon switched over to exports, had to depend on the large entrepreneurs and merchants for the disposal of their products. Close associations of the large corporations with the banks and their knowledge of market made it possible to bring the smaller entrepreneurs under subcontracting\textsuperscript{105}. Further, the companies "had to get along as best it could with under-capitalization and high interest rates... [They] would use up their capital on hand in building and equipping a factory and then find that to commence operations they had to

\textsuperscript{100} Ibid.

\textsuperscript{101} Ibid, p.112.

\textsuperscript{102} 'Financial oligarchy' in Japan was qualitatively different from that in USA or Britain. While in the former it involved big business houses, in the latter it involved giant financial corporations.

\textsuperscript{103} Ibid, p.131. These financial magnates were favoured by the government because they provided financial support to the former.

\textsuperscript{104} Ibid, pp.131-32.

\textsuperscript{105} Lockwood (1954), pp. 199, 210. Norman (1940), observed that the industries competing with foreign products at home or abroad formed cartel, for example in the textiles in -1880s. The big merchants were able to secure control over the smaller enterprises in times of economic distress (pp.112-13).
resort to the banks for a loan. The interest rate reached up to 18% (at the end of the 19th century). Often the small companies failed to meet their financial obligation on such terms and soon became mortgaged to the banks. Even those small producers operating in the 'domestic industries' requiring less capital "in times have fallen more and more into the power of banking and loan capital. Merchants thereby established control over the small and medium enterprises as well as purchased several State owned enterprises, and emerged as Zaibatsu by the turn of the century. Precisely then, they introduced modern techniques in their factories, assisted the small and medium entrepreneurs to improve technology and product quality, partly due to social pressures and partly due to economic reasons. The merchants had thus turned into real industrial capitalist. The bigger business organisations developed symbiotic relations as with the smaller ones, as will be discussed below.

As regards the emergence of capitalist class in Japan, Norman observed that "industrial capital did not develop independently; the state initiated industrialization, developed it and turned it ...to a few private enterprises, mostly representatives of the great banking houses. In this process no new class of industrial capitalist was created; what took place was only the strengthening of banking and usury capital (including the more affluent nobility) and its partial transformation of industrial capital." Takahashi (1976) also made a similar observation that in "Prussia and Japan, the erection of capitalism under the control and patronage of the feudal absolute was in the cards from the very beginning...The organisation of feudal land property remained intact and the classes of free and independent peasants and middle-class burghers were undeveloped...Since capitalism had to be erected on this kind of soil, on the basis of fusion rather than conflict with absolutism, the formation of capitalism took place in the opposite way to Western Europe, predominantly as a process of transformation of putting-out merchant capital into industrial capital...It can be said that in connection with varying world and historical conditions the phase of establishing capitalism takes different basic lines: in Western Europe, Way No. I (producer into merchant) in Eastern Europe and Asia (merchant into manufacturer). He observed a deep inner relationship between the agrarian question and industrial capital, which

106 Norman, ibid.


109 Ibid, p.114. He further added that "This smothering of the seeds of independent class of industrial capitalist is a reflection of the immature, hot-house character of capitalism in Japan and of its serious weakness in this respect compared to strongest capitalist nations" (ibid).

110 Takahashi, 1976, pp.95-6.
determined the characteristic structures of capitalism in the various countries. This relationship was
analysed at length by Moore (1966). He argued that bourgeois revolution provided the democratic
basis of capitalism, as it did in Western Europe. In the absence of bourgeois revolution, "there came
a peasant revolution that in turn opened the road for totalitarian modernization in Russia and China.
Japanese development... followed quite a different course, closer to that of Germany. Though
mercantile influences undermined the agrarian order, there was...nothing that deserves the name of
successful bourgeois revolution. And the Japanese managed to contain and deflect peasant discontents
in such a way as to prevent a peasant revolution". Moore thus stated that in countries like Germany
and Japan where peasant revolution did not advance much, capitalist development had to be carried
out under the hegemony of the coalition of feudal autocrats and merchant oligarchy. In Japan, fascist
regimes emerged "whose main policies were repression at home and expansion abroad... the main
social basis for this program was a coalition between commercial-industrial elites (who started from
a weak position) and the traditional ruling classes in the countryside, directed against the peasants and
industrial workers." One of the main ingredients of fascism was the "landlords' appeal to nationalist
tradition, in order to deny the realities of conflicting economic interests." Japanese big businesses,
however, successfully resisted attempts to subordinate profits to patriotism... The whole period of
military hegemony and fascism was very favourable to business. Suppression of peasants restricted
the development of home market. It needed expansion abroad for both industry and military.

The above discussion highlights the fact that capitalism in Japan was superimposed with State
initiative on a feudal structure. As a consequence, domestic industrial activities, or at least a part of
them) were integrated into the new system under the control of the emerging monopoly capital.
Although the old domestic handicraft industry declined considerably, it "does not imply the atrophy of
all household industry as in 18th century England for instance; but it does indicate how first of all
foreign commodities and later Japanese machine industry, together with such factors as the annexation
of commons, forced the peasant to shift from the old type of domestic industry to the new. This was

111 Ibid, p.96.
113 Ibid, p.305.
115 Ibid, p.301.
chiefly sericulture, which became the supplementary household industry _par excellence_ in Japan._117_ The existence of the "vast reservoir of stagnant or potential surplus labor attracted small-scale manufacturers to the countryside." _118_

The growth of rural industries and the subcontracting relations amongst modern industries in Japan has to be analysed in terms of certain features of the growth dynamics, monopolistic control, labour supply, technological progress and scarcity of capital or unequal access to it. Firstly, in the pre-Meiji era, majority of the rural ("community") industries catered to local demand, and some of them, like, silk, sea weeds, shell button and tea, were meant for national market._119_ Trading in the latter products was monopolised by the merchants (mostly belonging to Osaka) who operated through tonyas (local traders)._120_ With the opening up of Japan and the resulting growth of exports of the products in the new markets of West, the industries grew substantially under the putting-out system. Since the 1880s emphasis was laid on developing the existing industries like the silk, ceramic, mining etc. and to promote industries under private initiative._121_ Of these, silk processing played a pioneering role in the development of Japan's modern factory._122_ Similarly, the porcelain ware industry was so stimulated

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117 Norman (1940), p.165. The growth of 'stagnant population' (who had very limited alternative employment opportunities and also could not migrate to city) intensified the need for such supplementary domestic industry for a large section of the peasantry. The number of agricultural households engaged in such additional work actually increased at least until shortly after the Great War (Ibid).

118 Ibid, p.109. Norman observed that the pressure of population was very high as compared to the availability of cultivable land. The alternative available to large mass of the surplus population was industry, but large-scale urban industry did not develop to a level sufficient to absorb the reservoir of labour (ibid, p.159).

119 See Hoselitz, Bert (1968). An interesting feature of the readjustment process was that in some cases, like shell-button industry, there had been initial centralisation of production and thereafter a subsequent relocation of parts of the production process in the rural areas. Only the final processing was done in the centralised urban factories. This was done to take advantage of cheap labour in the rural areas and scale and other organisational advantages of the large factories. See Takeuchi (1979).

120 In Japan the 'community industries' were dispersed in small units in the rural areas and small towns, see Yamajaki (1980). They utilised local resources and mostly produced for local markets, and were primarily based on traditional technology. The industries of silk, cotton yarn and fabrication, paper and paper lanterns, umbrellas, wood products, ceramics, lacquer ware, lens grinding, shell-button and doll making were important examples of the community industries. Some new industries like metal works were also operating on a petty scale. These rural industries grew slowly without much interruption till the Meiji restoration.


