The economic reforms launched by the Chinese Communist Party (CCP) from the late-1970s have transformed the Chinese polity in far-reaching ways and have produced a number of unforeseen outcomes. There has been a progressive decline in direct state control over the economy, with powers devolved from state agencies to enterprises, a decrease in the use of mandatory planning mechanisms and a concomitant increase in the use of market forces to guide distribution and increasingly production choices. Local governments have been accorded greater control over local economic activity and the redistribution of economic rewards.

The economic changes have redefined the social structure and are changing the distribution of power between the local state and both higher level authorities and society have altered the principles on which society is organised and the ways in
which it interacts with the state apparatus. Chinese society has become more complex as a result in terms of both structure and attitudes and at the same time has become more fluid and dynamic than at any time since the early 1950s. There is greater social and geographical mobility and horizontal interaction and integration has developed as the vertical and cellular boundaries of the traditional Leninist system have become more porous. While the central leadership rejects political reform that will challenge the CCP’s dominant role and denounce the ‘western separation of powers’, there have been significant changes in the way China is governed and these are most pronounced at the local level. Important in guiding this process has been the conscious decentralisation of certain decision-making powers, the *de facto* fiscal decentralisation and the decline in the political centre’s moral authority and financial capacity. State revenues only amounted to 14.2 per cent of GDP in 1999, down from 36 per cent in 1978 and had dropped as low as 11 per cent. This has severely restricted the state’s redistributive capacity and has meant that local governments have been largely left to their own devices to raise the necessary funds. The relative decline in state revenues has created pressures at all levels and in all Chinese government agencies to meet recurrent costs from the locally generated revenues. This means that local resources and power structures determine increasingly political outcomes. Within the same province and even in adjacent counties one can see radically different socio-political outcomes deriving from the reforms. While debates about the nature of the national state have operated within a relatively limited spectrum of perspectives, there has been a profusion of definitions about the nature of local state in China. Some have seen reforms resulting in a decline in the role of the state but as is argued below the situation is rather more complex. The most important outcome has been a structuring of the state and a redistribution of power within the state sector. This chapter seeks to explain the variation and what the consequences have been.

First, it is necessary to outline what ‘local’ is taken to mean in this chapter. The level of analysis is at government administrative levels below the provincial level,
primarily counties, municipalities and townships. While the village is not formally a level of government administration, it is included especially in terms of its relationship with the township. It is especially important to understand the interactions between these levels. In addition the local state at the county and township level are made up of multiple functional agencies, the interactions between which, both vertically and horizontally, are important for understanding local dynamics and outcomes. The nature of this organisational structure is such that its study is different from the field of local government study of centre-local government relations as normally defined. This is despite the fact that local governments in China enjoy little de jure legislative power. In the 1980s there were very few studies of these levels of the local state and most of those available tended to be of easily accessible coastal areas or within Guangdong province. This has changed in the 1990s and we are now fortunate to have an extensive literature on a variety of local administrations conducted by Chinese and Western scholars. This is not to deny the importance of the province as a unit of analysis but the provincial governments are more heavily constrained than the lower levels of the administrative hierarchy.

We begin by trying to get the financial picture straight as this has been determinant for most analysis. In the second part we review the different analyses to date that have been based primarily on the economic relationship between the local state and the economy. We then introduce two further important explanatory variables, the political contracting system and the structure of local society that have received less attention to date.

**The Fiscal System and its Consequences**

The most important factor for our study has been the de facto decentralisation of powers away from central government agencies to those at lower levels, especially the effective decentralisation of the fiscal system. This more than any other factor accounts for local variation. Before the most recent fiscal reforms,
only about one quarter of all state expenditures occurred at the central level and the major responsibility for financing infrastructure and providing social welfare occurs at the local level. Much research has seen the decline of state revenue as a percentage of GDP as a clear sign of decline in state capacity. This may be true for the central state but if one adds in the revenues that the local governments gather from a variety of resources, the percentage has not changed much over the last thirty years. There has not so much been a decline in the extractive capacity of the state under reforms but rather a realignment between the Centre and the localities with the localities controlling far greater amounts of revenue than previously. This realignment has had a significant impact on the nature of local government in China. By 1992, the central government’s share of revenue was almost 39 per cent, having declined from 51 per cent in 1980, while collection had risen to 28 per cent from 20 per cent, and expenditure had dropped from 51 per cent to 31 per cent.

The structure of the fiscal contracting system that was institutionalised in 1988 gave local governments a powerful incentive to encourage economic expansion but limited the Centre’s capacity to benefit sufficiently from this expansion. These reforms transformed a province-collecting, centre-spending fiscal regime to an essentially self-financing regime for both the Centre and the provinces. Provinces collected and spent up to 70 per cent of budgetary revenues and while the provincial role for collection had declined in comparison with the Mao years, it had increased for expenditures.

Government revenue as presented in Chinese statistics is comprised of two major components: the unitary budget and the extra-budgetary funds (EBF) for both the central and the local governments. The unitary budget comprises taxes, fees and revenues collected by state financial offices and subject to formal budgeting by the Centre. The Ministry of Finance provides the central supervisory role together with the local authorities. The EBF cover officially sanctioned charges such as surcharges from taxes and public utilities, road
maintenance fees and incomes from enterprises run by various administrative agencies. The EBF, while reported to higher administrative levels, are, to all intents and purposes, only subject to control and oversight by the local authorities (county or township). The local financial bureau manages to fund accordingly the plans of the local administration.

Not surprisingly, it is difficult to calculate what the real value of the EBF is and one official review reported that the real amount for 1995 was probably 1.6 times that recorded in official statistics. Christine Wong has estimated that the EBF amounts to 12 per cent of GDP, compared to an official budget of 14 per cent. These officially sanctioned EBF do not include the various revenues collected locally without central authorisation: often referred to as self-raised funds (zichou zijin). If one adds these extra establishment funds that by their very nature do not turn up in the statistics, the total sum of revenues available were the same in the early 1990s as at the start of the reforms; 39.5 per cent as compared with 40 per cent. This means that those observers who have suggested that there has been a major decline in the state’s extractive capacity have relied on the official budgetary revenue and this has indeed declined by almost 60 per cent (but not in absolute terms as the economy has been growing at a rapid rate). The alarmism that some have sounded about the decline of state capacity in this sense is unwarranted. What is important is the changing nature of the centre-local fiscal relationship and the changing role and importance of the different funds as controlled by the Centre and the localities.

