At the end of 2000, less than one percent of state-bank loans went to China’s thirty million private-sector businesses. Despite neglect by the national state banks, this sector has accounted for much of the growth in the Chinese economy since market-oriented economic reforms began in 1978 under Deng Xiaoping. If state-bank financing is largely closed to those from the private sector, how do China’s private entrepreneurs, who by the late 1990s produced a third of China’s Gross Domestic Product, arrange the informal, largely illegal financing that they need to operate? This is the question Kellee Tsai seeks to answer.

Between 1994 and 2001, and working chiefly under the sponsorship of the Fujian and Henan Academies of Social Sciences, the author conducted nearly two years of research based on surveys, interviews, and documents. She focused on eighteen sites in three different provinces: Fujian, Zhejiang (both on the southeast coast), and Henan (a northern inland province). Tsai’s 374 surveys of private entrepreneurs (her response rate was 60 percent) help balance accounts drawn from 186 official interviews and her use of the documentary methods commonly used by social scientists working in China.

The ability of unofficial actors to supply financing on the local level through the “curb market” has been largely ignored by both Chinese and Western researchers. Setting her discussion against the success of the 1949 revolution in eradicating informal financial mechanisms such as *qianzhuang* [native banks], *qianpu* [money shops], and *hui* [rotating credit associations], as well as against the Soviet-style development strategies of the early Peoples Republic of China (PRC), Tsai shows convincingly that the range of curb market financing choices in each locale reflects local government priorities more than market logic.

Tsai finds that informal finance is a “path-dependent” localized response to the shortcomings of national financial institutions and that it relies on local political protection and selective enforcement of national regulations. Starting her discussion with Fujian, known superficially to Western readers since the 1980s for the sheer exuberance of its coastal economy, Tsai covers a broad range of unofficial local economic arrangements that have financed growth locally. Here, larger private firms with links to officialdom have benefited by
camouflaging themselves as collective or joint-venture enterprises. Often discouraged by the red tape involved in applying for state-bank loans, smaller firms turned instead to friends, relatives, loan sharks, money shops, pawnbrokers, and interest-charging hui of various kinds. Hui, Tsai shows, are especially appealing to female entrepreneurs, who find official sources of finance even more inaccessible than do males. Similarly, in Zhejiang, Tsai finds a strong correlation between local government encouragement of private-sector development and alternative financing options. Here, too, disguises such as fake collectives appeared in the mid-1980s but quickly led to hui, pawnshops, and, worse, Ponzi schemes and other forms of corruption. Again, small-scale entrepreneurs were more likely to turn to informal arrangements when local governments tolerated them.

Finally, Henan, having benefited from state initiatives for the first three decades of the PRC, inherited a pre-1978 economy and political structure already dependent on heavy industrial and military-industrial development. The province embraced marketization relatively late but, again, frequently in the guise of camouflaged operations. Even here, deals struck between local officials and entrepreneurs have led to a significant range of unofficial financing opportunities. In each of the three regions, informal finance promoted economic growth but also political instability, due in the cases of Fujian and Zhejiang to an early absence of adequate local oversight and, in the case of Henan, to the proximity of local government and informal financial institutions.

The significance of Tsai’s findings lies partly in what they imply about possible limits to the abilities of the post-Mao party-state to control inflation, to limit speculative capital investments, and to preserve its own political legitimacy over the long term. Even more important to readers of this review, one suspects, is Tsai’s argument that rapid economic growth in a system with nearly no protection of ownership and property rights challenges the property rights paradigm of economic history associated with Douglass North. Tsai’s discussion of these and other issues is rooted in comparative Western and Chinese economic history, in the broadly comparative state-building and economic development literature of political science, and in the investigative techniques of the contemporary social scientist. The depth of detail on the operation of hui, pawnshops, Ponzi schemes, and other informal finance devices brings the text to life.

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