122 The other important aspect of the silk industry is that the silk export financed at least 40% of the Japanese imports of foreign machinery and raw materials over the long period, 1870-1930, see Lockwood (1954), p.94.
by export demand that it became the representative example of an existing industry assimilating and developing modern scientific technology. External demand therefore played an important role in the growth of these industries. Lockwood observed that there had been a rise in domestic demand for traditional-type products due to growth of labour productivity in agriculture and agricultural production\textsuperscript{122}. The issue of agricultural growth and labour productivity in agriculture during that period is, however, a controversial one\textsuperscript{124}. A close resemblance to the Western experience of the growth of rural industries and the control of town's merchants over it may be found in these industries of Japan\textsuperscript{125}. Lockwood's observation is also worth mentioning in this context: "The silk industry as a whole...continued to be essentially small scale and rural in character... In 1913, there were still 284,869 hand reeling establishments in the countryside, in addition to the 4701 machine reeling establishments. Weaving likewise remained a peasant occupation to a large extent. Much of the capital was accumulated from local sources, through increasingly the working capital of the filatures and commission merchants came to be provided directly or indirectly by large exporters and city banks\textsuperscript{126}. Of course like in other developed countries, some rural industries declined due to competition from imported and urban factory-made goods, and some others were relocated to the urban areas with significant degrees of modernisation\textsuperscript{127}. In general, modernisation of these artisan industries, both rural and urban, started in the early decades of this century, partly due to insistence of the State and partly due to the demand for improved quality as perceived by the merchants\textsuperscript{128}. This was also the beginning of modern putting-out system where merchants participated in technology improvement.

Small firms "employed comparatively simple techniques of production and small investment of capital, but were integrated increasingly within a framework of large scale marketing"\textsuperscript{129},

\textsuperscript{122} For the analysis of the decline of feudalism, technological progress and the growth of productivity of labour, in agriculture, see Lockwood, ibid, pp.93-94, 103-4 and ch.3.

\textsuperscript{124} For a discussion on the problems of various estimates of agricultural growth see Nakamura (1965) and Pennelope Francks (1992). Though the debate on the magnitude of the growth of agricultural production is not resolved, no one has denied that there was a positive growth in output after the decline of feudalism.

\textsuperscript{125} Allen (1980), pp.72-3.

\textsuperscript{126} Lockwood (1954), p.28. Lockwood also noted that the cotton weaving similarly spread in the countryside, although the spinning remained with the urban mills, p.30. See also Allen (1946), p.64.

\textsuperscript{127} For example in cotton textiles, the household industries were largely replaced by the big factories using imported steam powered ring frames and Indian cotton.

\textsuperscript{128} Lockwood (1954), p.193.

\textsuperscript{129} The process was intensified after the Second-World War when the great family combines (Zaibatsu) who were already dominating in the modern sectors of the Japanese economy, extended
transportation and finance. Their growth and mechanisation were considerably facilitated by wide distribution of electric power. With regard to small plants, Lockwood noted that in some “major industries they mushroomed along with the large factories, either specializing in particular types of goods, or serving as feeder or finishing plants for the big enterprises... plants of 5-50 [workers], in many trades, including a number of export trades admirably suited to Japan’s complements of capital resources and skills... It could also be flexibly adopted and specialized to serve various market for Japanese manufactures at home, and changing demands from abroad”[130]. The other factor which facilitated the growth of small scale manufacturing was that while assimilating Western technology, the Japanese adapted the large scale into more simple small scale ones without any loss of productive efficiency[131].

Finally, the pyramidal structure that emerged by the turn of the century in Japanese business organisation gradually took a permanent shape, both in terms of size and relationship. On one extreme of the spectrum, there were the big conglomerates or Zaibatsu, on the other there were tiny household producers. A range of medium and small entrepreneurs existed in between the two extremities. The big enterprises who were heavily engaged in domestic as well as foreign activities advanced loans to the small producers either directly or indirectly through the merchants and banks, and in the process acquired rights to dispose of the products of the small enterprises[132]. Lockwood observed that “the larger concerns were financially able to exercise far reaching influences over the sphere of small scale productions as well as that of marketing...it was this larger framework of finance and distribution which gave competitive strength and resilience to the whole system of small scale production”[133]. This kind of organisational structure, as discussed above, was due to the existence of excess labour supply, and the technological dualism, as seen to some extent in a number of industries in Britain for brief period and in the continent for a relatively larger period but dissolved with the further expansion of industries and technological progress (discussed in section one). Contrarily, in Japan, the system became more and more complex and symbiotic as well as efficient[134]. The larger firms not only

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their control indirectly over an increasing share of small scale commerce and manufacturing, (ibid, pp.59-60).

[130] Ibid, p.204-6.
[132] Ibid, p.211.
[133] Ibid.
[134] See Annavajhula (1989); Aoki (1984) described the modern hierarchic subcontracting system of Japan in terms of ‘quasi-tree-structure’ one important characteristics of which is that the same firm
marketed the products of the smaller ones but also assisted in many ways in improving product quality and introducing improved capital intensive technology for existing products or to switch over to more sophisticated and higher value added products. A number of strata was noted in the hierarchic subcontracting system. In many cases the actual manufacturing was contracted out to poor families where housewives did the assembly work at incredibly low piece rates.\textsuperscript{135} The relative success in combining the large and small enterprises in intricate pattern of cooperation became the primary factor in the development of Japanese industrialisation.

It may be mentioned that continuous involvement of Japan in wars was the most important factor in the development of engineering and heavy industries as it generated large demand for arms and ammunition. The workers, after acquiring skills in the armaments and related industries, often set up independent small scale workshops and were absorbed in the subcontracting networks.\textsuperscript{136} Saith notes further that "the armed forces (through their arsenals and armament demand) remained the corner-stone of the development of engineering and heavy industries from the Meiji through the pre-1945 period. The arsenals and supporting companies became the source of a flow of skilled workers who set up small workshops independently and were increasingly absorbed as sub-contractors... First, horizontal groupings of sub-contractors were encouraged to improve their efficiency. This faulted due to internal conflicts of interest, whereupon the prevalent vertical or pyramidal structure of parent-firm and sub-contractors was successfully developed."\textsuperscript{137} Putting-out system, therefore, played an important role in the expansion of heavy and engineering industries.

In a sense, Japanese industries were highly decentralised among small and medium producers and dispersed in the villages and suburbs. But a close look into the organisation of the industries would reveal that the producers were not operating independently in the local areas. On the contrary, they were very much integrated with and controlled by highly centralised monopoly capital. This marks the basic difference from Chinese decentralisation of industries which will be discussed in the next section.

The features of the Japanese transition resembled what Gerschenkron described as characterising the transition of 'late industrialised' countries. Drawing evidence from European countries he stated that "in case of very considerable backwardness the policies of the state tended to

\textsuperscript{135} Annavajhula (1989).

\textsuperscript{136} See Saith, 1987, p.256.

\textsuperscript{137} Ibid, p.226.
play a very important positive role during the years of big upsurge of industrial development"\textsuperscript{138}. He further noted that the more backward was a country "the greater was the part played by the special institutional factors designed to increase supply of capital to the nascent industries and, in addition, to provide them with less decentralised and better informed entrepreneurial guidance...[and] the less likely was its agriculture to play any active role by offering the growing industries the advantages of an expanding industrial market based in turn on the rising productivity of agricultural labour"\textsuperscript{139}. Japan however does not fully conform to the other characteristic of industrialisation in a backward economy which Gerschenkron emphasised, namely that large plants would predominate in the industrial sector\textsuperscript{140}. In Japan although the big industrial conglomerates, the Zaibatsu, were predominant, small plants and small enterprises remained numerous.

