

# Three Hebei Townships under State-Endorsed Rural Reform Pilot Projects: Conflicts of National and Local Interests

SHIAW-CHIAN FONG

*In order to evaluate three state-endorsed projects of township reform, the author chose three representative townships—one from each type of project. The results of the study found that in realizing state guidelines, all three townships nevertheless contradicted state policies in terms of bureaucratic jurisdiction, finance, and land transference.*

*This study is based on my fieldwork with Hebei Province's C, B, and X townships (named by their Pinyin initials according to mainland Chinese ethnographic practice) from October to November of 1997. In order to finance its own collective enterprises, Township C has created its own quasi-bank which pays high interests to attract deposits—a clear violation of state regulations. Township B became rich for building ten marketplaces with stalls for lease in accordance with state regulations. Township protection for traders (even those selling pornography and other illegal items), however, has caused trouble with several ministries in Beijing. Finally, Township X has used collective land to invest in a health club without bothering to first "nationalize" the land for commercial use as required by law. By avoiding these central government regulations, the township has appropriated the share of land value-added tax that belongs to superior governments.*

---

**Dr. Shiaw-chian Fong** is an Associate Research Fellow of the Institute of International Relations, National Chengchi University. The author would like to thank the Republic of China's National Science Council for subsidizing this fieldwork, and Professors Fei Xiaotong, Ma Rong, Pan Naigu, and Liu Shiding of Beijing University's Institute of Sociology and Anthropology for their assistance.

*This study concludes by arguing that three key variables are important in understanding local political economy: (1) interpretation of the property rights of agrarian land, (2) the portfolio of the economically influential locals, and (3) the distribution of profits resulting from land development.*

**Keywords:** township; finance; local state corporatism; local property rights regime

\* \* \*

Addressing the Chinese Communist Party's (CCP's) Fifteenth Congress, General Secretary Jiang Zemin proposed two rural reform ideas that had never been mentioned in previous congresses: the industrial management of agriculture and the building up of small towns and cities.<sup>1</sup> This indicated that the CCP Central Committee had accumulated enough experience in these realms and desired to make them formal Party policies.

The earliest inspiration for this township-building policy came from the publication in 1983 of an article discussing the major problems caused by small towns and cities written by Fei Xiaotong, an incumbent National People's Congress (NPC) vice-chairman.<sup>2</sup> Fei was concerned with the decline of small towns, including the Zhenze Township situated in a region of rivers and lakes, as their traditional function as markets for sideline and industrial products of neighboring villages had been taken over by state-run circulation channels such as collective supply and marketing cooperatives, state-owned stores, and cooperative stores. A series of studies conducted subsequently by Fei gradually led the Beijing authorities to realize that in reforming mainland China's economic system, traditional or newly established small towns might very well serve as bridges of dual economy between cities and villages and help absorb the surplus labor force released

<sup>1</sup>Jiang Zemin, *Gaoju Deng Xiaoping lilun weida qizhi ba jianshe you Zhongguo tese shehui-zhuyi shiye quanmian tuixiang ershiyi shiji* (Hold high the great banner of Deng Xiaoping theory for an all-around advancement of the cause of building socialism with Chinese characteristics into the twenty-first century) (Beijing: Renmin chubanshe, September 1997), 28-29.

<sup>2</sup>Shiaw-chian Fong, "Studying Rural Enterprises in Southern Jiangsu and Wenzhou: A Comparison of Three Approaches," *Zhongguo dalu yanjiu* (Mainland China Studies) (Taipei) 40, no. 2 (February 1997): 39-40, 50-51.

by villages. Thus, checking the flow of peasant workers to cities became a chief consideration in promoting the township-building pilot projects.

In this article, the author will first explain the three kinds of pilot projects launched respectively by the Ministry of Agriculture (MOA), the Ministry of Construction (MOC), and the State Commission for Restructuring the Economy (SCRE) together with ten other ministries and commissions. Then, information collected by the author during his fieldwork with C, B, and X townships (named by their *Pinyin* initials according to mainland Chinese ethnographic practice) in Hebei Province from October to November of 1997 will be analyzed to show how these townships have contradicted state policies in terms of bureaucratic jurisdiction, finance, and land transference due to conflicts of interest with central authorities. In order to finance its own collective enterprises, Township C has created its own bank which pays high interests to attract deposits, a practice in contradiction with state regulations. Township B has become affluent because the local government built ten marketplaces with stalls for lease. Township protection for traders (even those selling pornography and other illegal items), however, has caused trouble with several ministries in Beijing. Township X has used collectively-owned land to invest in a health club, without first nationalizing the land for commercial use as required by state regulations. Thus the township has appropriated the land value-added tax due to central authorities.

These fieldwork data constitute "profiles" of my observation of the conflicts of interests between the central and local authorities in mainland China. Since this is the author's first fieldwork in mainland China and no previously-accumulated complete data sets are available for comparison, the fieldwork data thus collected cannot be regarded as typical. The observed results will, therefore, be evaluated in connection with two theoretical frameworks for studying the PRC's "local political economy": local state corporatism and the local property rights regime. The intent is to assess the shortages of these frameworks (such as the limited applicability of the frameworks and theorists' insufficient knowledge of the local operation of the central government's policies) and to clarify the frameworks' potential to guide subsequent fieldwork. The author agrees with the general orientation of the local political economy approach and concludes that

relevant fieldwork should be concentrated on three key variables: ambiguous state stipulations about the property rights of agrarian land, the portfolio of the economically influential locals, and the distribution of profits resulting from agrarian land development.

### Beijing's Rural Reform Pilot Projects

Since the beginning of economic reforms in 1978, the results of local pilot studies have been the basis for Beijing's adoption of economic reform policies. As far as rural reforms are concerned, three pilot projects with public records have been found. They are: (1) the 29 rural reform experimental areas conducted by the State Council Rural Development Institute and the MOA since 1987, (2) the 625 Pilot Project launched by the MOC in 1995, and (3) the Pilot Project for Comprehensive Reform of Small Towns and Cities (involving 57 townships) jointly promoted by the SCRE and ten other ministries and commissions.

The author will examine these three state-endorsed pilot projects and their interrelationships in order to provide a politico-economic framework for analyzing the actual policy implementation operations in the three Hebei townships. We shall see that pilot projects are effective instruments both for silencing the conservatives within the CCP (as pilot studies mean that policies concerned have not yet been officially formed) and for delegating reform powers to local governments.

#### *Written Materials on Three Rural Reform Pilot Projects*

According to an MOA document,<sup>3</sup> as of September 1996, the Ministry had established in nineteen provinces, municipalities, and autonomous regions a total of twenty-nine rural reform experimental areas, consisting of eleven prefectures, thirty-three counties, one state-owned farm, and one state-owned forestry bureau; covering 263,000 square kilometers of land

---

<sup>3</sup>"A Brief Introduction to China's Rural Reform Experimental Areas," *Zhongguo nongcun guancha* (China Rural Surveys) (Beijing), no. 13 (January 1997): 64.

with a total population of 71,250,000. The measures that have been implemented on a trial basis include: (1) reform of the grain purchasing and marketing system and the rural circulation system; (2) experiments in instituting a new land management system to achieve economies of scale; (3) establishment of grass-roots cooperative economic organizations; (4) experiments in instituting a rural enterprise system and constructing and developing small industrial districts; (5) reform of the rural financial system; (6) reform of the rural supply and marketing cooperatives; (7) reform of the systems of forestry, animal husbandry, fishery, and state-owned farms; (8) establishment of an organizational system for comprehensive agricultural development; (9) reform of the aid-the-poor comprehensive development system; (10) experiments in rural modernization; (11) comprehensive reform of the suburban economy; (12) construction of agricultural commodity bases; and (13) comprehensive reform for the industrialization and development of lake regions.