This is of vital importance for understanding the incentives for the local state. One inheritance of the Soviet fiscal system has been that the local government has always provided the provision of basic public goods, with very few exceptions. Apart from nationally designated poor counties that receive transfers and those that receive such transfers from the province, localities are by and large on their own to raise funds. Two factors have exacerbated this situation increasing local state concern with revenue generation. First, despite fiscal
decentralisation the central government has retained control over the policy agenda. While the accounts of localities avoiding or deflecting central policy are many, the Centre still sets many tasks that must be carried out and imposes burdens to be met. Second, the 1994 financial reforms affected the relationship. The intention was to raise the ratio of the budget to GDP and the ratio of centrally collected revenue to total budget revenue. The Centre hoped to raise its share of state revenue to at least 60 per cent with 40 per cent as central expenditure and 20 per cent as transfer grants to local governments. This required clarifying the division of spending responsibility, how taxes would be divided between the Centre and the localities and how to divide the administration for the collection of local taxes. This restructuring has indeed been successful with the share of centrally collected revenue rising from 22 per cent in 1993 to 56.5 per cent by 1997. For the first quarter of 1997, the growth rate of centrally collected revenue was reported to be on a par with that of locally collected revenue, thus overcoming the initial tendency of the localities only to collect for themselves. The Centre’s share of budgetary revenues grew from 2.8 per cent of GDP to 6.2 per cent in 1998.

Once a fee collected by a local government is reclassified as a tax, it is subject to revenue sharing agreements with higher level administrations. Thus, local governments still have a major incentive to concentrate on the EBF part of their revenue stream and the other non-sanctioned fees and levies. These are the funds that the localities can use to finance their own requirements, including their own salaries and related administrative costs. Particularly important, as we shall discuss in more detail below, is the management of local enterprises that can provide revenue to the local government and the use of other state assets such as land to rent out for commercial activities. In fact, rather then frowning on commercial activity, local governments are positively encouraged to use state assets to raise funds to cover their management and operational costs.
This structure has serious consequences for the nature of local government. Some have worried that it has led to an unhealthy rise in the power of the regions and certainly there are legitimate concerns about the consequences of the significant regional inequality that has been an integral part of the reform strategy. By contrast others have interpreted the trend in a positive light arguing that what is developing is ‘federalism, Chinese style’. In this latter view, local governments have primary control over behaviour, policy and economic outcomes with each autonomous in its own sphere of authority. They credit this with placing limits on central control and providing richer localities with substantial independent sources of revenue, authority, and political support. At the same time the emergent system induces competition among local governments, serving not only to constrain their behaviour but also to provide them with a range of positive incentives to foster local economic prosperity. However, the problems or advantages do not arise from the decline in the fiscal capacity of the state as a whole but rather from how revenues are collected and controlled. Given the mess that the Centre has often made in directing the national economy, perhaps it is just as well that its capacity is curtailed. However, there is no guarantee that the local state will pursue development strategies that are any more rational or beneficial to their populations.

One general imperative that emerges and cuts across more economically developed and more resource constrained localities is that the need to derive one’s own sources of revenue has become more acute. The resultant fiscal inequalities that arise from this system have led to an enormous inequality in the provision of public goods and services. At the same time, popular expectations and those of higher administrative levels about the range and kinds of services that they should provide have not declined. As a result the tendency is for the financial pressures to lead to the preference for a development plan that maximises short-term revenue over longer-term needs and for distributional and welfare priorities to be disfavoured. The main concern at the national and at the local level has been on how to increase revenues rather than on what the role of
good government should be. A re-think of the kinds of work in which the
government should be engaged, its relationship to the local community, and the
acceptance that many functions previously managed by the state in the field of
social welfare and asset development will be have to be taken on by local
communities themselves has been shunned.

The 1994 reforms have heightened the tendency to seek off-budget revenues as
they require local counties to hand-over 75 per cent of value added taxes but
they have increased obligations. This has led, for example, to the local Chaoyang
branch (Beijing) of the fire brigade using its privileged access to high pressure
water to operating a car wash out of the fire station and the Qianmen police
station (Beijing) to purchase a Sichuan restaurant to be able to generate funds to
pay off informers. It has also had more perverse effects with local governments
running prostitution rackets through their hotels and Karaoke bars, doctors
relying on kick-backs from pharmaceutical concerns and nature reserves
struggling to restrain poaching by villagers only to turn around and contract out
extraction to logging, fishing or mining concerns.

The most pressing need is to meet the wage bill and cover entertainment
allowances and to cover vehicle costs for local officials. Together these items
compromise the overwhelming majority of expenditures for local administrations
and they seem to have risen significantly under reforms. Indeed a number of
reformers have argued that the quickest to cut down the demonstrations that
come from the illegal levies and fines is to cut the number of government
employees, a message that Premier Zhu Rongji has taken to heart. One recent
national survey showed that in a medium-sized county with a population of
around half a million and with 5000 administrative staff, financial revenues cover
60 per cent of the salaries. Thirty per cent of the salaries had to be raised by
themselves and ten per cent from direct fines on farmers. The situation is even
worse at the township level (40 000 population with 100 staff). Here 35 per cent
collect their salary directly from farmers. Even so, many local administrations
have great difficulty in meeting salary bills. One village I visited only had money for administrative expenses. In central and west China and even Shandong, some townships have not paid their officials for nine months.