In sum, Meiji Restoration was an attempt at social engineering which tried to build up capitalism on the basis of State support. The political compromise of merchants with the feudal elements at the time of Restoration enabled the former feudal leaders to exercise far reaching influence during the Meiji period and even after it. The compromise, in the absence of significant bourgeois democratic movements and peasant uprisings, on the one hand maintained agrarian feudalism intact and on the other enabled a small group of merchants to consolidate and centralise immense capital through combining trading, banking and finance (often with the assistance of the State). The State played a vital role in providing initial capital and other assistance to the entrepreneurs (which were substantial for the big merchants), in the formation of skilled labour, and in technology import and upgradation, and in encouraging small and medium enterprises. The numerous small and medium enterprises that emerged, soon came under the control of the powerful merchants and started operating as subcontractors. By the turn of the century, these merchants emerged as the Zaibatsus, the big conglomerate houses, who then started modernising their enterprises by upgrading technology, and assisting small and medium enterprises operating under them in improving technology and product quality. The merchants thus turned into manufacturers.

The other consequence of preserving agrarian feudalism and annexure of commons that took place in Japan was the creation of a large mass of labourers who could not be employed in agriculture.

\textsuperscript{138} Gerschenkron (1966), p.79.

\textsuperscript{139} Ibid, p.353. Gerschenkron added that in case of England, industrialisation had proceeded without any substantial utilisation of banking for long term investment; industrialisation process was more gradual and the capital was accumulated first from earnings in trade and modernised agriculture and later from industry (p.14). By contrast, in the Continent capital was scarce and diffused, and the investment banking had been a specific instrument of industrialisation.

\textsuperscript{140} Ibid, p.354.
Medium and small entrepreneurs started pouring into the countryside to employ this cheap labour through the putting-out system in industries like silk. These new domestic industries continued to grow till the First World War and they were also technologically upgraded in the process. The peasants thus shifted from the old type of domestic industries to the new. Since this new domestic industry mostly catered to the urban market and foreign market (due to poor development of the rural market), the small producers and traders were gradually integrated with the monopoly capital, preventing them from existing as independent and localised production units.

The factors underlying the fast growth of Japanese industries can be summarised as follows: (i) the vital role played by the State in providing initial investible capital, formation of skilled labour and technology imports and upgradation, (ii) creation of vast reserve of cheap labour, (iii) the emergence of family combines which amassed large capital through a combination of large scale manufacturing, trading and banking, and then invested in modern manufacturing, and (iv) the subcontracting system which enabled a fast growth of output without loss of quality or any significant rise in cost.

### 3 Chinese Experience of Rural Industrialisation

In the previous sections we have discussed the pattern of rural industrialisation as observed in Britain and Japan. It was pointed out that the features of Japan's experience with rural industrialisation stand out in sharp contrast to that experienced by Britain. These are (i) that rural industries in Japan were not detached from the growth of factory industries, on the contrary, both types of industries developed simultaneously while maintaining symbiotic relations, and (ii) that the State played a determining role in the process of industrialisation. The above mentioned characteristics of Japanese rural industrialisation were also seen in China after the establishment of communist rule, although, as we shall elaborate below, the nature and extent of State intervention in the latter assumed an entirely different form. In this section, we would try to understand some aspects of the role of the State, notably planned intervention in industries and relative importance given to the rural industries, over different phases of development in the post-revolutionary China.

The Chinese experience has to be viewed over two broad phases with 1978 serving as the divide when the process of economic reforms was initiated. In the first phase, the hierarchic and decentralised organisational structure of the rural industries, constituting of county, commune and brigade-run enterprises, had evolved which was mainly instrumental in the fast growth of these industries.\(^{141}\) The decentralised industries considerably utilised the earlier rural crafts and skills which

\(^{141}\) Wheelwright and McFarlane (1970), p.49.
had developed since the ancient times. In fact, these traditional crafts and skills provided the basis for building commune industries. Further, vertical linkages were formed between the local and the central enterprises and there also existed horizontal linkages among the local enterprises\textsuperscript{142}. The linkages between the local and central enterprises took two important forms, viz. (i) technology transfer and (ii) skill formation of workers. The priority to self-sufficiency at the local level gave the rural industries altogether a unique characteristic - they produced almost the entire range of products: from iron and steel, cement, power, fertilizers, farm implements and machinery and other agricultural inputs to consumer goods, and processed agricultural products\textsuperscript{143}. The growth of these localised industries was very much related to that of agriculture.

After 1978, the Chinese State has initiated economic reforms. The main thrust of the reforms has been to decentralise economic decision making and to use market forces as the guideposts of the economy. The State brought about several changes in the existing organisational setup. Communes, brigades and teams were dissolved and some of their administrative responsibilities have been taken up by the township governments, village committees and villagers groups respectively\textsuperscript{144}. The State-owned enterprises and collective enterprises (previously owned by the communes) have been receiving greater autonomy as regards production planning, marketing, recruitment of workers, etc (i.e., managerial decision making)\textsuperscript{145}. Secondly, the new policy encouraged setting up enterprises under private initiatives (allowing private property), particularly, in the rural areas. Parts of the State owned and collective enterprises (or of their operations) have been leased (or contracted) out to individuals, households and groups\textsuperscript{146}. Several restrictions on the movements of goods, raw materials, etc. across regions were reduced so as to integrate the national market enabling the rural enterprises to sell their products to broader market and also exposing the rural enterprises to the competition from urban factory-made goods. In response to the new policy there has been a fast growth of rural enterprises (TVEs). Though, the new industries are qualitatively different from the rural industries developed under the communes in the previous regime, in a sense the former may be viewed as a carry over from the Maoist legacy, i.e., industrial dispersal or further expanding industries in the rural areas and small towns. Moreover, dispersed industries' skills of the previous regime provided the basis for TVEs - not only the latter utilised the skills and technology of the former, but also their entrepreneurs/managers

\textsuperscript{142} Sigurdson (1977), pp.91, 126.


\textsuperscript{144} See Byrd and Quingsong (1990), p.10.

\textsuperscript{145} Lee and Nellies (1990).

\textsuperscript{146} This system is called 'production responsibility system'.

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mostly came from the leadership of the commune, team and brigade. The substantial development of agriculture in the Maoist period contributed to the TVEs through providing market and materials.

1.3.4. Socialist Transition and Laying the Basis of Rural Industrialisation

In 1949, the Chinese economy was predominantly feudal, with enclaves of foreign capitalist industry in coastal cities. Modern industries were primarily light industries, although beginnings of heavy industries had been made. A few modern power stations supplied electricity to the large cities, but in the countryside these were virtually unknown. "Most manufactured goods in everyday use still were made by the traditional methods, either in the home or in very small handicraft industries, especially in the remote interior where the products of the Western commercial enterprises could not penetrate." The agricultural sector, which employed four-fifths of the population and provided the bulk of the national product, was extremely backward. It was characterised by low productivity of land and labour, wide prevalence of share tenancy and indebtedness of the tenants/poor peasants to the landlords-cum-moneylenders. Land distribution was highly skewed with the landlords and the rich peasants, consisting of less than 10% of the total population, owning 70% of the land.