Among these myriad measures, we need to pay special attention to the establishment of grass-roots cooperative economic organizations, which is a profile relevant to our study of conflicts of national and local interests. In Hebei Province's Township C, actual experimentation of this particular measure has produced a local economic association system whose operations are in conflict with the central banking system. Moreover, these thirteen work items of the MOA obviously overlap with the following pilot plans of the MOC and the SCRE.

The Ministry of Construction's 625 Pilot Project involves trial reforms of three administrative tiers.<sup>4</sup> The figure "6" indicates that six counties and county-level cities (the total number of which has already been increased to eight) along mainland China's eastern coast have been chosen for rural urbanization with Chinese characteristics "through the readjustment of the urban-rural and industrial structures caused by the development of industry and commerce in towns and townships, transference of the sur-

---

<sup>4</sup>Mao Rubo, "Be Bold in Reforms and in Promoting a Sound Development of Our Projects to Build Small Towns and Cities," in *Quanguo xiao chengzhen shidian gaige jingyan wenji* (A collection of essays on the reform experiences of township-building pilot projects) (Beijing: Gaige chubanshe, August 1996), 34-26.

plus rural labor force, and the law for the distribution and development of small towns and cities."<sup>5</sup> The figure "2" refers to two pilot study areas: the Beijing-Tianjin-Tanggu area, and the Xiangfan-Nanyang area at the juncture of Hubei and Henan. The pilot plan for the first area envisages the establishment of one hundred townships at the provincial (municipal) level (the so-called Provincial-Municipal Level Pilot Project for Building One Hundred Townships) and the plan for the second area designs a "construction competition" between a Hubei township and a Henan township, both named Menglou, in order to realize the MOC's objective of stabilizing the development of agricultural production.<sup>6</sup> Finally, the figure "5" represents the pilot project of building five hundred reasonably distributed central-level townships having mutually supporting production facilities and 20,000 to 30,000 residents.<sup>7</sup>

Township B, which will be discussed in the next section, is one of the one hundred townships chosen for the aforementioned provincial-municipal level pilot project; and Hebei Province is in charge of relevant experiments there. It is interesting that Township B had originally been chosen by the SCRE as a model in its pilot project for comprehensive reform of fifty-seven townships. Because of the objection of other ministries, however, the township finally became part of a provincial-level pilot project. Reasons for its downgrade demonstrate another example of central-local contradictions.

The pilot project for comprehensive reform of fifty-seven townships is a large-scale plan launched by the SCRE in association with ten other ministries and commissions.<sup>8</sup> In April 1995, these eleven ministries and commissions jointly distributed an internal document on the guidelines for comprehensive reform of small towns and cities, pointing out that the following experiments would be conducted: (1) improving the functions of

---

<sup>5</sup>Ibid., 35.

<sup>6</sup>Ibid.

<sup>7</sup>Ibid., 36.

<sup>8</sup>They include the ministries of Construction, Agriculture, Public Security, Finance, and Civil Affairs, the State Planning Commission, the State Science and Technology Commission, the General Office of the State Organization Committee, the State Land Administration, and the State Statistical Bureau.

the governments of small towns and cities in economic and social management; (2) reforming further the methods of building small towns and cities; (3) promoting pluralist investment mechanisms to enhance the construction and development of small towns and cities; (4) renovating the household registration management system and the social security system; (5) exploring methods for the establishment of an efficient internal circulation system for collective land; (6) deepening the town and township enterprise system of small towns and cities; (7) letting cities play a role in boosting the growth of towns and enhancing the markets of small towns and cities; (8) establishing an efficiently functioning and organizationally complete public finance system for small towns and cities; (9) conducting tests of the standardization of rural cooperative fund organizations; (10) establishing and improving the technology management and service systems of small towns and cities; and (11) establishing a sound agricultural service system for small towns and cities.<sup>9</sup>

Comparing the test items of the SCRE project with those of the MOA project, we can see that both projects emphasize improving or instituting land and finance management systems, agricultural cooperative fund (or economic) organizations, and town and township enterprises. At first glance, the SCRE project and the MOC project seems to have no overlap. Both, however, recognize the importance of improving the existing household registration system so as to increase the population of small towns and cities to 20,000 to 30,000 people. The overlap of these three pilot projects is not surprising. After all, the opinions of eleven ministries and commissions are the guidelines of the pilot project involving fifty-seven townships. Thus, it is only natural that the MOA and the MOC include in their respective projects the items that they consider important. Nevertheless, the following two points deserve our attention:

First, the emergence of the SCRE pilot project does not mean that the MOA and the MOC have to suspend their own pilot projects. On the contrary, the three pilot projects will be promoted simultaneously and each of

---

<sup>9</sup>Shao Bingren, "Foreword" to *Zhongguo xiao chengzhen gaige shidian* (Pilot projects for reform of China's small towns and cities) (Beijing: State Commission for Restructuring the Economy, n.d.), i.

the two ministries will assign two separate staff teams—one to carry on its own pilot project and the other to conduct experiments in cooperation with the SCRE. Why then should pilot studies be conducted repetitiously? Insight into this puzzling question was gleaned in an interview with an MOA researcher on November 10, 1997. This research fellow mentioned that in order to uncover the exact amount of agrarian land in mainland China, three organizations, including the State Statistical Bureau, had been assigned to conduct separate surveys.<sup>10</sup> Thus, in a similar manner, the same policy idea (i.e., building small towns and cities) may be experimented through various channels, including central-local vertical ties and local horizontal ties, so that different central organizations may observe on a long-range basis the impact of the policy on the localities, thus acquiring necessary information for final decisionmaking. At a time when mainland Chinese governments at various levels can still not measure the effectiveness of their policies in precise figures, understanding the people's needs through various channels seems to be an expedient alternative.

Overlaps of three pilot projects in experiments concerning land, finance, cooperative funds, town and township enterprises, and household registration indicate that these issues are local political economy research emphases in mainland China. Due to limitations of space and fieldwork data, this article will not analyze town and township enterprises and household registration. However, it shall discuss the operations of the cooperative fund system in Township C and the resulting conflict with the state banking system. This paper also examines how national and local interests came into conflict in the realms of land and finance in Township X, the third and last profile of national-local conflict of interest.

