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Representation without Taxation : China's Rural Development Initiatives For a New Millenium

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REPRESENTATION WITHOUT TAXATION:
CHINA'S RURAL DEVELOPMENT INITIATIVES
FOR A NEW MILLENIUM

by

MINZI SU

A dissertation submitted in partial fulfillment of the
requirements for the degree of

DOCTOR OF PHILOSOPHY
in
PUBLIC ADMINISTRATION AND POLICY

Portland State University


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DISSERTATION APPROVAL

The abstract and dissertation of Minzi Su for the Doctor of Philosophy in Public Administration and Policy were presented on May 1st, 2008, and accepted by the dissertation committee and the doctoral program

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ABSTRACT

An abstract of the dissertation of Minzi Su for the Doctor of Philosophy in Public Administration and Policy presented May 1st, 2008.

Title: Representation Without Taxation: China's Rural Development Initiatives for a New Millennium

The purpose of this research is to assess the prospects for China's rural revitalization programs now in their initial stages of formulation and implementation. The study seeks to discover, primarily on the basis of field research in several different rural locations, what capacities and political-economic conditions seem to hold the greatest promise for success. The research was occasioned primarily by two key factors: First, China's party and government are now engaged in a massive program to create nothing less than a harmonious society, a key element of which is a "new socialist countryside." The second factor is that despite numerous previous attempts to close the economic, political and social gaps – a pronounced and institutionalized

class structure that divides rural Chinese from urban – the gap is larger today than at any time in the last 60 years, and is still expanding. These two factors lead to the obvious question: What evidence is there that this time the party and government will succeed?

The research explores policy implementation and international development literatures and China's recent history for explanations of both successes and failures of rural development policies, and attributes a part of the problem to Beijing's persistent reliance upon mass programs, which have helped many, but which have bypassed hundreds of millions of farm households. China is a large country with extreme variations in climate and topography, and China's farm communities can therefore not be managed in the same way. This dissertation proposes town by town development capacity assessment as a means of determining what resources are available and what kind of capacity building will be appropriate as a development plan is prepared. It also aids in determining whether endogenous resources will be up to the task or government leadership or investment will be necessary.

The ability to understand and make use of capacity as a development research tool evolved during this research as a hypothesis worthy of further exploration and testing, as it seems to hold important considerations for those planning future development projects.

Dedication

To my parents who always believed
even when I did not

ACKNOWLEDGMENTS

I have a great many people to thank for their help and support. Because the important help and encouragement I received from my family and friends in China directly supported my research, I have acknowledged their participation in the preface.

This manuscript began its life as a result of my research on China's land-use management puzzles in 2005. At the end of that year, China's central government made significant policy changes directed at creating a more balanced society. Dr. Mel Gurtov, my doctoral advisor at the time, suggested I consider further research on that important policy shift. It was a direct consequence of that suggestion that I took my first research visit to China in early 2006 to explore the makings of China's newest rural development policies in action. Dr. Gurtov reviewed every word of my writing, and even identified punctuation errors. During all of the work of researching and documenting, collating and writing, his advice assured steady progress.

As I refined my research to focus on implementation, I received valuable advice from Dr. Phillip Cooper and Dr. Marcus Ingle. Both of these distinguished scholars saved me a great deal of time because of their work and writings in implementation, sustainability, capacity building, and rural development. With the sources from both of them, I start to build up my research framework.

I am grateful to Dr. Veronica Dujon for her willingness to participate on my committee despite an extremely busy schedule. I particularly appreciated her finesse with qualitative research methods, and her patience with helping me through some of the more troublesome obstacles I was facing because of the geographical and cultural distance between my academic home in Portland, and the dispersed research sites in China.

In the early stages of my research, as I meandered a bit in my attempts to pin down a set of questions that I could hope to answer and that would make a contribution to the body of knowledge, Dr. Gerry Sussman provided valuable contributions. His familiarity with China and with the topic on which I was working allowed him to replace my confusion with boundaries and clarity.

The field within which I worked is large and I made it more complex by electing early on that my contribution would be incomplete without an interdisciplinary approach. To the extent I have succeeded in managing that complexity, I owe thanks to Dr. Douglas Morgan, who shared freely from both his academic and practical experiences and set a clear standard of excellence as he helped me navigate through several related fields.

In the category of unconditional support and encouragement, I want to thank Dr. Craig Shinn, Dr. Gil Latz and Dr. Masami Nishishiba, whose offices were always open to me and whose advice always led me in important directions.

I would also like to thank Professor Nie Hualin at Lanzhou University in China.

Professor Nie is an expert in China's rural development, particularly in the less developed regions. He reinforced the value of my research, important feedback for a China scholar working in the U.S. I admire his sense of social responsibility and share his wish that conditions will be improving for China's farmers. China is lucky to have the services of such a distinguished scholar and needs more like him.

Among all of the people to whom I feel a special sense of gratitude I want to thank Dr. Ron Tammen, Director of the Hatfield School of Government at Portland State University. For almost five years Dr. Tammen's faith in me and constant encouragement and support kept me going, in spite of setbacks that seemed overwhelming at times.

I also have reserved special thanks for Professor Reggie Audibert, a great friend and advisor of many years. He read all my drafts and made valuable suggestions, and his faith in my abilities and ultimate success often surpassed my own.

Finally, I wish to thank the many others who have tutored me in Public Administration and Policy and who have provided invaluable assistance over the years: Dr. Elizabeth Kutza who passed away in 2007 much too young, Dr. Charles Heying, Dr. Gerry Brown and Dr. Birol Yesilada. Among the unsung heroes who always seemed to find a way were PSU Librarian Phillip Ratcliff, and Hatfield School Department Assistants, Betty Lewis, Becky Fiedler and Alan Ely.

TABLE OF CONTENTS

Acknowledgments	ii
List of Tables	vii
List of Figures.....	viii
Preface	ix
Part One: Introduction	
Chapter One – Introduction	1
Chapter Two – Theoretical Context and Methodology	22
Part Two: Historical Context	
Chapter Three – Policy Development	55
Chapter Four – Local Government.....	95
Chapter Five – Rural Life.....	156
Part Three: Policy Reform and Performance	
Chapter Six – China’s New Rural Development Strategies	208
Chapter Seven – Case Studies	245

Part Four: Conclusions and Local Capacity Framework

Chapter Eight – Case Analysis	371
Chapter Nine – Conclusions.....	458
References	484

LIST OF TABLES

2-1 Case site selection variables	52
5-1 Characteristics of production and market segments.....	204

LIST OF FIGURES

2-1 Case site locations	51
3-1 Annual Grain Production 1978-2004	76
4-1 Central-Local Government Spending vs. Revenues	106
4-2 Peasant average income in 12 Western Provinces.....	126
5-1 Area under grain cultivation, 1995-2002	200
6-1 Linking China's history with the research	244
7-1 Liaoning Province map	246
7-2 Jiangsu Province map.....	281
7-3 Sichuan Province map.....	306
7-4 Gansu Province map	336
8-1 Local Capacity Framework.....	375
8-2 Economic models found in case towns	382
8-3 Real and human assets	388
8-4 Relative status of case towns.....	389

PREFACE

The work that follows is an effort to shed light on the question of whether living conditions will improve in rural communities as a result of China's "new socialist countryside" initiatives. The research has its roots in six years of service as a mid-level official in a Chinese city with all the day-to-day work at the intersection of government and party influence, local government actions and behaviors, and a developing civil society. While some of the combined achievements of our government were impressive, some goals were frustratingly elusive. There was a gap between the good news visible in the national propaganda machine and the difficult times facing many of our rural poor. From one period to another and from one region to another, reports of significant successes have alternated with reports of extreme hardship.