During the period 1949-52, the Chinese Government made attempts at preparing the ground work for the socialist transformation of the economy by securing control "over the 'commanding heights' of the economy, such as banking, trade, railways, steel and other key industries. At the same time land reforms were undertaken with the redistribution of the estates of the landlords and rich peasants. But no large-scale nationalisation in agriculture or industries was undertaken with the exception of industrial assets belonging to supporters of the Kuomintang, who were allied to foreign interests.

As opposed to this, the Government allowed the 'national capitalists' who were small businessmen, often dispersed in the rural areas, and had tried to set up their own enterprises. These capitalists were considered to be a progressive force, possessing valuable skills, and the State policy

149 Ibid, pp.31-2.
150 Ibid, p.32.
151 Ibid, p.33.
was to gradually assimilate them into the socialist sector\textsuperscript{152}. The skills/crafts of these artisans and businessmen provided the base on which the later development of decentralised industries in the rural areas, particularly, under communes took place. The Government was simultaneously setting up enterprises jointly with private entrepreneurs alongside creating completely State-owned industries in the capital goods sector\textsuperscript{153}.

Wheelwright and McFarlane noted that "land reform had begun before 1949 in the liberated areas, and was completed by 1952. Over 300 million peasants benefitted from the redistribution, but the equalization of land holdings was not complete and although the number of middle peasants greatly increased, rich and poor peasants still remained. Most landlords were allowed to retain sufficient land to support themselves"\textsuperscript{154}. Land reforms enabled the peasants and agricultural labourers to stay on land; also the artisans and small traders were not displaced from their occupations. The rural population, particularly the poor were brought into the mainstream of rural development through systematic efforts of the State, as will be discussed below. The Chinese experience marks a contrast to the British experience described above. In the latter, the process of depeasantisation and consolidation of large holdings created conditions for the emergence of free labour force which joined the industrial work force thus providing the basis for capitalist development.

The State encouraged the widespread formation of mutual aid teams which were already established in Northern and Western China before 1949\textsuperscript{155} and these teams were slowly transformed into communes. Members of the teams were compensated according to their contribution, and could withdraw if they wished, taking with them their share of common property. By 1952, over 40\% of the households were members of such teams. Thereafter, the strategy adopted was to extend collectivisation gradually, by stages, developing from the mutual aid teams. In other words, there were seeds of collectivisation at the beginning in the form of team works which were organised informally and on temporary basis.

During 1955-56 cooperativisation speeded up following a major policy intervention by Mao

\textsuperscript{152} Ibid, p.33. They continued to receive interest on their investment; many produced under contract to the state, and by 1952, 22\% of the industry by value was in this position (ibid).

\textsuperscript{153} Ibid.

\textsuperscript{154} Ibid, p.34.

\textsuperscript{155} "Originally organised on a temporary basis, these teams consisted of about five households, formed to compensate for shortages of manpower, draft animals, and farm implements during busy seasons. They developed into more advanced teams, on a permanent basis consisting of up to ten households, which hold some property such as tools and animals in common, and combine their efforts in farm production and subsidiary occupations all the year round" (ibid, p.34).
Tse-tung. Initially lower cooperatives, consisting of 20-40 households, were formed and then the higher cooperatives, consisting of 100-300 households, were formed by the merger of a number of lower cooperatives, which embraced whole villages and thus became the basic economic unit in the countryside. It may be mentioned in this context that the higher cooperatives had been instrumental in mobilising the surplus labour available in the slack seasons, especially on small-scale irrigation work at the village level.

The First Five Year Plan aimed at laying the foundations of a comprehensive industrial structure as quickly as possible. Accordingly, the targeted rate of growth of capital goods sector was to exceed that of the consumer goods industries. In fact, the "broad outline of economic planning in China follows the pattern established in the Soviet Union. But since the problems facing the regimes in China differ from those with which the Soviet regime had to contend at a comparable period of development, Soviet methods had to be modified in some ways to meet the situation in China". Stress was also laid on the need to make the maximum use of the Soviet Union's 'advanced experiences' in completing the plan. The 'fundamental task' of the Plan was described as the concentration of the country's main efforts in industrial construction on particularly vital enterprises, of which the most important plants to be designed and built by the Soviet Union.

The other important tasks relating to industry was the incorporation of private industries and commerce into various forms of State capitalist organisation, thus laying the ground work for the socialist transformation of private industries and commerce.

After the socialist transformation of private enterprises in the mid-1950s "the centre virtually controlled all major units: even those managed by the provinces had their products centrally allocated. Four-fifths of all budgetary investments in 1955-57 were directly controlled by the centre and went to centrally managed enterprises". This centralised model however considerably changed at the end

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156 Mao Tse-tung (1956) argued, "If we cannot solve the problem of agricultural cooperations in a period of roughly three five year plans, that is to say, if our agriculture cannot make a leap from small-scale farming with animal drawn farm implements to large-scale mechanised farming, including extensive state-organised land reclamation, by settlers using machinery. Then we shall fail to resolve the contradiction between the ever increasing need for marketable grain and industrial raw materials...We shall run into formidable difficulties in our socialist industrialization", (p.19, and cited in Wheelwright and McFarlane, 1970, p.36)


159 Ibid, p.40. The Plan envisaged that 60% of the basic construction work would be designed by Soviet experts, and the remainder by Chinese planners working under the guidance of Soviet specialist.

of 1957 when consumer goods industries came under provincial authorities. By June 1958, nearly 80% of all central units were transferred to the provinces; in terms of output the share of such units [central units] fell from 46 to 27 percent in 1957-58\(^\text{161}\). In capital construction the part financed by local authorities, including provinces and enterprises themselves increased from 8.6 percent in 1957 to 9.7 percent in 1965, 18.8 percent in 1975 and further to 21 percent in 1979. Further, the number of centrally allocated materials increased sharply from 28 in 1952 to 235 in 1956, but thereafter it drastically declined. The central authorities, however, continued to control directly the capital goods industries, and exercised broad supervision over the rest of the economy, fixing the rate of investment, allocating raw materials, and determining wages and employment levels.

We can thus see that the Chinese State, after 1949 revolution directly intervened for socialist transformation and made several reforms in agriculture and industry. New institutional forms like cooperatives were introduced during this phase, which, as we shall discuss below, were to take the form of communes in the subsequent phase and play a crucial role in the development of the decentralised industrial structure. The State formulated plans (in consultation with the lower level governments) and executed through hierarchic organisations at the province, county, or brigade levels, and through party workers and militia\(^\text{162}\). It fixed prices of various commodities, distributed raw materials to various enterprises and marketed their products. Though, initially the major industries developed under the strict control of the centre, after 1957 these industries were gradually transferred to the provincial and local authorities. Moreover, the State encouraged the local governments to promote industries in their respective areas. In the following discussion we would bring out some of the main features of State intervention in the development of rural industries in China.

1.32. State Intervention in Rural Industrialisation

In China rural industry was "not defined on the basis of size but as any local unit run by county, commune, or brigade"\(^\text{163}\) irrespective of the nature of ownership. The enterprises may have been collectively owned, jointly financed by the State and collective units, or wholly owned by the State but under local management.

The role of the Chinese State in promoting rural industries can be seen through the following

\(^{161}\) Ibid, p.126.