In particular the financial pressures have led to a policy to expand township and village enterprises as a first priority as these are seen as the most stable sources for local income. This is the case irrespective of whether the locality concerned is relatively wealthy or poor. In addition to the change in fiscal stimulus, decollectivisation and the return to a household based farming system removed agriculture as a source of viable financing for local governments. It has led many inland counties to try to ape the coastal areas in setting up similar kinds of industries irrespective of considerations of whether there is the necessary skilled labour force, a sufficient infrastructure and a market for the product itself. Local leaders have also developed strategies for hiding revenues from the higher level authorities. In Liaoning some $4 million in electricity fees was kept away from provincial coffers by county governments, for example. The province sold the electricity to the counties at 0.3 cents but the county sold it to consumers for 1.25 cents.

These phenomena are even more noticeable in the poorer areas. As Albert Park and his colleagues have noted ‘heightened pressures on revenue starved local governments may lead to over investment in revenue generating industrial enterprises, encouraged bureaucratic predation of enterprise resources and regional protectionism, and diverted attention away from long-term development strategies’. Their conclusions were based on research in a county without a financial surplus situated Shaanxi province. The province itself has consistently run fiscal deficits exceeding 20 per cent of expenditures making local governments increasingly self-reliant in terms of meeting expenditure responsibilities. Deficit provinces and counties have also suffered from the decline in the fiscal transfers from the central state, something that the 1994 reforms were designed to reverse.
The use of extra-budget funds and the self-raised funds (zichou zijin) has clearly been increasing. This financial reality is not only perpetuating but also exacerbating existing inequalities between and within regions. In poor and remote communities where marketisation has barely begun and where the scope of economic activities will always remain limited, local treasuries have little recourse other than the elimination of services. In many poorer parts of China, rural medical health schemes have been wiped out and the access to schooling has been drastically reduced.

Increasingly, many poor regions rely on extra budgetary revenues for even the reduced services they can provide and evidence suggests that this is increasing. According to Yasheng Huang, in 1991 extra budgetary expenditures for education were around 15 per cent of budget expenditures as compared with 8 per cent in 1979. Guizhou Province derives fully 80 per cent of its educational funding from such sources. Park and his colleagues calculated that in Shaanxi 86 and 89 per cent respectively of provincial consolidated revenues and expenditures were from extra budgetary funds. It is precisely this kind of funding that is most vulnerable in an economic downturn.

In the poorer counties, even EBFs are scarce and local administrations are dependent on the self-raised funds to cover costs. These are fees derived from the township and village levels and usually fall outside of auditing scrutiny by higher levels. They are often referred to as the three arbitraries (sanluan): arbitrary taxation (luan shoufei), arbitrary fines (luan fakuan) and arbitrary expropriation (luan tanpai).

The reforms and the financial pressures have led to both the variation in service provision and even eradication of services in poorer areas and attempts to reorganise the state at the local level to cut-back the number of staff on salary. One particular feature of the determination of township government is by population and geographic size. No consideration was paid to the township’s
financial and economic conditions. This would mean that, before the most recent attempts at administrative reform, the number of government agencies in a poor township could be the same as in an affluent one. Naturally this has meant that the poorer a township, the greater the pressure to extract fees from the farmers. This has caused some to suggest a shift to the size of governmental apparatus being determined by financial capacity with essential government agencies funded in poorer areas through financial transfers.

Combined with the rising income inequality, the financial pressures on the local state in China are accounting for the huge variation in the provision of public goods and services during the transition. As the World Bank has shown, access to health and education services was still widely available in the 1980s but became more dependent on incomes in the 1990s. In 1998 22.2 per cent of those in high-income areas were covered by co-operative medical facilities but only one to three per cent in poorer areas were covered.

The focus on cost recovery has hampered poorer areas from providing good facilities and the capacity for richer areas to invest more in education, health and infrastructure means that the inequalities will increase further over time. For example, while a strong logic for the establishment of the village committees might have been to enforce state policy, those in richer areas actually preside over quickly growing revenues. Even those in poor areas have the fees they collect and, when market price is above state price for grain the differential to expend. While villagers’ committees in poorer areas might be more concerned with how to raise the revenues to cover basic welfare requirements, richer villages preside over an extensive income from local enterprises and make decisions that concern village investment in road building, hospital development etc. According to John Dearlove, in the early 1990s in Fujian, committees had revenues for public expenditure that amounted to 44 per cent of total per capita village income. In Guankou village Henan, the committee presides over 13 companies ranging from building materials to processing agricultural products to
a 1000 head pig farm. This has enabled the committee to avoid illegal levies and fines and have one agricultural tax for all. In addition, funds cover all road-building costs and it was able to build a two-story 100-bed hospital. Even in the poorer nearby Fanghsan village 350 000 yuan had been invested for road repair and relieving farmers from forced unpaid labour.

The impact for poor rural households is particularly dramatic. Here the example of healthcare provision is used. With the loss of the pre-paid collective medical system with the disbanding of the communes in the early 1980s, some 90 per cent of rural households have to pay directly for almost all of the health services used. From 1981 health care facilities were instructed that they should cover recurrent costs, with the exception of staff, from user charges and by the mid-1980s preventive care facilities were also charging on a fee-for-service basis. Coverage in the collective system has dropped dramatically, from almost 80 per cent in 1979 to only 2 per cent in 1987 before improving to around 10 per cent by the mid-1990s. Thus in terms of national health spending, while the collective schemes accounted for 20 per cent in 1978, by 1993 they only accounted for 2 per cent. As the World Bank concluded in its 1996 report, ‘the downturn in China’s health performance relative to its income level coincided with agricultural reform that reduced the ability of the village to tax the peasants’.

The basic problem of healthcare delivery derives from the change of the ownership structure of village networks and the nature of the incentive system that has arisen from these changes. With medical facilities there has been a growth in private medical provision and a shift away from preventive medical care to fee-for-service with local governments in poor areas are less able to provide adequate support. This increases the financial burden on the rural household. The choice in the poor areas is stark if major illness strikes. Either wait and die or run up economic burdens that would take decades to pay off.
Zhu Rongji’s policy to trim the bureaucracy does not leave the local state untouched but reforms are more difficult to implement. While provincial level cuts were pursued in 1999, those for the county and township levels were delayed and were only just beginning on 2000-01 because fears of instability with lay-offs from SOEs were already beginning to take a toll. The government estimates that around 60 per cent of county level staff are effectively redundant. If this is true, redundancy at the township level must be even higher. The objective at all non-central levels of government is to reduce those on salary from 5.18 million, plus another 300 000 who are also paid by the government, by 2.5 million. In part the savings will go to boost salaries for those who remain; salaries are expected to be raised by 30 per cent. Many complain that if the numbers are not cut as expected, highly likely, the result will be increased expenditures for local governments and that this could well result in more levies on the farmers to cover the salary hikes.