### *Interviews*

When I conducted fieldwork in Hebei from October to November 1997, the SCRE held in Beijing a training course for local cadres responsible for the promotion of its pilot project for comprehensive reform of

---

<sup>10</sup>The research fellow also said that the three survey results thus obtained were later unified by the State Statistical Bureau and the final figure was 1.96 billion *mu* (1 *mu* = 700 square meters).



fifty-seven townships. I had the opportunity to talk with cadres who organized the training course as well as students who attended the course, I visited Townships B and X with them, and was able to return later to Township X for further investigation. We shall use data collected during these interviews to show how the central organs promote nationwide trial projects, how they treat local cadres, and how the latter react to the project implementation. Lacking the exact figures on which to base state administration, central authorities can only provide guidelines for their pilot projects, and local cadres can only grope for ways to put those guidelines into practice.

The SCRE training course was held for the first time in November 1997, and it was scheduled to be held again by the end of that year. These training courses were funded by the United Nations Development Programme, which granted US\$1.8 million in response to the SCRE's 1996 application for the "Sustainable Development of Small Towns and Cities in China" project. The money was also used to cover expenses for the township construction study tours to the United States and Germany taken by local cadres selected by the SCRE. From 1996 to 1997, about 300 township CCP committee secretaries and cadres were invited to make such visits.

The 120 students of the first training course came from three systems: CCP township committee secretaries, deputy secretaries, and cadres; township chiefs and the number two and number three leaders of township governments; and SCRE cadres assigned to work in provinces and counties. The course, lasting from October 26 to November 5, consisted of a one-day visit to Township X, a one-day visit to Township B, and daily intensive lessons designed in accordance with the SCRE pilot project's eleven work items.

One lecturer of this training course was Li Tie, director of the China Society of Land Economy, who has a deep understanding of township-building pilot studies. He said that the fifty-seven townships had been selected according to five criteria: those having (1) geographical and transportational advantages; (2) potential for economic development (the annual economic growth rate being over 30 percent); (3) annual financial revenues of 8 to 15 million *yuan* and a per capita income of 1,500 to 2,200 *yuan*; (4)

local officials with great enthusiasm for improving township administration; and (5) the support of their superior units (counties). The last two criteria were especially important.

Li also explained why the central authorities attach great importance to cadres in charge of the promotion of the pilot projects. It is because the power of experimentation is delegated to the localities where there are no clear-cut regulations, and the source of the powers and responsibilities of the cadres in charge of the work remains obscure. The responsible cadres of these townships must consider how to properly handle the contradictions between both fulfilling their responsibility toward superior departments by seeking administrative achievements and serving the local people with strong concern for local interests. Li asserted that when powers and responsibilities remain unclear, the administrative measures of local cadres are conditioned by four factors: their responsibility toward superior departments, their three-year-long tenure, financial benefits, and the interests of the people.<sup>11</sup>

Experimental policies are implemented in places where clear-cut regulations do not exist. This reasoning of central reformers was vividly described by a cadre from Hunan who had attended the aforementioned training course. She said that "the Center decides the principles, and the localities grope for suitable measures step by step."<sup>12</sup>

I also asked Liu Shiding, a professor from Beijing University, for his views on Li Tie's emphasis on local cadres. Based on his experience in studying town and township enterprises and the development of small towns and cities, Liu said that pilot projects have two important roles to play. First, they may pacify the conservatives within the CCP because experimental policies can be pushed forward or retracted later. Second, they constitute a low-cost quasi-policy. Under the circumstances that the central authorities maintain a *laissez-faire* attitude, if the experiments are successful in some places, other provinces and counties will quickly follow suit without waiting for the state's legislation for policy implementation.

---

<sup>11</sup>The interview took place on October 31, 1997.

<sup>12</sup>The interview took place on November 3, 1997.

In short, based on written documents we understand that the three pilot projects regarding the building of small towns and cities are under the charge of various State Council departments and local governments that have overlapping responsibilities. On this basis, we shall examine how these experiments constitute profiles of the conflicts of interests between the central and local authorities. From interviews with mainland Chinese specialists, we understand that the central authorities are aware that pilot studies may cause trouble, but they can only hope that they have selected appropriate cadres to conduct the reform experiments.

### **Three Profiles of Conflict Between National and Local Interests**

The small towns and cities examined below are established townships with people's governments located in Hebei Province, Beijing Municipality, and Tianjin Municipality. Table 1 contains the basic statistics of these townships. In accordance with mainland Chinese ethnographic practices, they are named by their *Pinyin* initials in order of appearance in the analyses of this article as Township C, Township B, and Township X. Township C is one of the twenty-nine rural reform experimental areas established by the MOA. Industry is its economic lifeline as its total industrial outputs account for 74 percent of its gross output value of industry and agriculture. Township B is one of the one hundred townships chosen for the MOC provincial-municipal level pilot project. Its industry and service trades (both in connection with the production and marketing of leather suitcases and other leather products) are prosperous, accounting respectively for 33 percent and 39 percent of its gross output value of industry and agriculture. Township X is not only one of the fifty-seven townships selected for the SCRE pilot project, but is also among the one hundred townships chosen for the MOC pilot project. In table 1, the statistics of Township X indicates a contradiction: the township has a low gross output value of industry and agriculture, but a high per capita income. The reason for this is that the township has rich geothermal resources and well-developed service trades, but the output value of service trades has not been included in the gross out-

**Table 1**  
**Basic Economic Statistics of Three Hebei Townships**

	Township C <sup>a</sup>	Township B <sup>b</sup>	Township X <sup>c</sup>
Area	26.4 km <sup>2</sup>	54.5 km <sup>2</sup>	37.1 km <sup>2</sup>
Number of villages under its jurisdiction	19	28	10
Population	18,000 persons	39,000 persons	20,000 persons
Gross output value of industry and agriculture	0.2 billion <i>yuan</i> (1994)	1.41 billion <i>yuan</i> (1995)	0.087 billion <i>yuan</i> (1995)
Per capita income	1,720 <i>yuan</i> (1994)	2,633 <i>yuan</i> (1995)	2,910 <i>yuan</i> (1995)

**Sources:**

<sup>a</sup>Ma Rong et al., "Town and Township Organizations: A Survey of Hebei Province's Township C" (Typed manuscript, with which the surveys of four other townships were scheduled to be published as a book by the Shansi People's Publishing House in the spring of 1998), 4-5.

<sup>b</sup>The Township B Government, "The Implementation Plan of Township B's Comprehensive Reform Pilot Project" (Mimeograph, November 1997), 1-2.

<sup>c</sup>The Township X Government, "The Basic Situation of Township X" (Mimeograph, n.d.), 1.

put value of industry and agriculture. Our analyses will focus on how these three townships came to have conflicts of interest with the state when implementing the state guidelines for pilot projects in their own experiments. In brief, we shall go into the actual operations of these townships.