\(^{162}\) It may be noted that the Chinese authority relied least on bureaucracy in implementing its policy, whereas in Japan the policies of the state were implement through bureaucracy which had been highly efficient.

initiatives: (i) establishment of communes and brigades which were to act as nodal agencies for rural development, (ii) decentralisation of industries at the levels of communes and brigades which could formulate and implement plans and programmes for the development of local industries on the basis of availability of resources and manpower and on local requirements, and (iii) emphasis on simultaneous development of heavy and light industries, promoting modern technology as well as indigenous technology with the aim of fast growth of output and higher employment.

The Maoist industrialisation strategy is often described as a 'forced industrialisation' strategy. His strategy of 'walking on two legs' or his 'dual development thesis' aimed at combining high growth of employment and the setting up of a strong capital goods sector. This entailed (i) the growth of large scale industries that would use the technology mostly imported, and (ii) the development of medium and small industries in the interior of the country by using widely spread and easily mined coal and iron ore deposits and small scale indigenous technology. In China, there had been a long tradition of rural crafts which were quite developed. Maoist policy of modern industrialisation did not destroy them but sought to utilise those dispersed crafts/skills for industrial development. Encouraging small and medium producers in the rural areas to develop industries on the basis of local resources was such an attempt.

The policy involved industrial decentralisation in which detailed planning and implementation for the large industries were made by the State (including the provincial Governments) and the decision regarding the smaller industries was left to the local organisations (like, communes) who would mobilise labour and other resources. Soon after the Soviet withdrawal of support in 1960, more emphasis was laid on the development of these decentralised industries through improvement in technology and quality of the products and the State provided assistance in a number of ways. The 'heavy' industry sector, on the other hand, was encouraged to finance more of its expansion from its internal sources. The withdrawal of Soviet technicians and blueprints caused severe hardship to China: Chinese technicians had to work out, slowly and laboriously, the operational design of the

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164 Kueh (1989)

165 See Wheelwright and McFarlane (1970), ch.2.


167 Wheelwright and McFarlane (1970) p.53-60 and Chandra (1988) p.126. It is interesting to note a broad similarity between the early pattern of industrialisation of Japan and China - the former with the active participation of the state attempted to transplant Western technology and factory system in the Japanese soil but subsequently abandoned in favour of assimilating Western technology with the indigenous one; similarly the Chinese Government also attempted to introduce Soviet-type large scale industries with Soviet skills and capital, but later focused more on the development of indigenous technology primarily applied to small and medium scale industries.
unfamiliar processes, and to learn how to make the essential equipment which was no longer forthcoming. The adjustment policy had been to stress on self-reliance and technological independence\textsuperscript{168}.

The Chinese authority thus stressed on self-reliance of the local economy leading to adoption of the strategy of decentralised development. It, thereby, emphasised the development of five major industries in the rural areas producing iron and steel, energy (coal and hydro-electricity), chemical fertilizers and agricultural machinery and farm tools. Some industries used agricultural products as inputs, some supplied agricultural inputs, farm machinery and implements to agriculture, or construction materials, and some others produced consumers goods. This enabled a balanced development in rural areas.

The rural industries also established linkages with the large scale enterprises and R&D institutes of the cities - the latter supplying technological inputs and providing training to the workers of the former. The linkage between modern industrial sector and the rural industries thus called for technology generation and diffusion and the State strengthened this process by establishing Mass Scientific Networks in the rural areas in which a large number of people were enrolled, and also promoted local research institutes.

The creation of communes and brigades by the Chinese authorities was a fundamental innovation, and which formed the basis of rural industrialisation. These local bodies were given a large measure of freedom in developing local industries. But at the same time, the higher administrative levels, viz., the autonomous regions and provinces, were also very influential in supervising rural industrialisation programmes. Further, rural industrialisation, in certain aspects, adhered to a national master plan where broad principles were laid down. Such a master plan included provisions for what regions or counties should set up what types of industries, as well as approximate timing for establishing certain types of industrial activities\textsuperscript{169}.

By 1957, embryonic communes through merger of cooperatives in some areas were already in existence, and by September, 1958, after official approval of this kind of development, the 750000 agricultural cooperatives had become organised into 23384 communes embracing 90\% of the peasants.

\textsuperscript{168} Wheelwright and McFarlane (1970) observed, "The sudden withdrawal probably motivated Chinese technicians, scientists and workers more strongly than exhortations from within could have done; gradually the new processes were understood and the essential equipment constructed, and the fact that most capital equipment can now be designed and built in China is probably due, in no small part, to the sudden withdrawal of Soviet assistance" (p.53).

\textsuperscript{169} Sigurdson (1977), p.75.
households. Their size varied from 5-100 thousand people. In the first stage of the communes, exclusive ownership of the major assets - land, capital goods and production - was in the hands of the communes rather than those of brigades, teams, or administrative districts. After the Wuchang Resolution of 1958 had revoked payment according to need and reestablished payment according to work, the production brigades (villages) became more prominent "units of account" and this was formalised in 1959. The commune system, as will be discussed below, played the most important role in the development of rural industries.

The Great Leap Forward (GLF) introduced two different strategies with regard to rural industrialisation: (i) the scaling down of modern large-scale technology through product and/or quality choice combined with design changes in the manufacturing process, (ii) modernisation of rural industries which were often rooted in the traditional sector of the economy and had often been preceded by a long tradition of village crafts; these crafts were scaled up under GLF.

Another important feature of the GLF was the formation of communes which were not only new administrative units or methods of decentralising the location of industries, but were preliminary exercises in agrarian socialism - in collective labour, a collective way of life, a method of bringing new activities to the village.

As we have stated above, the Chinese Government was concerned with the decentralisation of industries in the rural areas where the sources of raw materials as well as the markets were located. Since the GLF, the communes became the dominant organisations in setting up small scale rural industries.

1.3.3. Characteristics of Rural Industrialisation

Certain key characteristics of Chinese rural industrial units are as enumerated below:

(i) Location: Suburban areas or peripheries of cities, small towns and villages.

(ii) Scale: Mostly small and medium but in some cases large. (There was, however, no clear distinction between small, medium and large in Chinese rural industries, as stated above).

(iii) Technology: Production technology ranged from the very primitive to modern, up-to-date process technology, depending on product, size, and stage of development.

170 Wheelwright and McFarlane, 1970, p.49.
171 Ibid.
172 Sigurdson, p.2.
(iv) Ownership and Operation: Rural industries were collectively owned and operated at the levels of 'commune' and 'brigade' which also constituted the administrative hierarchy (in descending order). The members receive remunerations on the basis of the work-points acquired.

As regards the progress of rural industries, Sigurdson remarked, "For a number of reasons affecting Chinese economy - consecutive years of bad weather for agriculture, Soviet withdrawal of assistance to develop modern sector of the economy - it became impossible to continue the modified Great Leap Forward, and most of the small-scale industries were closed down in 1961. Some of them continued to operate, not until the late 1960s did a new proliferation begin. The new development was based on the application of the two-leg policies" 175. The new enterprises started emerging primarily under communes and brigades. In most cases rural industries were geared to meet the requirements of agriculture for its growth particularly through mechanisation 176. Rural areas began to develop 'five small industries' producing iron and steel, energy (coal and hydro-electricity), chemical fertilizers and agricultural machinery and farm tools. These industries received tremendous attention as their products were needed directly as inputs for agricultural development and to build infrastructure 177. In 1972, 16% of the installed national hydro electric capacity was in rural areas and this rose to 34% in 1974, and in cement production, the share of rural industries rose from 5.4% in 1965 to 57% in 1975 178. The rural sector produced 66% of the Nitrogenous and 80% of the Phosphatic fertilizers. Almost all the communes had a farm machinery workshop among their commune and brigade run industrial units. These workshops were generally part of a three level agricultural machinery repair and manufacturing network - repairing and manufacturing at the county level, repairing and assembling at the commune level and only repairing at the brigade level. In 1971, such networks existed in 90% of the counties 179.