While the details of China's new rural development plans are still unfolding as this is written, it was never the intent to examine those plans. The project was initiated by looking in another direction. I elected to examine conditions in China's

local towns and villages because I could see “great walls” between China’s peasants and the seat of power and influence in Beijing. Those walls deflected the goals, plans, information, resources and programs that were flowing from the center to the periphery; and importantly also affected the reports and statistics that were flowing from rural society back to the planners and decision makers in the party and the government. I also chose to look at local communities because I wanted to remain independent of the theoretical perspectives that could bias (as opposed to guiding) my research. At the local level, it isn’t economic theory that is visible, but implementation (or lack of it); and it is only at this level that results stand naked and still for close examination.

Because there are such extremes among China’s rural communities in terms of prosperity, I chose to visit four different Chinese provinces, Liaoning, Jiangsu, Sichuan and Gansu. I worked within two towns and at least two villages in each province, and in addition to selecting them on the basis that their household income was close to average in each province, I was also careful to include both level farmland and more remote villages in the hills and mountains. One of the remote villages I visited in Sichuan province has no roads and was at the end of a muddy trail about fifteen kilometers in length. Another village displayed peasant housing, parks, architecture and an infrastructure worthy of any modern western city. I visited in the cold of January-February and in the heat of August-September. In my travels, I spoke with more than 175 people, including peasants, local businessmen and officials from

every level of government including China's ministries in Beijing, though my interviewees were overwhelmingly peasant farm families.

What I saw and heard during my field research told me I was working at a value-laden level of analysis, first because not much scholarly work has been accomplished at this level, and statistics are both sparse and suspect. Secondly, the truth about rural China isn't readily available in the media. The Chinese media tends to focus on good news, and the western media is often drawn to the bad. Interest in China's rural conditions is high, but information is scanty and biased. Third, it should be noted that research in rural China isn't easy. As is always true, interviews are filtered through a complex web of local interests and "official" translations and restrictions. Peasants tend to overplay their misery in the hopes of improving the flow of government largesse, and depending on the circumstances, cadres and officials tend to overstate their accomplishments to attract the kind of favorable attention that can affect promotions, or to exaggerate their problems for the same reasons as the peasants.

This was not an ethnographic study in which I could become assimilated into these communities over a lengthy period of time to build trust. I was therefore grateful that I was usually able to converse in my native language, and was able through many interviews to hunt for confirmation and nuance.

I am very grateful to my family and my friends who helped make arrangements for my travels in China. When I began my research in early 2006, rural development had been singled by Beijing for special treatment. Apparently as a consequence of bad

press, the entire issue of rural development was placed off limits to all outsiders, and my requests for interviews were regularly refused, despite my guarantee of anonymity. Thanks to the assistance of my friends and family, I was able to meet people from every walk of life in highly informal settings that were very conducive to free-flowing and uninhibited information, including access to public records that would improve my understanding of the forces at play in their jurisdictions. Thanks to my friends and their networks, I didn't need to worry about lodging or meals, local dialects, official taboos or local suspicions. My notes came from informal conversations with new friends. In exploratory grounded research, triangulation of information and data points is part of the process, as each conversation tests the previous ones and becomes a milestone for the next. Without help, this is a project that would not have been possible.

It was also heartwarming that many who participated in the project, whether as my guides or as my new acquaintances, believed they were participating in something worthwhile; and some of the new acquaintances became sympathetic and enthusiastic friends. It was apparent that China's farm families enjoyed being heard. Some of my friends and family had not previously had much opportunity for such deep and personal exchanges with people from classes other than their own, an example of the urban-rural gap that was one of the prime motivators for this research. It appears a universal human trait that we underestimate people we do not know. Many Chinese have a low regard for China's farmers, and the feeling is mutual. Familiarity is a

wonderful cure for problems of that sort.

I make no claims about the universality of the conditions I describe in this research. I was drawn to multiple cases because I wished to capture some of the wide variation evident in China's rural sector, and the amount of variation I unearthed is a clue that I have made real progress in that direction, but as with all case studies with a small n, this research must be considered exploratory.

What remains to be done is more of the kind of research represented by this project. I have no illusions that China's leaders are awaiting this report to decide what to do next. What I can hope for without being ambitious beyond my means, however, is that the work behind this study can guide similar research, not necessarily by interested academics, but by those who must evaluate capacity as part of their implementation planning.

Minzi Su

May, 2008

Chapter One

Rural Development Policy in 21st Century China: Introduction

The purpose of the study

For millennia, the Chinese rural population paid their taxes, served as corvée labor for the nation and tended their crops for themselves and their families, and some for the landlords or warlords or whoever happened to be running things at any given time. Many took produce or meats to small local markets. They were left alone by the government except when they could not afford to pay their taxes or perform their assigned corvée work for one reason or another. This was the traditional Chinese smallholder farming life. This role changed when the Chinese Communist Party (CCP) took control of China, and the country was officially proclaimed a dictatorship of the proletariat. Farmers were herded into military-like organizations called communes

under a unified system that controlled everything from their farming activities to their households and family lives. In this way, hundreds of millions of peasants called “poor and blank” by Mao Zedong were organized, worked, educated, cared for and fed in return for their feeding a hungry nation and fueling industrialization. The rural population, roughly two thirds of China’s total, has been the primary resource for China’s modernization until just recently.

After some initial enthusiasm, China’s farmers gradually became disenchanted with commune life, however. They had become exhausted by political-ideological rhetoric that was used more to bludgeon than to inform, and that had fostered reticence and conformity among the majority.¹ In the late 1970s, the peasants finally became sufficiently disenchanted and cynical about their lot to begin challenging the regimentation. In the process, they took liberties with their labor that had been unthinkable during the Mao regime; and they pushed the state to overhaul communist policy and overturn decades of communist conformity. The collective rural economy was replaced by a smallholder farm economy nationwide by the early 1980s. After a spurt of early successes, a range of central policies restructured the tax system and re-directed the economy to an all out effort at marketization, industrialization and urbanization, and China’s farmers saw an erosion of their ability to make a living. Their chances of transforming their lives from subsistence farming to a family business diminished. They had lost all the benefits of commune life (food security,

¹ Anita Chan et al., *Chen Village: The Recent History of a Peasant Community in Mao's China* (Berkeley: University of California Press, 1984).

education, health care and pension benefits), and gained none of the advantages of individual household farming. China's rural condition was described in a much-publicized letter to Chinese Premier Zhu Rongji: "Farmers are really suffering, the rural villages are really poor, and agriculture is really in danger."²

Rural development took a left turn as a key element of the government's economic strategy with its 10th Five-Year Plan covering the period from 2001 to 2005. Where previous planning called for increases in farm income and grain production, this new plan aimed at *xiaokang shehui*, an overall prosperous rural society characterized by a comfortable living standard. China's 11th Five-Year Plan (2006-2010) continued rural transformation both in form and content, largely focused on growth as the key objective. The new plan proceeded along two strategic lines: a scientific approach to development, and the goal of building a "harmonious society." As a keystone of the program, and as a strategic guidepost, the concept of "building a new socialist countryside" was introduced. The program calls for a multi-faceted set of solutions incorporating rural construction, social undertakings and grass-roots democracy. Importantly and symbolically, the agriculture tax that had been imposed on China's farmers for more than 2,600 years was eliminated; and all legal and illegal