While in many poor areas, the state’s presence is still overbearing; there are examples from wealthier areas of the local state trying to reduce its bureaucracy and interference in society while increasing accountability. For example, in Qindu District, in Xianyang next to the major Northwest city of Xi’an, local officials have decided that the government system is too large for the local economy. District party and government offices are to be fused and they expect to reduce the number of officials by 50 per cent. The restructuring of the local government reflects the changing economic structure of the district. The district has undertaken a major program of industrial overhaul shedding its SOE sector and encouraging the private sector to expand. By 1998, of the 57 SOEs and collective enterprises (29 SOEs) under the District’s control, 56 had undergone ownership ‘transformation’. According to the Party Secretary, this had transformed the government’s relationship with the enterprises from that of a ‘parent’ to a market-based one and was accompanied by a major restructuring of local government organs. Thus, for example, the Economics and Trade Bureau (jingmao ju) had been dissolved as the 22 enterprises under its control had
dwindled to just one. Its residual functions had been taken over by a Comprehensive Economic Management Bureau (zonghe jingji guanliju) that covers all economic work, except agriculture, with a total staff of only seven or eight people. Given the importance of the non-state sector of the economy, a Private Economy Development Bureau (siying jingji fazhanju) had been set up together with a Township and Village Enterprise Bureau (xiangzhen qiyeju). These changes, the party secretary reckoned had reduced the number of agencies by 25 per cent and the staff on payroll by 20.8 per cent putting it on the way to meeting the 50 per cent cut demanded by Premier Zhu.

Interpretations of the Local State

With most problems having to be solved in situ, local resources and their distribution concern the majority of people’s lives. While most observers agree that the economic powers of the local state have been enhanced through control over local industry and EBFs, there has been considerable disagreement about the emerging relationship between the local state and society.

The tendency for both Chinese and Western scholars has been to dwell on the fusion of political and economic power at local government levels. This has been accompanied in Western writings with an emphasis on property rights relationships. In this approach the local state is catalogued in terms of the property rights relationships that evolve from the financial decentralisation and the strategies that are taken to deal with this. The resultant structures are ‘path dependent’ on the economic structure that existed on the eve of reform. Out of this approach comes a categorisation of local government forms: entrepreneurial, developmental, predatory, and varieties of corporatism. Before outlining these various approaches it is worth pointing out they may not be exclusionary categories. Not only might multiple models of state-society relations be operating at the same time in different administrative jurisdictions but also even within one locale different agencies might display tendencies toward developmentalism and
predatory behaviour at the same time. Further, we are dealing with a very fluid situation and what initially may appear as an example of a predatory local state may evolve over time into one of social partnership later. In those areas where the legacy from the commune era has been significant collective-run industry or where township and village enterprises have expanded rapidly, the local state is seen as dominating local society. Especially in such areas where there is little large-scale enterprise that might prevent local officials from dominating the local economy so effectively, the likely outcome is liable to be corporatist. Walder in his study of Zouping County (Shandong) notes that it is impossible to explain the rapid economic development without taking note of the economic role played by local government officials. In his view, Zouping resembles an industrial corporation where revenue generation is paramount and the entire local government operates as a firm in a competitive environment.

These ideas have been examined most extensively by Jean Oi with her use of ‘local state corporatism’ to explain the process of explosive rural economic growth that took off in the 1980s and continued into the 1990s in areas such as Southern Jiangsu and Shandong. Such areas have a legacy of collective-run industries that formed the basis for the township and village enterprise development. Oi shows how the change in incentives allowed local communist officials to play the key role in fostering this growth through local government entrepreneurship. The loss of agricultural revenue from decollectivisation combined with hardened budget constraints, while granting local governments greater rights over any surplus, were crucial. This meant that for those leaders willing to take up the challenge there was a major opportunity to develop the rural industrial economy. In Oi’s view ‘collectively-owned industrial enterprises served better both the political and the economic interests of local cadres during the initial stages of reform’. In this process, conforming to Walder’s suggestion, local officials acted as like a board of directors in their management of village affairs.
A number of other writers have taken up similar themes in looking at the local state as developmental or entrepreneurial while there have been criticisms of ‘corporatism’ as an adequate explanatory mechanism. Marc Blecher in his study of Guanghan County, Sichuan province, noted a tendency for local governments to be entrepreneurial because of the effects of the need for revenue generation. Basically local governments went into business with various agencies at the county-level going into business to raise revenues and to provide employment opportunities for those who might be shaken off the government payroll. A study of real estate and commerce government agencies in Tianjin by Jane Duckett found a similar tendency for government agencies to set up and run their own businesses. The clear objective of these agencies is to turn a profit and it may not necessarily be for the broader developmental goals of the community over which they preside.