Two features of rural industrialisation in China need mentioning here. Firstly, as stated above, most of these industries were based primarily on locally available resources. A major part of the resources were coal, iron ore and limestone. The resource base, location, size and quality, therefore determined the extent to which these industries could be set up. Secondly, the other types of industrial activities in the rural areas were the processing of agricultural and side-line produce, and

175 Ibid, p.12.
176 A fast growth of agricultural production (organised primarily through large scale collective farms) was needed not only to meet the short-fall of consumption requirements in terms of food grains but also for transferring the agricultural surplus to the cities for investment in large scale and heavy industries in the capital goods sector. See Selden (1993) and Riskin (1978).
177 Ibid, p.23.
manufacturing locally needed consumer goods. These included flour milling, oil pressing, cotton ginning, and so forth, as well as manufacturing of textiles, shoes, household goods of porcelain and metal, canned fruits, and other goods. Their growth was closely dependent on the growth of agriculture which provided the raw materials. Further, the timing of industrial activities were planned in such a manner that the agricultural activities were not affected due to labour shortage.

(a) Linkages of the Rural Industries with Agriculture and Rural Economy

A multi-faceted relationship evolved between rural industries and agricultural sector. The former provided the farm-machinery and tools, their repairing and maintenance services, fertilizers and industrial inputs to agriculture. They also provided construction materials for building drainage, irrigation and dams for developing basic infrastructure required for agriculture. The latter, in turn, supplied agricultural and 'side line' products which were processed by the rural industries. The agriculture-industry relationship was both way. Further, rural industries supplied materials to build houses in the rural areas, and also manufactured locally needed consumer goods. Further, the timing of a major part of industrial activities were so planned that the agriculture activities in the peak seasons were least affected due to labour shortage. Their growth was closely related to the growth of agriculture.\textsuperscript{180}

(b) Vertical and Horizontal Technological Linkages

Further, there were technological relationship between county (or lower order) enterprises and provincial or State-owned and city based enterprises. The national/provincial enterprises developed technology, and also purchased machinery or inputs from abroad and passed on to the lower order enterprises. They also provided training to the workers of the latter enterprises, as we shall see below. However, this notwithstanding innovation and improvement of technology in the commune enterprises was not uncommon\textsuperscript{181}.

As Sigurdson noted, "The desired industrialization made it necessary to forge links between the modern industrial sector and the rural industrial sector in order to provide the needed technologies and equipment...The establishment of local technology system was an important and integral part of

\textsuperscript{180} Sigurdson (1977), pp.34-5. Data compiled by Hua, Zhang and Luo (1993) show that the average annual growth rate of agricultural production was 7.5\% during 1950-58, which became -9.2\% during 1959-61, but thereafter the average rose to the level of 5.3\% for the period 1962-77 (Table 2.1, p.26).

\textsuperscript{181} Selden (1993).
this approach". The system of technology generation and diffusion was primarily a hierarchic one. The national- and province-level enterprises used to receive their technological inputs from national R&D institutes and through imports; these technologies then diffused to the lower-level enterprises. Similarly the bottom of the industrial pyramid derived its technological advancement mainly from a process of internal diffusion. Some important features of the technology system in rural industries were as follows:

(i) **Mass Scientific Network**

Popular-based extension services were a characteristic feature of the system for introduction/delivery of technology into rural areas of China. Since Cultural Revolution, mass scientific networks had been developed in rural areas and a large number of people were enrolled in them.

(ii) **Local Research Institutes**

The popular-based extension services required new ideas and new technology inputs which could be locally generated only in part. The inputs came directly from national institutes as well as local research institutes.

The transfer of technology took place through two different channels. One was the vertical transfer of technology from provincial (on national) enterprises downwards. The other was horizontal transfer of technology between enterprises at county level or below. Large firms often sent teams to communes to help various local enterprises to set up firms and to help repair and maintenance of agricultural machinery.

The vertical and horizontal linkages among the enterprises were found not only in regard to technology and skills but also in manufacturing sophisticated products. A large number of enterprises together manufactured complicated end-products in coordination where each enterprise contributed a particular segment of the manufacturing process. Also the bigger firms supplied intermediate

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182 Sigurdson (1977), pp.126

183 Ibid, p.77.

184 Ibid, p.80.

185 Ibid, p.83.

186 Ibid, p.89.

187 The big urban based industries and construction companies in a number of places played a central role in promoting small-scale industries in rural areas; these are also examples of vertical transfer of capital-embodied and human-embodied technology. The big urban based industries, on the one hand, "send personnel and equipment to the places where the new small-scale industries are to be set up", and on the other, "local personnel are trained in urban based plants" (ibid, p.91).

188 For a detailed discussion see ibid, pp.126-28.
products to the smaller one or marketed the products of the latter.

1.3.4. Formation of Skills and Training

The other side of the technology transfer is skill formation which may be presented in a summarised form.

(a) Formation of Production and Organisational Skills

1. Training of personnel
   i) City based old factories train workers recruited for rural factories.
   ii) Rural factories undertake training of new workers.

2. Transfers of personnel
   i) Technical personnel are transferred from old (from advanced urban) plants to the sites of small rural plants.
   ii) People from the localities are sent for shorter or longer training periods to advanced industrial units.
   iii) Newly graduated students are allocated to new rural factories.

(b) Formation of Repair and Maintenance Skills

1. Formal factory training
   i) Short-term courses were arranged in commune-level enterprises during slack farming season.
   ii) Principles, structure, operation, and maintenance of machine were being taught.

2. Informal factory training
   Production teams send on their own initiative members to factories for “learning by doing”.

3. Delivery training
   Commune-level enterprises send technicians to buying unit at the time of delivery.

4. Mobile repairing and maintenance training
   People are trained on the spot at the time when repair or maintenance is required.

A heavy reliance on person-to-person contacts in solving industrial problems indicates that the Chinese found this to be the most effective method of technology transfer and that problem solving activities could not be successfully carried out without personal contacts in the field involving responsibilities for both the parties involved.\(^{189}\)

\(^{189}\) Ibid, p.92.
The fast growth of agriculture, increased purchasing power of the masses, a vast reserve of skilled workers provided by the traditional rural crafts, and a highly effective system of skill formation, and a scientific outlook of the masses, formed the bases of the rapid growth of rural industries not only in the pre-1978 period but also in the post-reform period (after 1978). In other words, the development that took place in the post-reform period, cannot be explained in isolation of the past but one has to take into account the development achieved in the previous period - the land reform, modernisation of agriculture and its growth, rise in per capita income as well as its egalitarian distribution, the development of technology and skills and the evolution of certain institutions (some are informal) relevant for the development of such skills and technology as discussed above.