² Li Changping, *wo xiang zongli shuo shihua* (Speak Truth to the Premier), (Beijing: *guangmin ribao* (Guangming Daily Press), 2001). Li Changping was a party secretary of a township government in Hubei Province of China when he wrote the letter to Premier Zhu on March 2nd, 2000. The letter was reported by *Nanfang zhoubao* (Southern Weekend), a newspaper famous for its openness to sensitive issues in the Chinese society in August at the same year. The serious rural situation described in the letter shocked the Chinese top decision-makers. All seven members of the Politburo of the Chinese central government twice added their signatures and called for action for its provisions. The letter was published as a book with more details from Li's experience at grassroots level of China in early 2001.

fees tied to the tax system were removed. The central leadership continuously trumpets the profound and fundamental value of such planned changes for the nation and especially for the oppressed farm family. These and other new policies are intended to lead to unprecedented changes in the Chinese countryside, with “the ultimate solution entailing a full-scale eradication of structural bias against the peasantry.”³

The sudden high-level emphasis on farmers’ rights, equal opportunity and social justice provides a foundation of hope for a significant transformation. Some optimistic students of comparative studies who see a parallel with the development history of Japan and South Korea have begun numbering the days until the realization of Chinese rural rejuvenation plans. This paper is constructed upon the hopes of a Chinese citizen and the perspective of an international scholar. The reality of China’s current situation is this: the task of recasting China’s rural society is a formidable one and the last 60 years of fits and starts in attempting this very transformation have provided little reason for optimism.

The purpose for this research is to assess the prospects for China’s successful rural revitalization programs now under development and in their initial stages.

A statement of the problems

The state-centered policy approach adopts a broad perspective in which “the state

³ Ray Yep, "Can "Tax-for-Free" Reform Reduce Rural Tension in China? The Process, Progress and Limitations," *The China Quarterly* 177 (2004). p. 42.

appears to have some autonomy in defining the nature of public problems and developing solutions to them.”⁴ There is a persistent myth or perhaps naïve assumption that politicians make policy and public servants implement it rationally “as if implementation was something utterly simple and automatic.”⁵ The reality is that implementation is frequently a highly political process.⁶ The intensity of participation by an actor will depend on a range of factors including the strength of interest in the policy and the organizational capacity.

The Chinese experience during its transition from a planned economy to a market economy provides ample evidence that the hard lessons about state-centered policy approaches had not been learned, as new policy reforms incorporated many debatable features. Those problems are visible in three levels of analysis: central policy, local implementation and rural engagement.

From the central policy perspective, a salient characteristic was its strong state-centered policy flavor and approach. Whether “bounded rationality”⁷ or “muddling through”⁸ or bureaucratic politics⁹ or state interests,¹⁰ one line of debate about how to

⁴ M.S. Grindle and J.W. Thomas, "Policy Makers, Policy Choices and Policy Outcomes: The Political Economy of Reform in Developing Countries," *Policy Sciences* 22, no. 3 (1989).

⁵ Jan-Erik Lane, *The Public Sector: Concepts, Models and Approaches* (London: Sage, 1993). p.93.

⁶ M.S. Grindle, "Policy Content and Context in Implementation," in *Politics and Policy Implementation in the Third World*, ed. M. S. Grindle (Princeton: Princeton University Press, 1980).

⁷ Herbert A. Simon, *Administrative Behavior*, 2nd ed. (New York: The Free Press, 1965).

⁸ C.E. Lindblom, "The Science of Muddling Through," *Public Administration Review* 19, no. 2 (1959), C.E. Lindblom, "Still Muddling, Not yet Through," *Public Administration Review* 39, no. 6 (1979).

⁹ Graham T. Allison, *Essence of Decision; Explaining the Cuban Missile Crisis* (Boston: Little, 1971), E.J. Clay and B.B. Schaffer, *Room for Maneuver: An Explanation of Public Policy in Agriculture and Rural Development* (London: Heinemann, 1984).

¹⁰ Grindle and Thomas, "Policy Makers, Policy Choices and Policy Outcomes: The Political Economy

handle the situation for the peasants was the issue of a paternalist versus a populist approach, and the government simply went from one extreme (paternalistic, highly regimented communes) to the other (entirely *laissez faire*).

The decentralization essential to a market-oriented economy creates troublesome conditions for the policy process. Central government elites are reluctant to cede power; central bureaucracies resist the delegation of authority; and when responsibilities are transferred there is rarely a corresponding transfer of resources. Those resources that are available at the local level are often poorly deployed by inexperienced, ill-trained and underpaid field staff.

New policy approaches seem to retain elements of the patriarchy habit, because in addition to exhorting local bureaucrats to comply with the new policies, it is also necessary to make arrangements for direct farm support in a way that is strongly reminiscent of the patriarchal tendency to micromanage. The elimination of the agriculture tax has taken away most rural local government revenues, making it necessary to shrink local staffs; but at the same time, local governments are also tasked to build new *performance-oriented* service systems to replace the old bureaucratic organs. How to handle these conflicting priorities is a problem still awaiting either further central policy refinement or local innovation. For now, the issue adds another layer of complexity to the outcome of rural development progress.

of Reform in Developing Countries." E.A. Nordlinger, "Taking the State Seriously," in *Understanding Political Development*, ed. M. Weiner and S.P. Huntington (Boston: Little Brown, 1987).

Because of regional disparities, any Five-Year Plan can only represent broad guidance for those attempting to develop policies for rural development. At the central policy level, there is a desirable element of policy consistency, particularly with respect to goals. At the same time, it is inevitable that local implementation needs, conditions and actions will conflict with such consistency, adding uncertainty to the outcomes.

Secondly, from a local implementation perspective, it is evident that during the last three decades greater decentralization does not necessarily equate to greater democracy or “power to the people” – it all depends on the local circumstances under which decentralization occurs.¹¹

In China, policy implementation is intended to begin with orders that descend from the provincial level to city, county (district), township, and village levels. The central ministries and commissions supervise, manage, distribute resources and provide regulatory guidance for local levels. The quantity and quality of policy instruments and the discretionary power allocated to each province have always been variables that work against uniformity. In addition to imbalances cause by natural regional differences, policy implementation and resource distribution from above are also skewed by imbalances that arise from the amount of influence local governments can bring to bear as provinces negotiate with the central level. As long as “black box” decision-making exists, policy matters are often significantly adjusted at this

¹¹ K. Griffin, "Economic Development in a Changing World," *World Development* 9, no. 3 (1981).

provincial level.

Below the provincial level, each jurisdiction can make adjustments based on the local policy environment. This is a natural outcome of whatever extent of decentralization is achieved in each area. China's government does not extend to the village level, and village leaders are not considered part of the government hierarchy; but there is a party organization that plays a supervisory political role, which means that policy adjustments are often made even at this lowest level.

Any policy that originates at the central level must negotiate all these layers of local filters to touch its target population. Overall, Chinese policymaking is a dynamic process that extends from Beijing to the Chinese people, adding to the difficulty of studying policy implementation. At which point the process should be examined is always subject to personal preference and the goal of the study. In order to understand development as it is unfolding in rural China, the best place to watch is the village level, because that is where the end product of all intermediate filtering becomes visible. It is also at this level that conflicts or constraints between governments, between government and business, and between state and society become available for study and for evaluation.

Selective policy implementation was the norm in China during the days before the latest reforms. This was due to centralized micromanagement of the cadre administrative system and the reduced share of taxes at the local level. Current policy is delivering additional resources for local government in the form of transfer

payments, leading to expectations that policy can be implemented correctly. How fast and to what extent new central policy can help local governments is still an open question, though results in some areas provide reasons for optimism. Current central policy seeks local comprehensive administrative reform as a first step to break through the mountain of rural development challenges. In particular, it is considered essential to begin with centralized local financial management. At this early stage, resistance from local levels, especially from local governments in prosperous regions of China, makes it clear that central interference in local finances is not welcome, and has been difficult to force. Thus, it is not yet possible to predict the final results.