By contrast Blecher in his work with Vivienne Shue on Xinji Municipality (Hebei, formerly Shulu County) has suggested that the local state has been more developmental than entrepreneurial. For them the distinction with the entrepreneurial local state is that official action is intended to promote the local economy by providing a good physical environment, the access to capital, and to provide linkage to external markets or important agencies. Unlike the entrepreneurial and corporate models the local officials do not get involved in economic activities directly but are more concerned with producing an enabling environment. The local government did not seek to maximise profits for the government but rather to expand ‘developmental horizons’. Blecher and Shue following the ‘path dependence’ school trace this tendency toward developmentalism to the legacy of the Maoist period. Prime explanatory factors were the continuity of leadership across the two periods and that there was a ‘poor context for entrepreneurship’ causing the local leadership to develop a broad based comprehensive development plan.
However, as noted above, the resources available to the local state vary enormously and this affects the nature of entrepreneurialism. Local leaders with no industrial base have either had to build one, often with disastrous results, or have been predatory. Even in the more economically developed areas, the nature of the local state can be more predatory than developmental or entrepreneurial. Sargeson and Zhang’s study challenges Oi’s and Walder’s findings even for more developed areas on the basis of their work in a sub-district of Hangzhou, capital of Zhejiang Province. They question the general applicability of the assertion that local governments with strong property rights have acted as entrepreneurs fostering economic development and meeting social demands through the development of collective industries. Their study shows that local government officials put their own objectives above not only the aims of the central government but also above those of the local community. They assert that the notion of ‘local state corporatism’ mistakenly ‘conflates the interests of local governments, individual officials and the members of local communities, and also fails to consider the broader implication of concentrating property and power in the hands of lower-level governments and officials’. With the lack of accountability the local community is excluded from the decision-making process and has no choice other than to go along with the decisions of the ‘board of directors’ whether they benefit the local community or not.

Yan Zhang presents a similarly critical view of the ‘Southern Jiangsu’ model (Sunan moshi) in a study of township and village enterprises in Kunshan. Zhang notes that the government is always supreme and seeks to control everything appointing the enterprise managers, determining the production quotas and investment levels. Decision-making powers of the enterprise are curtailed in favour of those of the local state. ‘Market orientation’ is replaced by ‘government orientation’. In the author’s view this situation led to ownership reforms that began earnestly in 1996.
To try to redress this problem a series of pilot reforms have been undertaken in Anhui province among others. In general, the township and village government is not allowed to become involved in investment and business activities as an owner of the collective economy. Instead the local administrations can only invest in the development of public goods such as transportation, water and electricity, education and basic agricultural facilities. However, it is unclear where the revenue would come from for such activities without the enterprise revenues and myriad of fees.

With the promotion of share-holding in the latter part of the 1990s, it has become clear that local officials in a number of areas have used their official positions to acquire the major benefits for themselves, families and associates. Lin and Chen in their study of Daqiuuzhuang reveal the networks between the local officials operating in a more predatory manner. They show how the share-holding system has been exploited to transfer the local enterprises into private hands. As one local official in southern Jiangsu commented to me on hearing Premier Zhu’s bold reform plan of March 1998, ‘one last chance to get rich’. In one village I visited in May 1999 near Wuxi, Jiangsu Province, the three key members of the party committee ran the village’s major businesses. They complained that the pittance they received for party work (300 yuan a month) was no incentive. What was an incentive, however, was that they had used their positions of power to gain majority share-holding in the enterprises. One survey by Chinese researchers concluded that most village cadres only did the job for economic benefit, while 90 per cent of villagers refused to be village team heads as the salaries were too low and often could not be paid anyway.

These observations run counter to the idea of a ‘market transition’ proposed by Victor Nee. Nee claims that the new opportunities in the local economy have provided individuals with control over financial and other resources independent of local cadre power. This has reduced the capacity for bureaucratic redistribution and the horizontal ties of ‘market capital’ have strengthened at the
expense of the vertical ties of ‘political capital’. Much research and those who favour corporatist outcomes conjecture that the power of local officials has been enhanced by increased control over resources for distribution to those within their jurisdiction. Chinese researchers under Xu Yong have argued that despite the village elections, the head of the villagers' committee acts as much as an agent of the state as a representative of the villagers. Certainly the widespread practice of buying and selling of official posts suggests that much can be earned from them. Sayings such as the following have become commonplace in the countryside: ‘if you bribe your superior 10 to 20 000 yuan, you have just checked in. If you offer him 30 to 40 000 yuan, you have registered for promotion. If you give him 80 to 100 000, you will get promoted’.

In addition to challenges to ‘corporatism’ as an effective concept to describe these local states, one must bear in mind that we are also dealing with a system that is very fluid. Recent research, including that of Oi herself, suggests that the Southern Jiangsu area is going under significant changes that call ‘local state corporatism’ into question. In addition to the share-holding system mentioned above, it is clear that competition for the TVEs has increased and that local governments are under harder budget constraints. This has meant that there in addition to ‘privatising’ profitable enterprises, there is greater pressure for the local state to get rid of those that are not profitable or are unlikely to remain profitable in the foreseeable future. This is blurring the distinctions between those local states with a larger private sector and those that had a primarily corporatist structure. Research by Park and Shen on 15 counties in Jiangsu and Zhejiang reveals a massive trend toward privatisation. In 1994 only 92 of the 415 enterprises surveyed were private, but by 1994 the total was 231 and it has risen since.

Predatory practices have usually been identified with resource-deficient localities or those that are dependent on one product. The work of Guo in Jinguan Township in Northwest Yunnan reveals this, although its predation is mediated
somewhat by the fact that the township receives limited subsidies for being both a minority and poor designated county. It is a poor township where the local administration forced the farmers to plant tobacco. This generated revenue for the township government because of a good revenue-sharing agreement with the county-level government. For the province as a whole the tobacco industry provides 70 per cent of the revenues. Since 1991, the local county has obliged 11 of the 18 townships to grow tobacco and only excluded those in the mountainous areas where the conditions were clearly not conducive. Not surprisingly the farmers were unhappy as the tobacco took land away from their capacity to grow rice and they earned less from tobacco. The county government derives enormous revenues, however, as it operates a sales monopoly and has the highest agricultural tax at 38 per cent. To buy compliance of the township authorities, the county signed a revenue-sharing agreement that allowed the township to keep two-thirds of the tobacco revenue. This cosy agreement ran into problems at the end of 1993 when a bad harvest combined with the government’s harsh extraction policy to cause public protests. Compulsory tobacco production was abandoned in 1994 but Guo surmises that this was because of the general 1994 fiscal reform that adjusted the sharing of tobacco revenues between higher and lower levels of government. When the county reintroduced the tobacco quota in 1996, there was no coercion, with the result that only 10 per cent of the quota was met.