1.3.5. Rural Industrialisation in the Post-Reform Period

Since 1978, there has been a marked change in the attitude of the Chinese Government in favour of reorganising the economic system towards one which would enable efficient utilisation of resources; the Government aimed at reducing the scope of mandatory plans and relying more on the application of economic levers (such as various fiscal and monetary measures). Several reforms were made as regards production organisation and exchange relations, even in the sphere of international trade: (i) State owned and collective enterprises (previously owned by the communes) were given greater autonomy as regards production planning, marketing, recruitment of workers, etc (i.e., managerial decision making), rather than being dictated by the State according to State's priority, (ii) setting up of private enterprises, and in general private initiatives were encouraged, and (iii) operations of markets in the sphere of goods, raw materials, machinery, labour and credit were allowed. In other words, elements of capitalism were introduced, which although contributing to the fast growth of the economy, created all the evils as seen in a developing economy following capitalist path, viz., unemployment and poverty, migration and urban slums, economic inequality and shifting of

190 For the pre-reform period see a detailed discussion, particularly, on skill formation by Sigurdson (1977) pp.79-88. For the post-reform period, see Byrd and Tidrick (1987), pp.70-72. See also Chandra (1988), p.127.


192 The reform rendered 30 to 40% of the agricultural labour force surplus. Annual migration of the rural workers to the cities ranged from 80 to 100 million. These poor migrated people lose the social security, such as, health, education, food ration. Available estimates indicate that about 70 million people were poor (could not meet the basic requirements). See U. Patnaik (1995) pp.1,7.

193 For a discussion on the pattern of growing inequality, see Khan, Griffin, Riskin and Renwei (1992).
resources for the production of non-essential goods,\textsuperscript{194} inflation and trade deficit\textsuperscript{195}. Further, the policy shift adversely affected the maintenance of common property, like, dams, irrigation canals, roads, etc. which were built during the phase of socialist transition by mobilising surplus labour through communes. But since individual initiatives failed to mobilise massive labour as required to maintain and repair (not mentioning adding to it) the infrastructure which depreciated fast\textsuperscript{196}. This in the long run adversely affected the productivity of agricultural land\textsuperscript{197}. We, however, would discuss those aspects of the reform which are directly relevant to rural industrialisation.

During the period, 1979-84, major economic reforms took place in the countryside, while in the urban areas, only preparatory measures were taken concerning State enterprises. Private and household enterprises were allowed to operate in certain activities in the rural areas and the enterprises were encouraged to produce goods which were previously manufactured primarily in the urban factories\textsuperscript{198}. In fact in 1978, the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party declared that "commune and brigade enterprises should strive for great development... gradually engaged in processing of all the farm and sideline products that are suitable for rural processing. Urban factories should shift part of their processing of products and parts and components that are suitable for rural processing to commune and brigade enterprises and help equip the latter with necessary equipment and technology... In addition, the state should allow tax brakes or tax exemptions for

\textsuperscript{194} Rising income and inequality in its distribution raised the demand for meat, milk, etc which are highly land and grain intensive. A sizeable amount of cultivated land was transferred from production of grains for human consumption to commercial crops. Further agricultural land was increasingly transferred to non-agricultural uses (such as, housing and setting up factories) resulting in a decrease in arable land. This aggravated the crisis of basic food grains supply, as the productivity of land started stagnating in the mid 1980s. See U. Patnaik, 1995, p.8 and Kojima, 1990, p.386.

\textsuperscript{195} Imports of both capital equipment and high grade consumer durables contributed to the trade deficits. But the share of the latter was much more as compared to the former (Kojima, 1990, pp. 383-84).

\textsuperscript{196} Further, state investment to build up agricultural capital declined drastically (ibid).

\textsuperscript{197} In fact, this resulted in a stagnation in agriculture in the mid-1980s. It is argued that fertilizers induced high growth of agricultural production during 1979-86 was at the expense of capital maintenance and expansion, which was termed as 'eating capital' (U. Patnaik, 1995, p.4).

\textsuperscript{198} Further, state procurement prices were simultaneously raised, output quota to be delivered to the Government was reduced and the enterprise could sell a part of its output in the open market. See Selden (1991) and U. Patnaik, (1988), for a discussion on the changes in agricultural policies.
commune and brigade enterprise in the light of their situation. Thereafter, a series of such policies and regulations were made for healthy and sustained growth of the industries.

Since 1984, the key phrase changed from "economic planning is the main factor and markets the subordinate factors" to "a combinations of economic planning and markets". The important factors that were left to the markets to a considerable extent included finance, labour, materials, capital equipment, technology and land. The Central Committee Circular on Agricultural Work of January 1, 1984, stated that, the Government at all the levels should "encourage peasants to invest or to buy shares of all types of enterprises and encourage collectives and peasants to pool their funds and jointly set up various kinds of enterprises by following the principles of voluntary participation and mutual benefits". After three months the 'communes', 'brigades' and 'teams' were dissolved and their administrative function were assumed respectively by 'township governments', 'village committees' and 'villagers' groups'. Labour process and patterns of marketing, income distribution and consumption were transformed. For the State owned enterprises (consisting of central, provincial and local government enterprises) a new system called 'production responsibility system' was introduced in order to give more autonomy to the firms. Under this scheme, increase in managerial discretion regarding planning, use of retained profits, pricing and final payments to Governments were granted. This system was designed to establish and enforce performance targets and encourage long term planning. Lee and Nellies held the view that "reforms will generally not alter the publicly owned character of the enterprises, they aim more at minimizing and channelling government in enterprise affairs, not eliminating it". Already a large number of partnership and individual enterprises have come into being, and some artisan and individual household enterprises have formed producers cooperatives. The new policy gave the legal status and encouraged further growth of private investment and enterprises.

During 1978-86, the value of manufactured goods (in real terms) of rural enterprises grew

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201 Cited in Byrd and Lin (1990), p.11.
202 Lee and Nellies (1990) noted that this system was adopted in 90% of the state owned enterprises.
204 See Ma Jisen (1988).
205 These enterprises were now a mixture of heterogeneous characters, particularly in organisational terms. They were 'township' enterprises (formerly commune run enterprises), 'village committee'
at the rate of 23.4% per year, and their employment grew by 7.7% annually\textsuperscript{206}. The sectoral distribution of rural gross social products in 1986 was as follows: 53.1% from agriculture and allied activities, 31.5% from industry and 15.4% from construction, transport and commerce\textsuperscript{207}. The occupational structure was still heavily biased towards agriculture - in 1986, 80.2% of the rural labourers were engaged in agriculture and allied activities, 8.3% in industry, 6.1% in construction, transport and commerce, and 5.4% in other services\textsuperscript{208}.

The success of rural industries in particular, and rural enterprises in general, may be attributed to the following factors:

(i) The collapse of the people's communes (which had been a social device for containing an expanding rural population in the countryside) and the introduction of "production responsibility system" in agriculture created a mass of surplus labour, and the removal of restriction on the choice of occupation enabled the rural entrepreneurs to set up own enterprises and employ wage labour\textsuperscript{209}.

(ii) The reform brought about a significant increase in the income of the peasantry, although it was not uniform across all sections of peasantry\textsuperscript{210}. This rise in income was due to fast growth of agriculture,\textsuperscript{211} rise in Government purchase prices of agricultural products and a reduction in the amount of farm products sold to the Government on a contract basis\textsuperscript{212}.

(iii) The removal of restrictions on the movement of goods across regions enabled the rural enterprises

\textsuperscript{206} Byrd and Lee Quingsong (1990), p.12, Table 1.1.

\textsuperscript{207} Ibid, p.15, Table 1.3.

\textsuperscript{208} Ibid, p.15-6, Table 1.4.

\textsuperscript{209} Kojima (1990), p.377.