To find out the root cause for conflicts of national and local interests, we need to first understand the PRC's existing financial system for towns and townships.<sup>13</sup> The Trial Financial Management Measures for Towns and Townships promulgated by the Ministry of Finance in 1985 divides financial revenues into three categories: (1) funds within the state budget (including town and township enterprise income tax, the livestock slaughter tax, the urban maintenance construction tax, the rural market transaction tax, the livestock transaction tax, the tax on licenses for vehicles and ships,

<sup>13</sup>The following explanation about the structure and operations of local financial revenues is quoted mainly from Liu Shiding, "The Financial Revenues Structure and Operational Mechanism of Towns and Townships" (Typed manuscript originally scheduled to be presented to an international symposium held in Singapore in the spring of 1998).

and the deed tax); (2) extrabudgetary funds (including the agricultural surtax, the rural educational surtax, the utility surtax, the extrabudgetary incomes managed by institutions of the administrative system, and "profits of town and township enterprises" added to the list since 1994); and (3) funds raised by towns and townships themselves (including the water rates and the so-called "five kinds of unified funds"—educational surtax, the militia training fee, the civil affairs stipends, the civilian-run transportation fee, and the family planning fee).

For ordinary towns and townships, whether they are actually allowed to have these three categories of financial revenues in their treasury depends on three conditions:

The first condition requires proper allocations from superior governments. For instance, in 1995, Township C collected for the county government all taxes of the first category and some taxes of the second category but could get back only 75.6 percent of these taxes from the county government.<sup>14</sup>

Second, townships need to directly collect some taxes of the second category and all taxes of the third category. In the past, this practice often caused unjustified financial levies; therefore, the Ministry of Finance has stipulated that the "five kinds of unified funds" that towns and townships collect directly from the peasant households cannot exceed 5 percent of their per capita net incomes.<sup>15</sup>

The final condition is the acquisition of economic profits by town and township governments via utilization of their own resources,<sup>16</sup> such as setting up their own enterprises, transferring land, and building their own stalls. For instance, in the southeastern coastal area where township-run

---

<sup>14</sup>*Ibid.*, 7.

<sup>15</sup>*Ibid.*, 8.

<sup>16</sup>These resources mainly refer to the cultivated land owned collectively by the peasants and the production means created and the workshops maintained by them in the period of the people's communes. Since they were properties of "the collective," they were expediently transferred to the management of corporate bodies under township governments called agricultural-industrial-commercial corporations. In places where the household responsibility system of agricultural production was widely accepted by the peasants, the collective resources that the town and township governments can utilize are limited, because the peasants themselves contract for the use of these resources.

enterprises are well-developed, the "self-raised revenues" that township governments receive from enterprises may account for more than 65 per cent of their total financial revenues.<sup>17</sup>

Since the aforementioned ways of acquiring "self-raised revenues" can enable townships to own a considerably large amount of public wealth, and the townships chosen for the three state-endorsed reform pilot projects are granted privileges in the realms of land, finance, cooperative funds, town and township enterprises, and household registration to enhance economic growth, conflicts of national and local interests have appeared. In other words, the root cause of the conflicts lies in the methods by which local cadres flexibly exercise their privileges to obtain "self-raised revenues." We now turn to the first case study.

### *Township C*

The MOA's main task in the Hebei Experimental Area, which includes Township C, is to break up the local administrative practice that "Party, government, and economic affairs are run by the same person." A concrete measure for realizing this purpose is to establish vertically-linked grass-roots cooperative economic organizations at the county, township, and village levels. As much of our understanding of this rural reform experiment is derived from the fieldwork conducted by several professors at Beijing University's Institute of Sociology and Anthropology, we shall quote from their ethnography scheduled for publication in 1998.<sup>18</sup> Through their thick description, we shall see the nature of the Joint Economic Association which serves as an economic link between Township C and relevant county and villages, while also examining why the Rural Cooperative Fund, an institution under the Joint Economic Association, has run into conflict with the state banking system in its operations.

The precedent of Township C's Joint Economic Association was the

<sup>17</sup>Liu, "The Financial Revenues Structure and Operational Mechanism of Towns and Townships," 3.

<sup>18</sup>Ma Rong et al., "Town and Township Organizations: A Survey of Hebei Province's Township C" (Typed manuscript, with which the surveys of four other townships were scheduled to be published as a book by the Shansi People's Publishing House in the spring of 1998).

Agricultural-Industrial-Commercial Corporation (CAICC),<sup>19</sup> which was established to manage the collective assets left over by the disintegration of people's communes in 1983. In response to the MOA's call for rural reform experiments, the CAICC was reorganized in 1987 into the Joint Economic Association for the purpose of improving the economic functions of the township government. Its main mission is to invest in and administer township-run enterprises and other production activities through its Rural Cooperative Fund. The Joint Economic Association is the most important "corporate" economic organization through which the Township C government creates "self-raised revenues."<sup>20</sup>

The corresponding organizations of Township C's Joint Economic Association in villages are economic cooperatives. These cooperatives are economic bodies that evolved from the production brigades and are responsible for transforming the collective assets of former production teams under the brigades' charge into stock shares and also for demanding repayments of past debts that production teams owed to brigades. The funds that the economic cooperatives obtain from those financial claims are, however, entrusted to the care of Township C's Joint Economic Association. It was for this purpose that in 1990 the Joint Economic Association established the Rural Cooperative Fund.<sup>21</sup> The Joint Economic Association and economic cooperatives are operating in a united manner but are also mutually conditioning: like the former, the latter have independent assets and production and management autonomy and are at the same time shareholders of the former; but the latter's accounts and funds are under the former's management.<sup>22</sup>

The relationship between the township and county joint economic associations is a different story. The County Joint Economic Association was established in 1990 for many reasons, but the Township Joint Economic

---

<sup>19</sup>Ibid., 87.

<sup>20</sup>Ibid., 37. The Joint Economic Association was registered as a corporate body with the County Reform Experimental Area rather than any other civil administration units; hence, its reorganization should have been authorized by the MOA.

<sup>21</sup>Ibid., 42.

<sup>22</sup>Ibid., 73-74.

Association had played an important role in hastening its birth. After the latter began operations in 1987, its cadres discovered that in promoting rural reform experiments, either in planning, coordination, liaison, or self-protection, they needed a higher-level leadership unit that can negotiate with the county government on an equal footing. This constituted the main cause for the organization of the County Joint Economic Association and its "internal bank"—the County Rural Cooperative Fund. So far, the operations of the County Joint Economic Association still overlap with the work of the county government. For instance, both it and the county government's Town and Township Enterprise Bureau are in charge of town and township enterprises and the County Joint Economic Association is also engaged in the transportation and marketing of production means and consumer goods just as is the County Supply and Marketing Cooperative.<sup>23</sup> All this shows that the MOA pilot studies on establishing grass-roots cooperative economic organizations in selected townships still encounter many obstacles at the county level.

The ethnography written by Ma Rong and other scholars contains a summary of the power relations between the economic cooperative organizations at the village, township, and county levels, and Party and government organs.<sup>24</sup> At the village level, the Party branch, the villagers' committee, and the village economic cooperative are parallel organizations since there are no state stipulations about which organ is the leader. At the township level, the joint economic association is placed under the leadership of the CCP committee and the government, but it is organizationally independent and its president enjoys the treatment of a village chief. At the county level, the joint economic association is a unit under the CCP county committee, and its president enjoys the treatment of a deputy county magistrate.

We have mentioned that the township's Rural Cooperative Fund was established to administer the collective assets of the township and villages in 1990. However, with assets at its disposal and faced with the pressure

---

<sup>23</sup>Ibid., 52.