It is no mystery that illegal land seizures, illegal fees and taxes, and deterioration of local schools and health facilities all combined to create a pervasive and enduring dissatisfaction with and mistrust of local governments, even though central policy was the root cause of the problems. It is politically expedient to fix blame for those problems at the local levels, but it is also prudent for higher levels to take control of town and village finances, as conditions during the 1990s certainly led to bad habits with respect to private-regarding behavior on the part of local cadres. It also appears necessary for the central government to “clear the air” by admitting that local financial crises were the end result of systemic, institutionalized discrimination against farmers in central policy.

This issue also calls attention to the notion of local autonomy, which despite official policy that encourages village elections seems never to have reached desirable

levels in China. The crux of the issue can be seen from two perspectives: first, how to carry out strong central political will for rural revitalization while simultaneously strengthening local administrative capacity; and second, how to integrate the power of the local party organization with an autonomous villager organization to drive local prosperity. These are critical issues, yet to be resolved, that will undoubtedly influence the trajectory of local development.

Additionally, farmers' participation in the policy process has not been worked out in current policy. While reforms may have the best interest of the farmers at heart, they still suffer from the weaknesses inherent in top-down approaches to development. Two decades ago, when the communes were disbanded in favor of household farming, agricultural productivity increased very quickly.¹² However, the disadvantage of the majority of Chinese farmers with a guerrilla-style approach to the market became more and more visible in the face of stronger and stronger pressure from the global economy. Without the organization and knowhow of the communes, farmers were unprepared to deal with the local bureaucracy and with the market. They either bowed their heads and became fatalists, or unleashed their entrepreneurial flair in an every-man-for-himself approach to rural life.

After the national fiscal policy reforms of the mid-1990s, local governments were forced into increasingly aggressive taxation and collection practices and ultimately to

¹² J.C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Los Angeles: University of California Press, 1999), Kate Xiao Zhou, *How the Farmers Changed China: Power of the People* (Boulder, Colorado: Westview Press, 1996).

illegal predatory practices that fractured any reasonable relationship they may have had with the farmers. Mistrust between local officials and villagers has remained the norm, predictably adversely affecting local capacity required for economic progress. Mending these fences therefore has become a high priority, but since the problems have never been officially acknowledged, repairs are not easy to effect. Improvements seemingly are expected to happen if everyone pretends the abuses never happened. Much will depend on various local situations and the people involved, and will represent some level of challenge to local bureaucrats now in power, whether they were involved in past transgressions or not.

In this reform project, among the three levels of problem analysis, central policy represents a precondition from which all other aspects of China's rural transformation flow. Without a strong foundation of political will it is difficult to imagine the possibility of transforming the deeply rooted, institutionalized socio-cultural, political and economic habits of this particular state-centered nation. And yet no matter the degree of central political will, local engagement is the one indispensable ingredient for economic and social breakthrough. Local initiative succeeded admirably in many places in China when the curtain of central influence was simply lifted out of the way, but in no instance has central will yielded significant progress without significant local engagement.

Chinese history has repeatedly reminded us about the humbling effects of peasant power. Hundreds of millions of farmers are the policy target population in the set of

policies that form the Chinese government's current five year plan. The flexibility that is woven into the policy combined with the endless variety and complexity of local conditions make it clear there are too many independent variables to even recognize, let alone attempt to regulate, in this vast socio-economic experiment. Without farmers' agreement with the spirit of the policy goals and wholehearted participation and cooperation driven by their own self-interests, local officials cannot hope to carry out central policy, especially given the limiting condition of traditional leadership approaches through the power of slogans and exhortation. One of the weaknesses of past attempts at rural reform was the limited financial condition of local treasuries, but even under the new policy environment with central financial support, central farm support remains a critical element for success.

The central problem that is the core of this research project is that even with the solid synergy that can develop from a partnership of central and local governments and the rural population, the barriers to success are still formidable. This thesis identifies these barriers and demonstrates their significance as part of an overall assessment of the likelihood of success in China's current ambitious socio-economic revolution.

The research question and method

A gap exists in the planning and theoretical grounding for China's rural transformation project. The critical question addressed here is this heretofore neglected issue: How to assess, strengthen and tap into local capacities that hold the

greatest promise for rural revitalization in China?

This research is focused where the end product of policy becomes visible – the Chinese towns and villages where local governments and peasants meet at the nexus of deployed policy, power and rural tradition, and where the situation had not improved for hundreds of millions of Chinese farm families. There have been spectacular successes in rural China, along with the many failures. This fact, coupled with the timing of this research at the earliest stages of China’s rural reform, suggested that the best research approach was exploratory – intending to uncover plausible connections and possible causal relationships between successes and failures among neighboring towns and villages. The selected approach was to reach directly into local social, economic and political processes and to probe economic and political links to identify the sources of local developmental capacity. Because there were visible and strong geographic and topographic vectors associated with success and failure, this project was planned to embrace multiple case studies in four provinces in China that were selected for having both unique and typical economic variation, thus providing a reasonable level of representativeness.

The importance of the study

This thesis has collated all of the visible factors identified from comparative case studies under the broad and inclusive heading of *Capacity*. In addition to the product of direct field research, the listed factors have been gleaned and/or sharpened from previous research, both in China and from international development experiences.

The information assembled here is offered for its value both as a starting point for academic inquiry into local foundations for rural recovery, and for its practical value for local and higher officials and administrators who wish to plan and lead rural development.

Policy implementation theory has been debated for 40 years, and recent research tends to favor combined top-down and bottom-up approaches to policy implementation. The problem with attempting a scholarly corroboration of this hypothesis is that an analysis of the activities and perspectives of central authorities, local implementing officials, and target groups is usually precluded due to the limited availability of resources for research.¹³ This project is intended to partially fill that gap through grounded field work.

There were important studies into integrated rural development in the developing world during the 1970s-1980s. However, international development efforts did not produce the desired results and so became the subject of noisy controversies. The enthusiasm of both scholars and international organizations faded away. Although many organizations like the UN and the World Bank continue their efforts, success has been elusive. In a February, 2008 lecture at Portland State University, Nobel Prize-winning economist Douglass North hypothesized that the present shape of third world countries is a “natural” outcome of local conditions, and that the transformation of its institutions to a modern prosperous society requires unforeseen levels and types of

¹³ Daniel A. Mazmanian and Paul A. Sabatier, *Implementation and Public Policy: With a New Postscript* (Lanham, MD: University Press of America, 1989) p.13.

intervention coupled with essential endogenous contributions. This research takes a step beyond Dr. North's ruminations by identifying the conditions and local contributions that matter most. Clearly, the size of China's rural society and the wide variation in local conditions mandate humility in claims about the generalizability of these findings, but to the extent the research looks at areas not previously examined in this way, the lessons are expected to hold value not only for the Chinese, but also in a more general way for the international community.

Perhaps the most important contributions of this research come from three features. First, this project provides a useful framework for implementation study. Mainstream implementation theory research is generally descriptive-explanatory, though both epistemological and normative stances may vary. Ahead of that stream must be contributions designed to accumulate knowledge, develop hypotheses and perform empirical research in as systematic a way as possible.

This research reveals the "backward mapping" strategy that provides rich perspectives for research, both in a descriptive and a prescriptive sense. Capacity assessment and planning take Elmore's work one step further by proposing capacity as a starting point for both researchers and practitioners before they get involved in the complex depths of the policy process which is usually where they start, whether it is a top-down or bottom-up approach. With this starting point, the implementation study can be simplified to focus on those actors and relations involved in capacity essentials. By defining strong assets and weak assets, a useful perspective of the source and flow

of power in a policy-implementation process becomes available.