\textsuperscript{211} The fast growth of agriculture was interpreted by Kojima (1990) in terms of four factors: "Firstly, the is the heritage of the Mao Zedong period in the form of the agricultural land improvement and irrigation system construction done by people's communes. There is the heritage of the Hua Guofeng period in the form of construction of large chemical plants, resulting in large increases in the supply of chemical fertilizers...Thirdly, individual farmers became highly motivated to increase production following the dissolution of people's communes. Fourthly, there is of course the substantial hike in the Government purchase prices of farm products" (p.384). For discussion on the growth of fertilizers use see U. Patnaik (1995), p.4.

\textsuperscript{212} Kojima, ibid, p.378. It is to be noted that the growth of exports of the township enterprises in the export processing zones was largely based on subcontracting or putting-out system. See Yuan and Child (1996), pp.70, 79.
in some areas to sell a sizeable amount of their products outside the local market.

(iv) The local government (Township) obtained a major part of its revenue from the rural industries. So it took active interest in promoting these industries, often exerted pressure on the banks to grant loans to these enterprises.

However, this spectacular growth of rural industries in the post-reform period cannot be studied in isolation from the development achieved in agriculture and rural industries in the pre-reform period. The decentralised crafts/skills of the previous regime provided the base on which new industrialisation was built and the development of agriculture and infrastructure through communes also facilitated the growth of agriculture in the later period and thus provided market and materials for rural industries. Further, the township and village enterprises not only utilised the skills and technology developed in the previous regime but also their entrepreneurs/managers often came from the leadership of the communes, brigades and teams. Though rural industries of the Maoist period were qualitatively different from those developed in the townships and villages in the post reform period, the latter may be viewed as a carry over of the Maoist legacy, particularly, in terms of decentralisation of industries thus furthering industrial development in the small towns and villages.

In sum, the key to the success of Chinese rural industrialisation was the very nature of her decentralised planning which enabled the local organisations, like communes to choose projects and other developmental measures on the basis of locally available/generated resources, and local requirements without much intervention from the higher authority. This also distinguished from the decentralised planning in India where at each stage, from finance to the choice of any major project, the local self government (Panchayat) has to depend on the higher authorities, and further the local enterprises are vulnerable to the competition from the urban factory-made manufactures, as will be discussed in the next chapter. Contrarily, in China emphasis had been put on developing rural areas as self-sufficient units that would generate most of the goods and services by using local resources. Efforts were made to utilise and upgrade the traditional crafts and skills dispersed in the rural areas; in fact, they provided the basis for substantial development of rural industries. The forward and backward linkages that were formed between agriculture and industry fostered growth of both the sectors. This industrial sector became instrumental to rural development. Secondly, the provincial or State owned enterprises provided apprentice training and other expertise to the people working in

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215 See Bagchi (1987), p.73.
commune and brigade factories. The former were actively involved in promoting technology suitable for the later factories, through R&D. The effective coordination between agricultural and industry at the commune level, and among the enterprises at hierarchic levels helped the development of these industries. The policy changes in the post-reform period towards introducing private enterprises and greater autonomy to the management in State owned enterprises, no doubt, provided further impetus to individual initiatives and better management and thus the growth of rural industries, but one cannot overlook in this context the massive development of infrastructure, various organisations relating to generation and diffusion of technology and skills, overall education and purchasing power, as well as of the agriculture and industry, which took place before the reform.

1.4 Concluding Observations

The countries reviewed above in relation to rural industrialisation are characterised by varied historical and geographical specificities. Their level of success, path of development and the nature of State intervention also varied. In this context, a few stylised facts may be worth mentioning.

The experience of Western Europe, particularly Britain, reveals that rural industries had generally been a part of the transition from manufacture of handicrafts to factory production (from the 14th to mid 18th century). These industries emerged and flourished under the aegis of merchant capital in the phase prior to the industrial revolution. The rural industries were market oriented, household based and organised through putting-out system. These industries were eventually dissolved during industrial revolution with the fast growth of factory industries. The exact nature of the transition from rural industries to capitalist mode of factory industries, which took place over a long period, was however highly debated as has been discussed above. In Japan, on the other hand, modern industrialisation took place under the oligarchy of the big merchants and with the assistance of the State.

In fact, the Japanese transition followed entirely different path: Firstly, capitalist development in this country did not emerge through the process of bourgeois democratic revolution. The State adopted conscious policies of quick industrialisation so as to strengthen economic and military power. The political compromise of merchants with the feudal elements, that took place at the time of Restoration, enabled the former feudal leaders and feudal outlook to exercise far reaching influence during the Meiji period and even after it. The compromise, on the one hand, maintained agrarian feudalism intact and, on the other, enabled a small group of merchants to consolidate and centralise immense capital through conjoining trading, banking and finance.

The large mass of 'surplus or reserve labour' in the rural areas was created by the partial destruction of traditional rural crafts by foreign goods and Japanese factory-made goods, population
growth and annexure of commons, who had to take up manufacturing as a subsidiary activity. Medium
and small entrepreneurs started pouring into the countryside and to employ this cheap labour through
putting-out in the industries like silk. The peasants thus shifted from the old type of domestic
industries to the new. Since these new domestic industry mostly catered to the urban markets, as there
was no adequate local demand (which in turn was due to absence of land reform), the small producers
and traders were gradually integrated with the monopoly capital, thus making their departure from real
decentralisation, as independent and localised production units. Secondly, the State played a vital role
in providing initial capital and other assistance to the entrepreneurs, formation of skilled labour and
technology import and upgradation, and encouraged promotion of small and medium enterprises.
Numerous small and medium enterprises emerged. But they also came under the control of the
powerful merchants and started operating as subcontractors. This also makes its departure from
Chinese experience of decentralisation of industries, particularly in the rural areas which developed
primarily on the basis of local resource and markets.

By the turn of the century, the big merchants emerged as Zaibatsu, the big conglomerate, who
started modernising their enterprises by upgrading technology, and assisting small and medium
enterprises operating under them in improving technology and product quality. The merchants thus
turned into manufacturers. This path of transition was characterised as way number two by Takahashi.

Like Japan, China also had a long tradition of domestic handicrafts which were quite developed
and dispersed in the rural areas. The communist Government in China from the very beginning tried
to develop and utilise these crafts and skills in modern industrialisation. The Government emphasised
on self-reliance at the local level, and thus adopted decentralised industrialisation strategy -
development of rural industries by utilising the above mentioned crafts/skills, locally generated raw
materials and resources and catering to the local market. The important policies in this regard were
development of five major industries in the rural areas forming backward and forward linkages with
various sectors of the local economy, formation of technological linkages of the rural industries with
the urban industries, and promotion of scientific culture among the masses through various
organisations. The Government also encouraged the development of technology of the artisan
industries, for that central/provincial R&D institutes would develop technology and then transfer to
the rural industries through a process of direct intercourse with the lower level enterprises. These
policies had been most important in Chinese rural industrialisation. Further, the creation of communes
and brigades had been the most important organisational innovations in implementing decentralised
development strategies.

The impressive growth of rural industries in the post reform period was no doubt due to
encouragement given to private initiatives and a host of liberalisation in the sphere of production and
market exchange, but the contribution of the development of rural industries and skills, agriculture and collective capital under the commune in the previous regime was also substantial.

It is revealed from the above discussion, and is also quite relevant to the context of India, that industrial decentralisation is most successful where land reforms have also been successful and where agricultural development was spectacular. Land reforms not only facilitated agricultural growth but also removed various feudal ties obstructing the development of production forces. The agricultural development is of particular importance to rural industrialisation as it helped in terms of providing markets as well as raw materials to the industries. We shall see in the next chapter that the failure to accomplish land reforms severely restricted the development of rural industries in India.