<sup>24</sup>Ibid., 50.



that township-run enterprises are in need of funding, the Rural Cooperative Fund became in 1992 a loan-extending quasi-banking organization.<sup>25</sup> Although the Fund has very close lending relations with township-run enterprises, it never extends loans for investments in fixed assets, but prefers to meet enterprises' needs for small amounts of short-term circulating funds. There are two possible reasons for this conservatism. Since the funds under their disposal are deposited by local citizens, cadres are afraid to gamble away the savings of locals on potentially bad loans. Secondly, in comparison with state banks, depositors have less faith in the Fund and are deeply wary of the risk of bankruptcy.<sup>26</sup>

Under the circumstances that depositors do not have sufficient faith, the Rural Cooperative Fund needs to adopt active measures to attract deposits. Its operations have brought great pressure to bear upon the state banking system operating in Township C (including the Industrial and Commercial Bank, the Construction Bank, the Bank of China, the Agricultural Bank, and Township C Credit Cooperative). A director of the Construction Bank complained that "the Rural Cooperative Fund is an organization of the township government and is far more competitive than we are. . . . It offers interest rates higher than those of the state banks and owns better fund-absorbing channels than we do because of the county government's intervention."<sup>27</sup>

A deputy director of the Agricultural Bank accused the Economic Cooperative Fund of the following "shortages": (1) the Fund is not subject to the macro control of the state banking policy (without the restriction of loan targets); (2) it arbitrarily adjusts interest rates, far higher than state-stipulated ones (its monthly interest rate for deposits and loans are 1.8 percent and 2 percent, respectively, while the state-stipulated monthly interest rate is less than 1.5 percent); (3) it is under great influence of the local government—the secretary and accountant of the production brigade (now called the villagers' committee) serve in the Fund which thus has a strong

---

<sup>25</sup>Ibid., 42.

<sup>26</sup>Ibid., 44.

<sup>27</sup>Ibid., 31.

administrative appeal; (4) nominally a nonprofit organization not obliged to pay taxes, the Fund is, however, actually a profit-making business and tax exemptions help reduce its operation costs; (5) while the state stipulates that organizations other than banks and credit cooperatives are not allowed to collect saving deposits, the Economic Cooperative Fund evades the ban by calling the deposits it collects "share capital"; (6) it has extended too many loans without sufficient reserve payment funds; thus the depositors are at high risk should a bank run take place; (7) it has high risks because town and township chiefs have great influence in the loan-extension process and the borrowers might not be able to repay debts; and (8) its operations affect the deposit-taking and lending businesses of the Agricultural Bank and other rural credit cooperatives, putting these units at a disadvantage.<sup>28</sup>

Both bank staffers pointed out that the Rural Cooperative Fund relies on the protection of the Township C government, does not pay taxes for its profits, and absorbs deposits at a high interest rate. The deputy director of the Agricultural Bank also explained that the Fund makes loans to specified clients and its lending operations are under the influence of relevant government personnel. The township government interferes in the Fund's operations mainly because of its desire to increase its "self-raised revenues" through its own enterprises. The Fund's actual operations, however, reveal the important dilemma faced by the MOA in establishing grass-roots cooperative economic organizations. In order to break up the local administrative practice that "Party, government, and economic affairs are run by the same person," the Ministry must let the Joint Economic Association have an independent quasi-banking system—the Rural Cooperative Fund. When the Fund is given autonomy rights, however, it operates according to market logic (it even uses both the administrative system to attract clients and the gray areas of the law to absorb deposits), thus causing a loophole in the state's currency macro control.<sup>29</sup>

---

<sup>28</sup>*Ibid.*, 31-32.

<sup>29</sup>Professor Ma Rong told the author that under macro control, the state banking system lend the deposits that they absorb from Township C to other townships that are short of funds in accordance with state instructions. That is why Township C's Party and government cadres would pressure the Joint Economic Association to raise the interest rates for deposits.

In brief, the MOA rural reform experiments have unintentionally created a local treasury that conflicts with the state banking system. To what extent the central authorities will tolerate such a conflict will depend largely on what other problems will arise in various rural reform pilot studies. We shall see that there are other conflicts than the central-local scramble for financial profits.

### *Township B*

Hebei Province's Township B has made full use of the three above-mentioned means by which town and township governments create income—setting up their own enterprises, transferring land, and especially building their own stalls. This is, however, exactly the reason why it was excluded from the list of townships selected for the national-level rural reform experiment.

With a population of 70,000 (including 30,000 temporary residents), Township B produces 70 million leather suitcases and handbags annually, accounting for one-tenth of mainland China's total production.<sup>30</sup> As of the end of 1996, about 32,000 people in the township sold suitcases and handbags at stalls and the daily business volume reached as high as 8 million *yuan*.<sup>31</sup> The township deserves to be called mainland China's biggest base for the production and marketing of leather suitcases and handbags.

Township B's main shopping streets boast eight large-scale professional markets, consisting of 19,200 stalls and 2,000 stores. They include "shop in the front and factory at the back" markets selling leather goods, knitwear, and hardware, and also markets for clothing, footwear, hats, toys, and small commodities.<sup>32</sup> The biggest of these markets is called *Xiangbao jiaoyi cheng* (City for Suitcase and Handbag Transactions) consisting of 3,800 indoor stalls and receiving about 60,000 traders and tourists per day.

---

<sup>30</sup> According to the author's interview with Township B's Party Committee Secretary Yang on November 3, 1997.

<sup>31</sup> The Township B Government, "The Implementation Plan of Township B's Comprehensive Reform Pilot Project" (Mimeograph, November 1997), 2.

<sup>32</sup> The Township B Government, *B Zhen* (Township B) (A brief Chinese-English introduction, June 1996), 1, 5-9.

The number of visitors reach 100,000 on peak days.<sup>33</sup>

It is an irony that on the eve of economic reforms, Township B had never engaged in leather production or trading of suitcases and handbags. The reasons for the rise of the suitcase and handbag trade there are not found in any official documents. The author learned from conversations with local traders a popular story concerning the origin of the leather goods business. It is said that since two retired workers had made large fortunes from producing leather bicycle seats in the late 1970s, many other people in the township joined in the production and marketing of leather goods, gradually resulting in the prosperous suitcase and handbag business of today. The township's location at the juncture of Daqing and Juma rivers and the mercantile tradition formed since the Song Dynasty due to the benefit of convenient water transportation may also have played an important role.

Whatever the reasons are, Township B's experience in transforming itself into an important trade town has captured the attention of the central authorities. According to Deputy Director Lu of the local economic restructuring office, when the SCRE proposed in 1994 the Pilot Project for Comprehensive Reform of Small Towns and Cities, Township B was actually regarded as the model for the experiment.<sup>34</sup> Lu purposefully left unanswered, however, the question of why Township B, which had originally been regarded as a model for the pilot study of small towns and cities, was subsequently excluded from the list of fifty-seven townships chosen for the national-level pilot project and reduced to be one of the experimental townships for the MOC provincial-level 625 Pilot Project.