Secondly, this research identified links between practice and theory in the Chinese context, and also revealed connections between China's rural development and other places in the world. Finally, the dissertation really captures the essence of rural development in China as it looks from the perspective of a rural Chinese village. The synergistic approach to policy implementation revealed in this "bottom-up" empirical study can help create an improved map for the Chinese "top."

A significant contribution of this research comes from its establishment of development capacity as not a local social or economic trait, but a multifaceted interdisciplinary approach to the identification of local strengths and limitations that will undoubtedly affect development progress. Those who argued top-down vs. bottom-up or who encouraged participative community development approaches appeared to believe in a universal strategy that can be deployed to solve rural development problems. Economists, for example, are good at that – identifying fiscal policy that can explain and predict, and therefore regulate an economy, like some kind of all-powerful auto-pilot. The devil is in the details, however. Chinese society, as well as other societies around the world, are clearly too complex for one-dimensional solutions. Certainly China's mass movements worked, and in some cases they even worked well, but they simply couldn't work everywhere. In China they failed for hundreds of millions of people. This is the one overriding condition of China's rural development, by the way -- the reality that this thesis is about the lives of hundreds of

millions of families.

Having concluded that a clearer understanding of the development project in rural China was a complex, inter-disciplinary undertaking, this thesis focused on *capacity* as a combined measure of the tendency to succeed or fail in development efforts. Here is an example from past efforts to improve conditions in rural China: the grain subsidies that were touted as an important helping hand for China's farmers. With bad soil, no water, and no roads, grain subsidies couldn't make much of a difference for many rural households. With good soil, a benign climate and a large urban market nearby, grain subsidies weren't needed. Although grain subsidies were widely regarded as a key dimension of rural reform, it made a real difference to a relatively few households, increased the wealth of many who were already prosperous, and completely bypassed those who were most in need of assistance. If a government agency evaluates the capacity of a rural town, it may well decide that grain subsidies would help achieve both local prosperity and help meet national goals for food security. *But it may not.* The agency may decide instead that leadership and expertise are the missing ingredients, or infrastructure such as roads or irrigation projects. In order to have a chance at making the right decisions, local participation may not be enough; it may be necessary to provide for additional local autonomy. These few examples are included to demonstrate what seems pretty simple, that different rural towns and villages need different development plans and support. It seems kind of obvious today, but had not reached the policymakers in China as of last year, and still has not been written about.

China stands out as a unique country where the communist party is leading a transition to a market economy. And we know the combination of advanced and backward economies in transition contains much information of unique value for scholars in many different disciplines. This project was developed as a good opportunity to observe and to understand the specifics and details of how China's transition is being managed and how the relevant policy and development theories can be interpreted through different lenses.

Obviously the research findings are important to China. Eight-hundred million people are waiting and working for a better life. They really deserve to know whether they've got a chance. What they believe will determine the future of China's food security, the fate of hundreds of millions who have migrated to the cities or are considering such a move, the basic structure of the Chinese family and Chinese society, and all the people who are affected by food prices and crowded cities.

For other developing countries, the diversity and complexity of the Chinese experience revealed from the findings of the research can yield lessons worthy of comparison and study. Because of the wide variety of environments, it is likely that both problems and successes will find ready parallels world-wide – other environments and policies that can both inform and be informed by this research.

The Précis of the Study

This is a study of an integrated rural development policy embedded in a social political and economic transition in Chinese society. To provide the reader with a

clearer sense of the logic of the research, the analysis is divided into four parts.

In the first part, Chapter 2 defines the theoretical context and methodology of the field research. There are three literatures that provided most of the background support: Implementation theory, policy instruments theory of choices, and international practice of rural development. I've included the authors whose work resonated with what was going on in rural China as I found it during my visits. I was constantly testing the theory and the practice against each other. The glue that held these different literatures together was the fact that they all helped to make sense of local capacity.

Although the framework is a new application in the area of rural development, it builds on the work of Chinese and international scholars from a broad range of interdisciplinary fields including policy studies, development theory, political economics and sociology.

Chapters 3 through 5 provide a broad look at existing problem conditions under which China's latest round of development initiatives are taking place. Chapter 3 extracts from two significant bodies of literature -- the collective era literature and the household responsibility system literature -- the salient features, achievements and missteps of the government's previous attempts at restoring equity in Chinese society. Chapter 4 examines rural town and village government to explore the lessons of China's recent experience as an economy in transition and to understand the impact of the development process on local governance as Beijing seeks to revitalize its

countryside. It asks whether local governments have demonstrated or developed the capacity to manage their share of the work of development. Chapter 5 presents a composite picture of China's peasantry through the eyes of sociologists and political science theorists and scholars. It briefly explores the role of peasants in Chinese history and the major causes of social inequity and inequality in Chinese society. It describes rural life in contemporary China under the invisible hand of the market and the very visible hand of government and limited conditions for rural engagement in policy development.

Part three links the envisioned "new socialist countryside" with concrete plans and policies. It consists of Chapter 6, which discusses China's current rural development policies to bring the reader a solid understanding about the policy environment that affected the research purpose, and Chapter 7, which introduces case studies from field research in China's rural towns and villages.

Part four contains the project analysis and conclusions. It is in Chapters 8 and 9 that the value of "capacity" as an assessment and planning tool is demonstrated. Chapter 8 delivers those essential factors assembled from the agreement of farmers and local officials as foundational for rural development success. The relative success or failure of local efforts as of the time of the research repeatedly and consistently aligned well with those results. Chapter 9 discusses what is missing or undefined in the current policy-making process, as well as possible deficiencies made visible by past problems. It defines implementation capacity as a reliable predictor of integrated

rural development in China and as a local ability, a co-production among party-government, businesses, farmers and other social institutions and organizations..

This study raises new questions that cannot be fully answered. The reader should view all descriptions and generalizations as tentative findings that require further testing and elaboration by future field research in different parts of China. It is well known that the implementation of state policies and the local response vary considerably by time and place. Ideally, it would have been possible to find a way to measure “capacity” more precisely in the policy process. It seems arguable, however, that this study identifies with reasonable accuracy the general patterns around which the search for variation should be organized.

Chapter Two

Theoretical Context and Methodology

This chapter is divided into two linked parts: the theoretical context of the study, and the methods used in the research. The theoretical concepts that form the foundation of this work include implementation theory from the works of scholars who participated in its evolution; the theories of policy instruments that focus on policy outcomes; and rural development theory in international practice. The theoretical discussion defines the concepts and their characteristics, types and frameworks. The purpose of these theoretical conceptualizations is to introduce general principles available to the study of policy implementation and their links to both historical and contemporary practices in China and the research that forms the nucleus of this thesis. The methods section defines the research objectives, and introduces the approach, structure, scope and process, along with the limitations of the

research.

Policy Implementation Theory

Implementation studies began in earnest in the 1970s when Erwin Hargrove wrote of the “missing link” in studies of the policy process (1975), and Jeffrey Pressman and Aaron Wildavsky wrote a highly influential book with the main title of *Implementation* (1973). Most early studies of policy implementation focused on questions of management and institutional design, which in the 1970s became known as the top-down approach to the subject.¹⁴ This approach “assumes that we can usefully view the policy process as a series of chains of command where policy leaders articulate a clear policy preference which is then carried out with increasing levels of specificity as it goes through the administrative machinery that serves the government.”¹⁵ This perspective clarified the administrative designs that could induce an optimal fit between policy intent and administrative results. As Michael Clarke observed, however, this work was flawed in its one-dimensional focus on senior policymakers who “often play only a marginal role in day-to-day implementation compared to lower-level officials and members of the public.”¹⁶

It is a matter of record that policy implementation has been mainly a top-down process since the People’s Republic of China was founded. Even the bottom-up results in the self-reliant village of Dazhai became a top-down slogan exhorting people

¹⁴ Thomas R. Dye, *Top-Down Policymaking*, (New York: Chatham House Publishers, 2001).