The predatory nature of local leadership is reflected in the popular use of phrases such as *wuzi dengke* and the complaint by locals that they are required to provide cadres the best housing, the prettiest women in the village to marry, and the fattest pigs to slaughter for the celebration. *Wuzi dengke* traditionally had a positive meaning in Imperial times with a father whose five sons all passed the examinations to become officials. In Republican China it became a term to criticise the abuses of Nationalist officials, and it has been revived to describe the predatory habits of local rural officials.
The picture is different again in areas with a high degree of privatisation. Unger and Chan (1999, pp. 45-74) in their work on Xiqiao township in Guangdong, not far from Hong Kong, show how the criteria for success in private enterprise and public office are beginning to converge. The local township government does not need to levy any general taxes on village households and has been strongly in favour of local private business. As they conclude, this experience counters the general writing on local government in two significant ways. First, local officials do not give priority to publicly owned industry over the private sector and secondly they do not insist on relationships in which private enterprises are subordinate to and dependent on them. Zhang Renshou confirms these findings with his research on Wenzhou in Zhejiang province where private business is highly developed. Zhang found that the enterprises were guided by the market and the local administrations did not interfere with their production of business activities.

However, in other areas, the development of a private sector has not necessarily led to less dependence on officials for getting things done. David Wank’s work in the Special Economic Zone of Xiamen has revealed what he terms ‘symbiotic clientalism’ between local government officials and entrepreneurs. Whereas good relations with officials have evolved from the networks that can allow for profits to be made to one where officials provide security, they remain important players in entrepreneurs’ lives. The protection that officials provide results in economic rewards for them or in employment opportunities for themselves or for family members.

Empirical research thus questions the viability of one model to describe the nature of the local government in China. China is a patchwork of different relationships, each of which is negotiated through a complex interaction between levels of government at the same level, above and below and between the agencies of the local government and society. The precise outcome will be dependent on a location’s historical legacy, resource endowment, and
leadership. The main general imperative that emerges that cuts across more economically developed and more resource constrained localities is the need to derive revenue and this has become more acute with the *de facto* fiscal decentralisation that has taken place. This has been dealt with extensively above and underpins those analyses that argue from a property rights perspective and privilege an analysis based on the role of the local state in the economy. The next two sections deal with two factors that have received less emphasis in recent writings: the political contracting system and the structure of the local society and the degree of community organisation or homogeneity or heterogeneity. Many local officials may well be party members but they are also members of the local community and with the moderate increase in local accountability through village elections and transparency regulations they have to take this seriously.

**The Political Contracting System**

We need to understand far more about the political demands that are placed on local officials by their superior agencies to complete our picture of the forces that are shaping the state at the local level. In some areas reforms have clearly led to local officials enjoying greater financial freedom from higher levels and afforded them less dependence on higher level approval for career advancement and economic reward. However, as Christopher Nevitt notes the vertical chain of career advancement is more a concern for those at municipal and provincial leadership than for those at lower levels. Yet it is clear that even those officials working at the county and township level have to be cognisant of the demands of that the higher levels of administrative leadership place on them.

The work of Maria Edin, Susan Whiting, and that of a group of researchers under the Compilation and Translation Bureau of the Central Committee have argued persuasively that we need to shift attention from a pure political economy approach that views state agents as revenue maximisers and to pay more
attention to the political incentives generated by the cadre responsibility system and the political contraction system and the performance contracts (gangwei mubiao zeren shu) that local governments and officials have to sign.

These performance contracts do not discourage economic development, far from it, but make it clear that this is just one part of a complex set of tasks that local officials are required to carry out including maintaining social order, delivering taxes to higher levels of government, and maintaining birth control quotas. There are multiple principle-agent relationships that operate between the levels of local government and they need to be understood better in order to improve analysis of the local state, its functioning and the incentive structure for local officials.

The precise nature of the contracts varies across time and place but they do set out performance expectations that provide the basis for official evaluation. The system originated in the late-1980s and become more formalised through the 1990s. Thus, in Mi County (later Xinmi City) the first countywide implementation of the cadre responsibility system was launched in March 1988. This was with the contracts for accomplishing rural work for 1988 was signed between the County party committee and the County government and the secretaries of the party committees of the townships and the leaders of the townships on the other. Each county will set out performance contracts for the mayors and party secretaries of the townships under their jurisdiction to sign. Then contracts are signed between the towns and townships and the functional departments under their jurisdiction and then the finally between the heads of these functional departments and their work personnel. Work personnel are often required to make a financial deposit when they sign their contract and this will only be returned if they accomplish their tasks.

One problem arising from this system is the weakening of the capacity for comprehensive development by township governments. One set of Chinese researchers has even referred to the responsibilities of the townships being
'dismembered' by the county. Most government agencies at the township level actually receive the contracts from the county and this undermines the township’s capacity to co-ordinate the work of their functional agencies as the administrative power in the township region does not belong to the township. Other have pointed out the weak position of the township government with it lacking not only power but also the necessary finances to carry out its mandates. With the various agencies under the direction of the county, township governments have little to no power to decide personnel arrangements, financial revenue and expenditures and the allocation of materials to the county branches in the township. For example in Laiwu (Shandong province), only five staff in 28 township governments offices were under the leadership of the township government. This had led some to dub the township government as a ‘big title’ (paizi xiang), ‘many responsibilities’ (zeren da), ‘with little power’ (quanli xiao) and ‘difficult to deal with’ (banshi nan).

Contracting produces the same kind of relationship between the township and the village where village organisations become politicised and an extended branch of the township government at the village level. One village leader felt that all 'so-called village autonomy' meant was that 'leaders in the village do not receive salaries and they do not demand expenses from the township government'. In terms of tasks to be completed, village leaders are said to see family planning, collecting fees and grains from farmers and conscription as administrative responsibilities, meaning that they are contracted from above. However, Hu sees the current relationship between the townships and villages today as significantly different from that of the commune and production brigades in the past. The contracts cannot be implemented solely through administrative fiat but rather the township must use material resources to exert control effectively. Village committees will fulfil the tasks mainly to get help and assistance from the township. This is even more important in the poorer areas where financial appropriations can be crucial. This relationship is different from that between the township and the county as township officials are appointed by
the county and will be dependent on the county for good approvals that will allow for promotion. For the most part village leaders will stay in the village and, where they are implemented, will be elected through village elections.