Later, Professor Liu Shiding told the author that he had conducted intermittent investigations in Township B for two years. From what he had learned, he formed the following picture of what had happened:<sup>35</sup> Before 1996, several ministries had criticized the Township B government for

---

<sup>33</sup>The Township B Government, *Anzhao gao qidian gao biao zhun de chengzhen guihua jia kuai B Zhen xiao chengzhen jianshe de bufa* (Quicken the pace of Township B's township-building plan according to the "high starting point and high standards" township planning) (n.d.), 1.

<sup>34</sup>Lu mentioned this at a luncheon on November 3, 1997.

<sup>35</sup>According to Liu's talks on November 6, 1997.

allowing stall keepers to sell illegal items (such as pornographic videotapes). Shortly after Township B had been chosen as a model for the SCRE pilot project, some public security officials from Beijing arrived in the township in plain clothes to buy suitcases and handbags. The officials got into a quarrel over a trifling matter with a nonnative trader who had leased a stall to sell suitcases and handbags. When the trader grabbed a shoulder pole and assumed a hostile posture, one of the plain-clothed Beijing officials fired a shot, wounding the trader. Other traders soon surrounded the officials. Finally, the Beijing public security unit, which had received news about the incident in the afternoon, sent in a vehicle platoon to rescue their colleagues in the evening. Since then, the Ministry of Public Security and other ministries began to boycott Township B, resulting in its exclusion from the national-level pilot project.

No matter how much truth this story has revealed, it has a deep symbolical significance in our understanding of the conflict of interest between the central and local authorities. The crux of the story is that because both the government and CCP committee of Township B did not intervene directly to save the plain-clothed Beijing officials from their predicament, Beijing Municipality's public security personnel had to cross jurisdictional boundaries in order to rescue their colleagues.

Why did the local government refrain from intervening? As all parties concerned have prudently maintained silence on that matter, one can only make educated guesses. Obviously, the local government did not want to face accusations of being "anti-trade" from the business world. After all, the Beijing public security officials had shot a trader without clarifying their own identity,<sup>36</sup> which was a irrefutable proof that they had "disrupted the market order." Nonnative stall leasers account for about 20 percent of the township's 32,000 suitcase-handbag traders.<sup>37</sup> They not only paid the local government superhigh taxes and rents, but also brought in large amount of funds and many employment opportunities. The township gov-

---

<sup>36</sup>Liu pointed out that the public security officials claimed that they had already identified themselves, but the trader continued to make threatening gestures.

<sup>37</sup>According to a talk with Township B's Chief Li on November 3, 1997.

ernment could not be indifferent to all these benefits—thus they looked the other way when the stall keepers sold contraband goods.

Since the township government had not rescued Beijing public security officials from danger, it is understandable that Beijing's public security personnel would take revenge through other channels. The result was that the Ministry of Public Security invited other ministries to pressure the SCRE to drop Township B from its pilot project. Thus, a conflict with local trade interests evolved into a boycott of a township by several ministries. This result was quite unexpected to Township B's Party and government cadres, who had created substantial financial revenues by building and leasing stalls.

### *Township X*

With a sound township planning, Township X, situated within Beijing Municipality's jurisdiction, was not only chosen in June 1995 as one of the experimental townships of the national-level pilot project, it had also been listed in May 1994 by Beijing Municipality as one of the ten townships of the municipal-level rural reform pilot project and had been selected in December of the same year by the MOC for its pilot project for building 500 townships.<sup>38</sup> When the township invited people to set up businesses on collective land in order to raise financial revenues, however, the local and central authorities ran into serious conflicts of interest. The two sides disagreed over whether the specified land is collectively-owned or state-owned. A health club in Township X is a good example of how local governments try to use the gray areas of mainland China's existing Land Law to seek their own best interests.

Township X has geothermal hot springs that is quite unique to the area and thus constitutes a favorable condition for investment solicitation. Within its jurisdiction, there are three pieces of land designed as hot spring villa areas,<sup>39</sup> and a five-star health resort has been built on the largest of these

<sup>38</sup>The Office of Township X's CCP Committee, *Xiao chengzhen jianshe zhoukan* (Building Small Towns and Cities Monthly), no. 1 (May 12, 1997): 1.

<sup>39</sup>The City Planning Institute of Beijing Municipality, *X Zhen zhenyü guihua* (Township X's planning for its jurisdiction) (August 1993), 17-18.

three pieces of land (about 100 hectares in area), to the southeast of the township center. The first phase of the construction project, covering an area of 41,000 square meters, has already been completed.<sup>40</sup> At the time of the author's fieldwork, the health club was launching a "trial sale" period, and its formal opening was scheduled for the spring of 1998.

The author had a interview with Mr. Xu, the health club's vice-president who had originally been the vice-president of the Real Estate Development Corporation, one of the Township X government's three largest economic organizations.<sup>41</sup> The vice-president said that the club is run by the Zhonggong Economic and Cultural Development Corporation (originally an organization under the All-China Federation of Trade Unions) with money that it raised. The club's major shareholders include the China Leasing Corporation, the Ministry of Health's Scientific and Technological Development Corporation, the All-China Medical Association, the Ministry of Metallurgical Industry (which has since withdrawn), and Township X's Industrial Enterprise Corporation (providing land as share capital). After making comparisons with the hot spring areas in Hainan, Hebei, and Wuhan, Zhonggong decided to invest in Township X not only because the township has a better development environment, but also because it offers to investors preferential treatments such as low-cost labor, preferential tax rates, and most important of all, preferential land prices.<sup>42</sup>

Xu mentioned the agreement that Township X's Industrial Enterprise Corporation reached with Zhonggong as a shareholder providing land as

---

<sup>40</sup>*Xiao chengzhen jianshe zhoukan*, no. 5 (June 28, 1997): 3.

<sup>41</sup>The other two organizations are the Agricultural-Industrial-Commercial Corporation and the Industrial Enterprise Corporation. The special characteristics of Township X's economic organizations are as follows: The economic functions of the Agricultural-Industrial-Commercial Corporation are much weaker than the organizations with similar names in other places. It is the Township X government's agricultural department in charge of wheat planting, livestock breeding, and afforestation. The Industrial Enterprise Corporation is in charge of township-run enterprises and the township's agricultural transaction market. The most special of the three organizations is the Real Estate Development Corporation since its president is the township chief who is concurrently secretary of the township's CCP committee. It is an organization through which the number one Party and government cadre creates financial revenues through "land transference." This case is also a piece of evidence for the local administrative practice that "Party, government, and economic affairs are run by the same person."

<sup>42</sup>The interview with Mr. Xu took place on the afternoon of November 3, 1997.



share capital: the former receives 18 percent of the club's pre-tax net profits but has no right to interfere in the club's management. When asked about whether he thought the payment reasonable, Xu said that it is reasonable so long as the nature of the land used by the club remains unchanged. He explained: the club is using the collectively-owned land of the township government and has to pay only a limited amount of "land transference fee"; but if the land is reclassified as state-owned land, the club will have to pay a high amount of land transference fee to the central government. In the latter case, 18 percent of pre-tax net profits would then be considered unreasonable. What Vice-President Xu did not say clearly (which the author realized later) was that under the existing land transference measures, whether the stipulations of the Land Law are observed or not, local governments are always the biggest winners and have the strongest motive for altering the use of agricultural land. Local governments, especially township governments, obtain more tax differences from "collectively-owned" land than from "state-owned" land. Thus, the central and local authorities have a conflict of interest over land profits.