¹⁵ Michael Clarke, "Implementation," in *Power and Policy in Liberal Democracies* (Cambridge: Cambridge University Press, 1992).

¹⁶ *Ibid.*

everywhere to “Learn from Dazhai!”¹⁷ Another example of the top-down orientation of China’s rural revitalization program in the 1950s came from Mao’s “Eight characters of agriculture” (*nongye bazi fangzhen*) that were to drive the transformation of Chinese farming.¹⁸ Even in the stoutly hierarchical commune system where there wasn’t much overt resistance to policy, slogans and exhortations were not an adequate substitute for informed and practical management and technology. Thus this top-down policy approach from Beijing ultimately became one of the factors contributing to the decline and eventual demise of the communes. People and their leaders became increasingly frustrated over the endless slogans with little or no real support.

Criticism of the top-down approach with its neglect of lower-level officials and communities led in the 1980s to the development of the so-called bottom-up or “street-level” approach to the study of public policy implementation.¹⁹ Studies conducted in bottom-up fashion have shown that the success or failure of many programs depends

¹⁷ Dazhai was a production brigade in Shanxi Province with poor natural conditions, but through good leadership and management, the people’s spirited efforts lifted the brigade out of poverty, created improved farming conditions and accomplished a good recovery with no help from the government. The major incentive used by the local organization was called “work-point system” (*gongfen zhi*). For a variety of reasons, however, the system often created problems when it was tried in other parts of China.

¹⁸ The eight Chinese characters referred to are: *tu*, soil conservation; *fei*, fertilization; *shui*, water conservation; *zhong*, seed selection; *mi*, dense planting; *bao*, plant protection; *guan*, tool improvement; and *gong*, field management. Although many accomplishments have been claimed, directives, criticisms and self-criticisms published in the Communist periodicals and newspapers during the past few years revealed that none of these eight major measures had actually progressed as successfully as had been expected. See Leslie T. C. Kuo, “Agricultural Mechanization in Communist China,” *The China Quarterly* 17 (1964).

¹⁹ Susan Barrett and Colin Fudge, *Policy and Action: Essays on the Implementation of Public Policy* (London; New York: Methuen, 1981), Benny Hjern, “Implementation Research - the Link Gone Missing,” *Journal of Public Policy* 2, no. 3 (1982), Benny Hjern and David Porter, “Implementation Structure: A New Unit of Administrative Analysis,” in *The Policy Process: A Reader*, ed. Michael J. Hill (London: Harvester Wheatsheaf, 1993).

on the commitment and skills of the actors directly involved in implementing the programs.²⁰ The advantage of the bottom-up study is that it directs attention to the relationships that link layers of government with resources that must be deployed in making and implementing policy. Michael Lipsky is regarded as the originator of the bottom-up perspective. His recognition of the critical role of the street-level bureaucrat became instrumental in studies that examined implementation processes and systems at that level instead of concentrating on the policy initiation level.

The application of Lipsky's perspective is very visible in works by Bernstein and Lu and by O'Brien and Li,²¹ and forms a key part of chapters 3 through 5 of this thesis. What must be remembered, however, is that the bottom-up policy approach is not a solution to all of China's rural development problems. Without strong central policy support, it simply is not realistic to expect any kind of simultaneous, integrated rural reform in a land as populous as China. Three decades ago a very influential economic reform took shape in the hands of poor peasants in the countryside.²² But without strong central support in the form of resources and policy support, the household responsibility system could easily have been stillborn. Instead, the quiet revolution led to the dismantling of the communes in just three years, having been replaced by (*nongcun jiating lianchan chengbao zerenzhi*), the farm household contract system of

²⁰ Michael Lipsky, *Street-Level Bureaucracy: Dilemmas of the Individual in Public Services*, Publications of Russell Sage Foundation (New York: Russell Sage Foundation, 1980).

²¹ Thomas P. Bernstein and Xiaobo Lu, "Taxation without Representation: Peasants, the Central and the Local States in Reform China," *The China Quarterly* 163 (2000), Kevin J. O'Brien and Lianjiang Li, "Selective Policy Implementation in Rural China," *Comparative Politics* 31, no. 2 (1999).

²² Kate Xiao Zhou, *How the Farmers Changed China: Power of the People* (Boulder, Colorado: Westview Press, Inc., a division of HarperCollins Publishers, Inc., 1996).

agricultural production.²³

Despite the messianic zeal of their proponents, it gradually became apparent that neither bottom-up nor top-down approaches to rural development represented answers to international rural development questions still in search of solutions. Paul Sabatier was among those who bought early into the idea that these two approaches did not have to be contradictory but should be made to be complementary.²⁴ Policy containing plans, goals, and timetables and supported by resources meets street-level administrators who merge local conditions and resources to participate in an integrated process. Michael Hill calls those who led the thought process down this road the *synthesizers*.²⁵

Among the synthesizers, are several major contributors to this research. Richard Elmore must be seen as the first of them because of his plea for the use of mixed methods.²⁶ Elmore stands out for his concern about how to study implementation rather than offer rules about how to control implementation. In doing so he builds on Lipsky's work in understanding what is happening at the bottom end of a policy system. This is not a new field of study, he argues, but a neglected one that should have been included in the overall field of policy development and implementation right from the beginning.

²³ David Zweig, "Review: Rural People, the Politicians, and Power," *The China Journal* 38 (1997).

²⁴ P.A. Sabatier, "Top-Down and Bottom-up Approaches to Implementation Research," in *The Policy Process: A Reader*, ed. Michael J. Hill (London: Harvester Wheatsheaf, 1993).

²⁵ Michael J. Hill and Peter L. Hupe, *Implementing Public Policy: Governance in Theory and Practice*, *Sage Politics Texts* (London ; Thousand Oaks, Calif.: Sage, 2002).

²⁶ *Ibid.*

Elmore defines “backward mapping” as

... backward reasoning from the individual and organizational choices that are the hub of the problem to which policy is addressed, to the rules, procedures and structures that have the closest proximity to those choices, to the policy instruments available to affect those things, and hence to feasible policy objectives.²⁷

This view of implementation became prescriptive when Elmore suggested there are times when policy is best left vague to be worked out in its details right at the street level.²⁸ China’s current rural development policies do not represent original initiatives on new ground, but are more focused on solving acknowledged problems with old initiatives, which is more difficult for many reasons. Past implementation efforts failed at the street level for reasons that are discussed in detail in the background chapters of this research; but what is important is that grants and subsidies and administrative measures now need to be coordinated in a way that assures accountability, both to the policy sources and to the policy targets – China’s farm households. Once again China’s rural population will be exposed to the risks associated with problems in the street level bureaucracy. This is the reason that the main body of this thesis focuses on the town and village levels of rural China. It is here that policy works or fails, and it is being studied today because it has a long

²⁷ Richard F. Elmore, "Backward Mapping: Implementation Research and Policy Decisions," in *Studying Implementation*, ed. Aaron B. Wildavsky, *Chatham House Series on Change in American Politics* (Chatham, N.J.: Chatham House, 1982).