The resultant system that comes from this contracting arrangement the Translation Bureau researchers refer to as a ‘pressurised system’ (yalixing tizhi). This they define as the ‘management mode of dividing up tasks and the system of conducting assessment by giving material awards adopted by the political organisation at the county or township level in order to develop the economy and attain the targets set by the higher authorities’. Essentially the party and administrative organisations at the county level divides up the tasks and sets the targets for the organisation and individuals at the lower levels and requires them to accomplish them within a prescribed period of time. There are usually one, three and five year contracts. The higher level makes it decision on political and economic rewards and penalties for organisations and individuals at the lower levels according to how well they have accomplished these tasks.

The targets are divided into a mixture of priority, hard and soft targets. The priority targets are set nation-wide and usually are more political or policy oriented in nature. They would include, for example, the maintenance of social order, most recently including the eradication of the influence of Falun gong practitioners, and of course meeting the targets for family planning quotas. The hard targets concern primarily economic ones set by the county for the township and would include meeting tax revenues and meeting certain levels of growth. In particular it is the requirement of counties to catch up with and outperform other counties and this is reflected in the target set for lower levels. This will mean setting economic targets that exceed those of the national or provincial plans and particular attention is taken to set targets that will enable a particular county to overtake other potential rivals. These are often encapsulated in formulaic slogans. Thus, Mi County (Henan, now Xinmi Municipality) in 1995 set a target of ‘catching up with Gongyi County in total economic strength, overtake Xinxiang in
*per capita* income, learn from Zhanjiagang, and rank among the national top 100 counties during the Ninth Five-Year plan period (1996-2000). The soft targets tend to relate to questions of social development such as health and education provision and the concern for environmental protection. Clearly meeting the hard and priority targets are the most important as failure to meet them will mean that the rest of the work for the entire period will be discounted and there will be no promotions, titles or economic rewards distributed.

This system produces a number of perverse outcomes and explains why officials will often pursue unpopular policies with such zeal. One survey of 89 villages in Fuquan county (Guizhou province) found that village leaders spent 80 per cent of their energy and 70 per cent of their time on ‘the most disliked’ administrative affairs. Not only is the contract focused on quantitative targets but also on the speed of completion of the task. This means that less attention is paid to quality of the finished product, as this is not rewarded sufficiently. This contributes to the shoddy and dangerous buildings and infrastructure that has accompanied China’s urban and rural building boom.

The number of functions that a local administration is expected to carry out has not declined with the reforms in many areas and this creates significant budgetary pressures on the local governments. This means that local governments tend to accumulate projects that will bring in funds either through the running of enterprises or those that can be used to derive fund allocations from higher administrative levels. By contrast projects that have a slow turn around time in terms of producing profits or that are not a priority or hard target will be neglected.

This can be seen from the example of development in Xinmi Municipality. The drive for development led first to an emphasis on expansion of township and village enterprises in the 1980s and second to a wave of government agencies setting up businesses following Deng Xiaoping’s Southern tour in 1992. Of eight
functional departments of the Xinmi government, they all had their own companies and factories. In fact the Municipal party committee made the number of economic entities managed an important criterion for assessing the work of party and government organs. The easy atmosphere for getting lending if one was an official in 1992 fuelled this process further. As a result in 1995 Xinmi’s revenue reached its highest levels with 228 million yuan, an increase of 76.8 per cent over 1994. This has produced noticeable benefits in terms of investment in physical and social infrastructure and in terms of per capita income growth. However, the government still actually ran a deficit. With the 1994 tax reforms for revenue sharing a greater percentage hand to be handed over to higher levels and the incentive to collect taxes declined and the reforms also made the losses of the SOEs visible within the financial system. At the same time the tasks were growing and the government’s administrative costs were expanding. They amounted to 137 per cent of the annual budget in 1994 although this was brought down to 99.8 per cent in 1995. As a result expenditures exceeded the budget in all years.

With the emphasis on launching industrial projects, implementing family planning targets and the development of townships, as this increases government financial allocations, agriculture has been neglected. Agricultural support funds in Xinmi fell in both absolute terms and relative terms from 1991 to 1995, from 5.794 million yuan (12.4 per cent of total budgetary expenditures) to 3.7 million (2.8 per cent). The financing for agricultural investment came exclusively from agricultural taxes paid in grain.

The political contracting system also provides perverse outcomes for officials and lower level governments dealing with evaluation of performance. For example, there is great pressure to juggle the statistics that are reported upwards to fit with the targets that have been set and even to report figures that exceed the targets set. This distorted reporting is best combined with a strategy of cultivation of good social and political networks with those higher levels of government that will
be engaged in the evaluation. This is especially important if key targets are going to be missed. The resultant system and incentives would suggest that political and vertical networks are more important than the 'market transition' proponents would suggest.

**Social Structure**

The literature to date has also paid less attention to the influence that social structure has on the nature of the local state. This is relevant both in terms of how the newly emerging economic elites are accommodating with existing political power and how social structures interact and modify the behaviour of government officials. The former is relevant to all levels of the local government whereas the latter is most applicable at the basic levels of administration, for example at the village level. The latter may also affect the township but this would require further research.

Research in a number of areas has revealed the fusion of official interest with that of business and this has clearly impacted on the management of the local state. The work of Ray Yep and others has revealed how the rise of business interests and their influence directly and indirectly on local governments has begun to influence the provision of public goods and services and public policy more broadly. The access to privileged loans is one clear indication of this but also local business elites have been able to influence key decisions on infrastructure spending and to influence land redistribution practices. Sally Sargeson has shown how new business elites have been able to use local industry and commercial bureaux and the labour bureau to hold back rising labour demands for better working conditions and wages.