The fees for transference of state-owned and collectively-owned land are normally calculated in the following way. According to stipulations of the Land Law, to change land for agricultural use to nonagricultural construction projects, the "collectively-owned" agricultural land that originally belonged to former people's communes should first be changed into "state-owned land" through county or municipal state land bureaus.<sup>43</sup> In other words, the "landowners" of nonagricultural land must be the central government instead of the town and township governments.

In the course of land nationalization, the developers of nonagricultural land are required to pay a so-called "land transference fee" consisting of two kinds of payments: land requisition cost (the lowest compensation fee paid to the rural collectives); and various kinds of administrative fees paid to various levels of governments that are involved in land nationaliza-

---

<sup>43</sup>Wen Tiejun and Zhu Shouyin, "Profits from the Added Values of Land Assets and Their Distribution," in *Quanguo xiao chengzhen shidian gaige zhengce yaolan* (Important experimental reform policies for building small towns and cities throughout the country) (Beijing: Gaige chubanshe, November 1995), 137.



**Table 2**

**Detail Costs for Altering the Usage of One *Mu* of Agricultural Land in Guangdong Province's City A**

Administrative level	Fees	Yuan/ <i>Mu</i>
Village	Compensation fee	34,000-42,000
Township	Administrative fee for transferring the land use right	2,000-3,000
	Differential land rent	10,000-40,000
	Fees for the construction of the coordinating environment and roads	18,000
City	Fee for transference of the land use right	10,000-20,000
	Cultivated land occupancy tax	3,300
	Agricultural tasks insurance premium	3,000
	Ration price differential	3,000
	Water conservancy construction fee	1,300
	Development and recovery fee	13,300

**Source:** Wen Tiejun and Zhu Shouyin, "Profits from the Added Values of Land Assets and Their Distribution," in *Quanguo xiao chengzhen shidian gaige zhengce yaolan* (Important experimental reform policies for building small towns and cities throughout the country) (Beijing: Gaige chubanshe, November 1995), 138-39.

tion. Wen Tiejun and Zhu Shouyin discovered that in Guangdong's City A, nationalization of 1 *mu* (700 square meters) of land necessitated the payment of many additional costs. The details are given in table 2.

In short, the land developers' costs range between 100,000 to 150,000 *yuan* per *mu*, of which the administrative fees paid to the township and city governments account for 30-41 percent and 31-36 percent, respectively; and in the villages that had actually given up land for transference, the peasants receive only 5-10 percent of the developers' total costs while the village collectives get 25-30 percent.<sup>44</sup> These land transference profits constitute a surprisingly large percentage of local financial revenues. According to Wen and Zhu's estimate, incomes from land transference may constitute 20-30 percent of the financial revenues of county governments and 80 percent of the extrabudgetary incomes of township governments.<sup>45</sup>

<sup>44</sup>Ibid., 141-42.

<sup>45</sup>Ibid., 136.

The above is an approximate estimate of the incomes that the township and other local governments gain in the course of land nationalization. However, this calculation method does not conform with what actually happened in the case of Township X's health club. According to the club's Vice-President Xu, the land that the club leases is the "collectively land of the township government," and the township's Industrial Enterprise Corporation, a shareholder "providing land as share capital," receives 18 percent of the club's pre-tax net profits.

As for how the lease of collectively-owned land is different from the lease of state-owned land in the case of the health club, Liu Shiding gives the following penetrating explanation.<sup>46</sup> Like many other small towns and cities, Township X lures investors with the favorable condition that nationalization of the land they lease is not necessary. In brief, the needed rural land is to be requisitioned by the township government, but the developers must pay land transference fees and be responsible for the reemployment of peasants working on those lands. Since the township government does not change the requisitioned collectively-owned land into state-owned land, the developers have no need to pay administrative fees to county and city governments (which may reach over 30 percent of the developers' total land transference costs); the township government must, however, face the pressure from superior governments for land nationalization. These advantages and disadvantages formed the background for Township X's decision to make its Industrial Enterprise Corporation a shareholder of the health club by providing land as share capital; hence, the county and city government did not obtain any profits from land, but the township government treasury may receive 18 percent of the club's pre-tax net profits on the pretext that the club was a joint venture. This explains why the Township X government was able to build dormitories for excellent elementary and secondary school teachers in 1995, and a glass-screened township government building in 1996. The money came from the wealth that it created by transferring collective land.

Whether nonagricultural land should remain collectively-owned or

---

<sup>46</sup> According to Liu's talk with the author on November 18, 1997.

become nationalized has, therefore, become the most serious conflict of interest between township governments and the central government.

In brief, the above-mentioned three Hebei townships have been granted different economic development privileges in different rural reform pilot projects. Using the three revenue-raising methods allowed by state financial regulations, they have actively created new sources of revenue to achieve an initial accumulation of assets for their respective governments.<sup>47</sup> However, when these township governments are raising funds through flexible land transfer, stall construction, and a self-run enterprise respectively, each of them runs into conflicts of interest with the central authorities.

By transferring collective land that has not been first nationalized and also by offering land as share capital to become one of the club's shareholders, the Township X government has acquired the land transference fees due to the county, city, and central governments. By constructing stalls for lease, Township B has developed itself into mainland China's largest suitcase-handbag production and marketing base, but, due to its deep concern for "protection of traders," the township government offended public security officials, thus depriving itself of the opportunity of obtaining more development privileges. Township C followed the MOA plan step by step. However, after the establishment of an independent local treasury—the Rural Cooperative Fund—in order to support enterprises run by the township government, the Fund did not hesitate to attract deposits with high interest rates in violation of state policies.

These conflicts of interests between the central and local governments, which have taken place in the course of rural reforms, put to test the central government's determination to move forward on the road of reform and opening-up through pilot studies. An important question that the above analysis raises is whether or not the information disclosed by these conflicts of interest have any theoretical meaning in the realm of mainland China studies? Can theoretical frameworks shed light on the future direction of our fieldwork?

---

<sup>47</sup>See note 43 above.

## Discussion and Conclusion

The fieldwork data concerning three Hebei townships presented in this article are organized mainly around two types of central government documents: (1) the plans of various ministries regarding the three rural reform pilot projects, especially the central directives on establishing grass-roots cooperative economic organizations and an internal circulation system for collective land; and (2) the Trial Financial Management Measures for Towns and Townships promulgated by the Ministry of Finance in 1985, especially the stipulations regarding "self-raised revenues" and such expedient fund-raising measures as town and township governments setting up their own enterprises, building their own stalls, and transferring land. When the central government's principles and stipulations are put into practice by township governments, contradictions with other central policies arise. In Township C, to support township-run enterprises, the Rural Co-operative Fund established by the township government competes with the state banking system in deposit-taking by offering high interest rates in violation of the state's interest rate policy. In Township B, the township government built stalls for lease and developed itself into a model for a national-level rural reform pilot project, but its pro-trade stance finally led to a boycott by the Ministry of Public Security and its exclusion from the national-level pilot project. In Township X, when the township government transferred agricultural land to nonnative investors for development, it became a shareholder by offering land as share capital in violation of the state stipulation that collectively-owned land must be nationalized before it is developed for nonagricultural usages, thus the township appropriated the part of land value-added taxes due to the central government.