²⁸ Richard F. Elmore, "Forward and Backward Mapping: Reversible Logic in the Analysis of Public Policy," in *Policy Implementation in Federal and Unitary Systems: Questions of Analysis and Design*, ed. K. Hanf and T.A.J. Toonen (Dordrecht: Nijhoff, 1985).

history of failure. It is the work of Hill and Hupe that enlightens a research trail through the farms, villages and governments where this research was centered.

Malcolm Goggin proposed a *third generation* of implementation theory and practice. While his appellation didn't really catch on, his ideas about studying communications and coordination between layers of government was very helpful in presenting what is going on in China. Goggin and his colleagues set up a communications model that tracked the acceptance or rejection of messages between layers of government. To help explicate their model and hypotheses, they presented three case studies that explored the policy relationship between federal and state agencies. Interestingly, they regarded national policy as *federal messages* to underscore their belief that one should not assume that higher levels of government have an inherent ability to command.²⁹

The policy study in this thesis needs to stand on the shoulders of such a systematic approach, especially considering the importance of intergovernmental communication for past failures and for the probability of success of integrated rural development in China. Moreover, the thought process that attempted to extrapolate the experiences of this American study to China, a developing country whose economy is in transition, led directly to the choice of the case study as the methodology of choice for this research.

In order to account for the differences between China's unified, hierarchical

²⁹ They are Malcolm Goggin, Ann Bowman, James Lester and Laurence O'Toole, Jr.

system of government and the U.S. federal system, this research leans for its comparative perspective on R.P. Stoker who focused on deriving implications about the layers in a federal system in which the national government attempts to exert its authority in a system that was designed to limit that authority. It is appropriate to ask whether the research applies in China where the constitution was specifically designed to place virtually no limits on the authority of the CCP. There are two factors that make Stoker's work applicable: first, the emerging theories about integrated rural development include a provision for decentralization – a Chinese-style federalism that allows for local flexibility and autonomy. Second, even at the peak of its power, the central government was never able to assure compliance with its policies. The path for the new century, fully acknowledged in new policy, as will be explained in chapter 6, is for Beijing to adjust itself and all its agencies to this reality. The path for local governments includes a requirement to adjust to new levels of freedom – the right to display initiative, but with full accountability to the central government for making real progress, and to the farmers for integrity and transparency in its machinery. These are new directions for many Chinese and cannot be undertaken without the kind of coordinated effort that only solid communications channels can engender.

Stoker adds a twist to the limitations of the central government in what he calls “disabled by design.”³⁰ Under decentralized conditions, layers of government find a way to get their work done through one of two possible alternatives described by

³⁰ R.P. Stoker, *Reluctant Partners: Implementing Federal Policy* (Pittsburgh: University of Pittsburgh Press, 1991).

Lindblom as a persuasive authority that comes from finding ways to remove barriers to compliance or as an exchange constructed upon cooperation.³¹ While Stoker is dealing quite explicitly with American government, the idea of creating a collaborative environment with reluctant partners, whether from the top looking down or the bottom looking up, applies to most forms of government.³² This is precisely what this research found in widely scattered cases in China, and there is certainly a great deal of supporting evidence in most of the rural development (as a policy administration project) literature reviewed for this thesis.

It is important, for example, to note:

- Many central/local government relationships in which the latter lays claim to some measure of autonomy;
- Policies that require collaboration between separate ministries or agencies; and
- Policy implementation is accomplished by street level workers under difficult conditions³³

While Stoker's contribution was intended to explain federalism, his work also

³¹ C.E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977).

³² Hill and Hupe. p.73.

³³ Lipsky. It is a significant contribution of Lipsky's research that it provides an explanation for the frequent complaint about the officious behavior of bureaucrats. He concluded that street level workers operate in an environment in which they have no control over their resources, which are often inadequate, and no control of the material (clients) with which they work. The attitudes they manifest in their work is a predictable (certainly frequent) response to those conditions. The end result of Lipsky's research fits neatly into a picture of bureaucratism that Mao deplored.

revealed truths about different forms of centralized, shared and diffused models of public authority.

Other authors use the term *co-production* to refer to joint efforts of partners in a system.³⁴ This term captures the idea of citizen participation, such as through neighborhood or village councils that support government service agencies.³⁵

Within the Chinese context, an economy that has been mostly decentralized for decades has created many parallels to American federalism, particularly with respect to finance and other kinds of resource distribution between layers of government. The diffused economic influence means local governments have more bargaining power in working with higher levels. This allows for the recognition of inevitable conflicts of interest while providing incentives to resolve those conflicts collaboratively. That ability is an essential precondition for successful policy implementation, especially in the presence of a hierarchical, centralized form of government and a powerful unitary party. Furthermore, the expanded concept of co-production lends further legitimacy to a partner relationship between local implementers and rural households in a way that creates community development capacity, which is a central idea embodied in this thesis.

³⁴ K.I. Hanf, "Enforcing Environmental Laws: The Social Regulation of Co-Production," in *New Agendas in the Study of the Policy Process*, ed. Michael J. Hill (Hemel Hempstead: Harvester Wheatsheaf, 1993), L.L. Kiser, "Towards an Institutional Theory of Citizen Co-Production," *Urban Affairs Quarterly* 19, no. 4 (1984), R.B. Parks et al., "Consumers as Coproducers of Public Service: Some Economic and Institutional Considerations," *Policy Studies Journal* 9, no. Summer (1981).

³⁵ Peter L. Hupe, "The Politics of Implementation: Individual, Organizational and Political Co-Production in Social Services Delivery," in *New Agendas in the Study of the Policy Process*, ed. Michael J. Hill (Hemel Hempstead: Harvester Wheatsheaf, 1993).

Policy Instruments Theory of Choice

The *instrument-choice* premise views policy implementation from the perspective that the process of shaping a government policy always involves choosing one or more tools from those available in the government implementation tool kit.³⁶ The study of policy instruments by scholars of public policy began with Harold Lasswell in his 1936 work, *Politics: Who Gets What, When, How*. What Lasswell argued was that government used strategies that involved “the management of value assets in order to influence outcomes.”³⁷ Another way to look at policy instruments is that they are the tools that history, culture, the economy and society have given governments to accomplish their work. The selection of policy instruments is one of the tasks associated with public policy-making; and policy analysis includes responsibility for identifying public capabilities that might make a difference in the implementation process.

In the 1970s, efforts were made to better understand the nature of the instruments and tools available to governments.³⁸ Anderson’s suggestion that public policy analysis shift from the study of policy problems and inputs to the study of policy

³⁶ Christopher Hood, *The Tools of Government* (Chatham, NJ: Chatham House, 1986), Stephen Linder and B. Guy Peters, "The Logic of Public Policy Design: Linking Policy Actors and Plausible Instruments," *Knowledge in Society* 4 (1991).

³⁷ Harold D. Lasswell, *Politics: Who Gets What, When How - with Postscript* (1958) (New York,: Meridian Books, 1958).

³⁸ Malcolm Goggin, *Implementation Theory and Practice: Toward a 3rd Generation* (New York: Harper-Collins Publishing, 1990), Dennis A. Rondinelli, *Development Projects as Policy Experiments: An Adaptive Approach to Development Administration, Development and Underdevelopment* (London ; New York: Methuen, 1983), Dennis A. Rondinelli, "International Assistance Policy and Development Project Administration: The Impact of Imperious Rationality," *International Organization* 30 (1976).

implementation and outputs was endorsed by scholars such as Bardach³⁹ and Salamon,⁴⁰ both of whom suggested that policy studies had gotten off to a bad start by defining policy in terms of “areas” or “fields” rather than in terms of tools. A simple and powerful classification was offered by Christopher Hood,⁴¹ who proposed that all policy tools used one of four broad categories of government resources: superior access to information, their legal authority, their resources, and: the organizations available to them.