Even within jurisdictions that fit the developmental model, there are longer-term trends at work that will present future challenges. Blecher and Shue talk of the emergence of a new petty bourgeoisie and a new *haute bourgeoisie* as a conscious creation of the local state officials in Xinji. While the officials have
remained separate from this new stratum and have not engaged in the same self-enriching practices as those elsewhere, support from this new bourgeoisie can only be conditional on further close co-operation with the officials and a policy framework that is beneficial to their interests. Accommodation at the local level may be occurring but at the national level the party is still finding it difficult to find a justifiable level of acceptance of this newly emerging class. The non-state sector of the economy has received progressively better status in party and state documents but this has still not translated into a sufficient shift in practice such as lending to the sector from the state controlled banks. By contrast with local accommodation to this new bourgeoisie, other new strata created by the reforms such as migrants have been excluded, on the whole, from local state power.

As noted above popular expectation of the kinds of services that local authorities should provide has not declined and there is continual pressure on the need to raise revenue. This is a particular problem at the village level where authorities are not allowed to collect taxes but while they can have an extensive array of financial obligation for the provision of public goods and services. This makes them dependent on higher level authorities for funding or solely reliant on the sources they can extract from the local community.

This does not have to result in predation on local villagers, although clearly there are many examples of where it does. Those who have worked on the Southern Jiangsu area have noted many instances where collectively raised funds have been used for the development of social welfare. However, the mechanisms that local officials will use to implement policies and to raise funds will depend not only on the level of economic prosperity but also on the nature of the community and their ties to it. From visits to various rural communities through the 1990s, it appeared to me that the local administration tended to be less coercive in their approaches to revenue generation where there was a high degree of village solidarity. This might comprise dominance of the village by one specific clan or lineage or where the temple association dominates matters of reciprocity. In a
number of villages that I visited in Sichuan and Yunnan temples had become not just points for worship but the focal community points for reciprocity and exchange.

These impressionistic ideas are supported by more systematic research being carried out by Lily Tsai and some Chinese researchers. Tsai’s preliminary findings conclude that in some areas social capital substitutes for governmental performance and officials allow social institutions to take over the provision of public goods. She cites the example of the village temple council in Haican peninsula (Fujian Province), among others, that has taken over all road building. In the Catholic Duan village in North China, the church organised the villagers to construct a road rather than the local authorities. It was said that even if the village authorities had the money no one would listen to them but, by contrast, none would refuse the church. As a result of this and other examples the researcher, Fei Wu, has concluded that local religious elites have become a strong group. In his view, the penetration of state power in these communities depends not only on village officials but also on the co-operation of the local elite. In fact, he concludes ‘the reputation of village officials is markedly lower than that of the local religious elite’.

In a study of Qiaoxia village (Jiangxi province), Yiping Zheng reveals a complex relationship between clan organisation and village authorities. Zheng claims that the village committee is still responsible for carrying out party policy, production, grain and fees’ collection, enforcing family planning and overseeing the schools. The clan, however, dominated in property disputes and controlled all religious affairs even to the extent that the village authorities had to donate money and materials for such activities.

These alternatives for mobilising community resources are especially important, as the incentives to encourage village officials, village elections notwithstanding, to provide public goods are weak. Certainly there is no direct incentive for
township officials to invest in village infrastructure. Thus, while they might finance a road to link the village to the township, they are unlikely to invest in improving communications within the village. The use of township funds will go to meeting the obligations laid down by the county level government.

Concluding Comments

Part of the solution to the dilemma to the need for revenue generation and the mobilisation of community resources depends on a two-fold strategy. First, there is clearly the need to increase the tax base of the government, a solution explored by the World Bank and favoured by the Chinese central government. However, this is only part of the solution and the obsession with revenue raising not only produces the perverse outcomes outlined above but also deflects from a serious consideration of the role of government, the kinds of work in which it should be involved, its relationship to the local community, and the acceptance that many functions previously managed by the local state in the field of social welfare and asset development will have to be dealt with not only by national investment but also by the local communities themselves. A thoughtful review of this issue is preferable to the practice of setting up enterprises just to raise revenue without consideration of long-term developmental needs or squeezing the rural poor through levies and fees as is often favoured by local authorities.

The study of the local state in China is a rapidly developing field and has been prey to a diverse set of interpretations. As Richard Baum and Alexei Shevchenko have noted there is considerable ideological confusion about the ‘state of the state’, including the local state, in China. This chapter has argued that this is not surprising given that we are dealing with multiple types operating across different geographic jurisdictions and that we are dealing with a very fluid situation in which these local forms are evolving as circumstances change. Looking to the future we need to conduct more research that compares the local state in China both vertically across different regions and across different functional bureaux
within one jurisdiction. In addition we need to think about change across time, not only within the reform period but also looking at how the Maoist legacy has affected reform period development and to look further back to see how the local state in the Republican era dealt with the same issues. There is little to suggest in the above that we are seeing the ‘withering away’ of the local state in China. Rather we seeing a changing locus in state power and numerous attempts at local state-building to accommodate the demands of reform.

The conceptual tools we have developed to date have been on the whole unsatisfactory. To a large extent we have been trying to fit Chinese empirical pegs into Western theoretical holes. The resultant taxonomy has been useful but it is not enough. In many cases, even local states that appear to fit the model for ‘local state corporatism’ may turn out to be predatory and developmental at the same time. We need to pay more attention to disaggregating the interests of the state at the local level both in terms of different functional bureaux and in terms of the interrelationship between different government agencies at different levels horizontally and vertically and to society at large in terms of responsiveness. This will move us toward more open-ended explanations rather than the clear-cut ones that social scientists prefer. We should not prematurely close down the range of options available for interpretation through a process of imposing order and logic. Each specific local state is the process of complex negotiation and we need to develop explanations that allow for the shifting complexities of the current system and the institutional fluidity, ambiguity and messiness that operate at all levels in China and that are most pronounced at the local level. This does not negate the need for comparison but will provide a more reliable base for such comparison. Once we have completed this work we can begin to ask key questions about what kinds of local states are the best at performing which kinds of functions and providing what kinds of service.