These three cases of Hebei townships are "profiles" of conflicts of national and local interests because we do not have enough figures to prove that they are typical in mainland China. The practical experiences of these townships, however, can help us evaluate existing explanatory frameworks for PRC rural studies. This paper will examine the two frameworks of local state corporatism and the local property rights regime.

Summing up the opinions of scholars, the framework of local state corporatism is as follows: The renovation of two systems since 1979 has

brought about prosperity to mainland China's rural areas. First, financial reforms have compelled town and township governments to create their own sources of revenue;<sup>48</sup> and second, the property rights have been localized because the central authorities' delegation of enterprise management rights to local governments<sup>49</sup> has enabled the latter to create collectively-owned enterprises and invest in private enterprises.<sup>50</sup> These two new systems have led town and township governments to practice local state corporatism, concentrating efforts on the industrialization of rural areas while enhancing the formation of domestic markets through competition.

At first blush, the three profiles mentioned in this article can be seen as evidence of the value of this framework since the economic endeavors of these three townships are consistent with the three kinds of fund-raising measures permitted by financial reforms and Township X's investment method of offering land as share capital is quite close to the description about localization of property rights. However, we notice that in developing their economies within the limits permitted by state guidelines, these townships ran into conflicts of interest with the central government. This result is beyond any considerations of the "local state corporatism" framework. Moreover, development orientations of these townships are not as good as the framework would forecast. Only Township B has promising prospects for development. As to the framework's assertion that economic competitions among local governments are conducive to the formation of domestic markets, we are doubtful of its applicability in Hebei. One only has to note that a local government set up checkpoints to check vehicles from other areas in order to ensure its monopoly over the sales of local wines.

Applicability of experiences is also an important point in Wu Chieh-min's criticism of local state corporatism. Wu said that this kind of local

---

<sup>48</sup>Jean C. Oi, "The Role of the Local State in China's Transitional Economy," *The China Quarterly*, no. 144 (December 1995): 1137.

<sup>49</sup>Andrew G. Walder, "China's Transitional Economy: Interpreting Its Significance," *ibid.*, 963-79.

<sup>50</sup>Wu Guoguang and Zheng Yongnian, *Lun zhongyang-difang guanxi: Zhongguo zhidu zhuanxing zhong de yige zhouxin wenti* (Central-local relations: A core problem in China's system transition) (Hong Kong: Oxford University Press, 1995), 56.

government has a very important implicit function, that is, to provide rural residents with extensive social welfare. The fulfillment of this function depends largely on the governments' capability in collecting taxes and transferring profits from collective enterprises.<sup>51</sup> Among mainland China's coastal provinces, the framework is applicable to northern Zhejiang, southern Jiangsu, and Shandong, but inapplicable to southern Zhejiang, Fujian, and Guangdong. Wu also said that the framework fails to clarify the entangling relationship between the status and benefits of town and township cadres and also the demarcation between public and private ownership of enterprise properties.<sup>52</sup> On the basis of his own criticism and the market transformation theory, Wu proposed his own framework—the local property rights regime.

Wu's framework claims that the various kinds of agricultural production responsibility systems introduced in the initial stage of the reform have created two phenomena. First, a group of peasant entrepreneurs has arisen through the commercialization of agricultural products and the production and marketing of small commodities. Second, local cadres were granted many new economic powers such as land use approval power and the power to grant preferential fiscal and tax terms. When the peasant entrepreneurs attempted to expand their investment, they ran into such obstacles as the state's ambiguous policies on property rights of agricultural land and high transaction costs in business operations, loan procurement, and taxation. To overcome these high transaction costs, the peasant entrepreneurs colluded with local cadres to create "unofficial privatization" measures,<sup>53</sup> from which the problem of unfair profit distribution over agricultural land development has arisen.

Let us compare the case of Township X's five-star health club with

---

<sup>51</sup> Wu Chieh-min, "The Institutional Dynamics for the Rapid Industrialization of China's Rural Areas: The Local Property Rights Regime and Unofficial Privatization" (Paper presented at the Fourth Annual Symposium of the Taiwan Political Science Association, Taipei, December 1997), 15.

<sup>52</sup> *Ibid.*, 14, 16.

<sup>53</sup> The peasant entrepreneurs and local cadres create false property rights relationships, such as bureaucratic patronage, private enterprises registered as township-run enterprises, bonus distributions to holders of gift shares, and transference of collective assets. *Ibid.*, 3.

Wu's framework. When we see that the club's major shareholders include the China Leasing Corporation, the Ministry of Health's Scientific and Technological Development Corporation, the All-China Medical Association, the Ministry of Metallurgical Industry, and Township X's Industrial Enterprise Corporation, we doubt a peasant entrepreneur-shareholder presence as the major shareholders are mostly state organizations. Therefore, Township X seems to be a case of cadre cooperation rather than a case of collusion between cadres and entrepreneurs. Moreover, cases of collusion are difficult to prove, and fieldwork data on such cases are especially hard to obtain for scholars from Taiwan.

If we continue this fieldwork by taking into consideration the local property rights regime, we may very well simplify Wu's original framework and concentrate on three key variables: the ambiguous state stipulations of the property rights for agrarian land, competitions among economically influential locals, and the distribution of profits resulting from agrarian land development, which will involve the fiscal and land ownership relations between the central and local governments as well as their respective relations with local peasants. In other words, this author believes that the more extensively the local property rights regime is applied, the more the roles of the central government will be forgotten. However, as in any theory or research on the PRC's local political economy, the role of the state can never be left out. Thus one should be careful not to over-emphasize the value of this framework.

Finally, I would like to discuss Wu Chieh-min's criticism regarding local state corporatism's failure in clarifying the demarcation line between public and private ownership of enterprise properties. I believe that ambiguous property rights of land and collective enterprises being prevalent in mainland China's rural areas is a phenomenon left over by history—a historical problem arising from the transition of the collective ownership economy (the three-level system of ownership of the means of production in the people's commune, with ownership by the production team as the basic form) to the socialist market economy. It is exactly because of the state's ambiguous property rights policies that the economically influential locals (such as cadres, peasant entrepreneurs, and children of high-ranking cadres) have ample maneuvering space to collude with one another and

create the so-called "unofficial privatization of property rights." Wu's own framework was built on the precondition of ambiguous property rights, and it is thus unclear why he also uses this point to criticize local state corporatism.

In short, this article and the two frameworks of local political economy show that our future fieldwork must cover three aspects: the representative organizations from the central government down to the township level (including the state land bureaus and branches of the state banking system); data on assets of economically influential locals of various administrative and natural villages under towns and townships' jurisdiction; and the structure of the competitive or cooperative relationships among the economically influential locals at the township and village levels. However, after using these data to build a solid interpretation model, we should bear in mind that the model will have its limitations. Considering both the PRC's vast area and information scarcity, all general predictions without self-imposed restrictions are destined to be short-lived.