It will not be difficult to recognize these tools in the chapters about Chinese rural development that follow. Their use is part of the thread that holds this thesis together despite the wide disparities in local conditions where the field research was conducted. Because this research was focused on end results at local levels, the research parallels the emphasis on outcomes that is found in works by Elmore, Schneider and Ingram. Their body of work on this end of the policy cycle never received as much attention as Hood’s, but I argue it offers much practical value to those who are taxed with policy implementation and administration.⁴²

Policy Instruments theory of choices introduces policy tools or governing instruments that governments use to put policies into effect. In addition to the four

³⁹ Eugene Bardach, ‘*Implementation Studies and the Study of Implements*,’ paper presented at the 1980 annual meeting of the American Political Science Association.

⁴⁰ Lester M. Salamon, “Rethinking Public Management: Third Party Government and the Changing Forms of Government Action,” *Public Policy* 29, no. 3 (1981).

⁴¹ Hood.

⁴² Michael Howlett and M. Ramesh, *Studying Public Policy: Policy Cycles and Policy Subsystems* (Toronto; New York: Oxford University Press, 2003). p.91.

major kinds of policy tools addressed by Hood, other outcome-oriented tools are also emphasized. Synthesized implementation highlights the ability to merge the need for policy instruments into a local implementation context, and working with systematic mechanisms that link different government levels, implementers and the target population. Unlike the Hood taxonomy of policy instruments, McDonnell and Elmore offered mandates, inducements, capacity-building and system-changing.⁴³ Schneider and Ingram proposed incentives, capacity building, symbolic and hortatory and learning.⁴⁴ In this research, capacity building is singled out for special attention, not because of its abundance in China, but because it wasn't very visible in the field research, and this thesis argues it should be central to development policy implementation. Relating that work to Elmore's contribution leads to the conclusion that control over implementation may be difficult or even impossible, but that is acceptable because what is really needed is the development of endogenous power as it is found in local environment and managing that power to the desired outcomes. It is clear that the other policy instrument categories, such as incentives and inducements, may be the most appropriate, depending upon local conditions. How to develop that capacity is one of the research questions that has guided this research.

⁴³ Lorraine M. McDonnell and Richard F. Elmore, *Alternative Policy Instruments* (Santa Monica, CA: Center for Policy Research in Education, 1987).; A. Schneider and H. Ingram, "Policy Design: Elements, Premises and Strategies," in *Policy Theory and Policy Evaluation: Concepts, Knowledge, Causes and Norms*, ed. S.S. Nagel (New York: Greenwood, 1990b), Anne Schneider and H. Ingram, "Behavioural Assumptions of Policy Tools," *Journal of Politics* 52, no. 2 (1990).

⁴⁴ Schneider and Ingram, "Policy Design: Elements, Premises and Strategies;" Anne Schneider and Helen Ingram, "Behavioral Assumptions of Policy Tools," *The Journal of Politics* 52, no. 2 (1990).

Rural Development Theory in International Practice

Ward and White said “Rural development – like development in general – moves forward, employs thousands of professionals around the world and influences billions of dollars of public expenditures – all while operating without a generally accepted and full codified body of formal theory.”⁴⁵ It was during the 1980s that many were awakened to the reality that the outcomes of international development programs were often the opposite of what was intended.⁴⁶ What was attempted for decades was an operationalization of the idea that transitioning to industrialization, based on western capital, technology, expertise and management, would allow a developing country in Africa, South America or Asia to quickly escape poverty and join the ranks of developed nations. The results didn’t support that belief. What happened was an inappropriate skewing of the balance between urban and rural and industry and agriculture, while the same few elites held their power and their wealth and stoutly defended their right to both. This was what Douglass North labeled the *natural* structure of a developing country.⁴⁷ E.F. Schumacher, a British economist and a leading representative of ecological, balanced-growth, and a people-centered approach, in his major work *Small is Beautiful*,⁴⁸ expressed the belief that, for genuine economic

⁴⁵ William A. Ward and James C. Hite, "Theory in Rural Development: An Introduction and Overview," *Growth and Change* 29, no. Summer (1998).

⁴⁶ E. F. Schumacher, *Small Is Beautiful: A Study of Economics as If People Mattered* (London,: Blond and Briggs, 1973).

⁴⁷ Douglass C. North, (Portland State University, Portland, Oregon: Feb. 15th, 2008).

⁴⁸ Schumacher.

development to be achieved, “the central concept of wisdom is permanence”⁴⁹

According to Schumacher, “an entirely new system of thought [was] needed, a system based on attention to people, and not primarily attention to goods.”⁵⁰ In order to realize the benefits of this approach, attention must be focused upon agricultural and rural development, especially in developing countries where the majority of people still live in rural areas, and where the largest share of the work force is engaged in agricultural occupations.

What went wrong in previous rural development efforts in China was tangibly related to all of the literatures thus far mentioned, and what is going on today under the heading of *building a new socialist countryside* appears to build on the principles of Schumacher’s work⁵¹ using the policy instruments mentioned previously. The following chapters reveal there is a long way to go to convert its paradigms, policies and institutions into new shapes that are directed towards this new approach. It was clear that new international development initiatives would provide essential elements to which this research project should be attentive – both in the difficulties that marked previous rural development attempts, as well as current initiatives that are intended to succeed where others have failed. This research has consistently been planned as an

⁴⁹ Ibid, p.30.

⁵⁰ Ibid, p.70.

⁵¹ Understanding from the “scientific development concept” (the assertion that China’s developmental policies must take into account not only economic growth but also their comprehensive social, environmental, and cultural consequences) and the goal of building a “socialist harmonious society” (the effort to create “a socialist society that is democratic and law-based, fair and just, trustworthy and friendly, full of vigor and vitality, secure and orderly, and in which man and nature are in harmony”). The former concept was raised first by Hu Jintao in September 2003 as part of the “people-centered” governance approach that Hu and Premier Wen Jiabao have advocated since the 2002 16th Congress, and was ratified by the Central Committee at its Third Plenum in October 2003.

exploratory project, but not a blind one, and it is the work in this field that provides the clearest path along which this study should be proceeding.

Integrated Rural Development (IRD) is another framework for the study of this topic that was popular among those working on international development assistance during the 1970s. The resources dedicated to IRD projects increased rapidly in the 1970s and reached a peak early in the 1980s. Sadly, follow-on project evaluations reported unsatisfactory performance of IRD efforts for the most part, contributing to a shift toward poverty alleviation initiatives (such as the World Bank's Poverty Reduction Strategies).⁵² In the meantime, numerous studies conducted by international organizations and independent researchers revealed the main shortfalls of IRD projects in different parts of the world.

In an early analysis, Uphoff *et al.* commented on the Asian rural development experience, explicating both the paternalist and populist fallacies. The paternalist fallacy refers to top-down development in which all the wisdom resides with the educated elites. In this approach the people are assumed to be incapable of helping themselves and are indifferent to development goals and must be led each step of the way. In this operating model, everything must be done for the farmers (or to the farmers) in a top-down, bureaucratic, hierarchical manner.⁵³ Obviously the Chinese communes of the mid-1950s are the ultimate expression of the paternalist fallacy.

⁵² See "Integrated Rural Development lessons learned" from USAID\ARMENIA in 2006.

⁵³ Norman T. Uphoff and Milton J. Esman, *Local Organization for Rural Development: Analysis of Asian Experience* (Ithaca, New York: Rural Development Committee, Cornell University, 1974).

The populist view, on the other hand, assumes that farm families are vitally interested in progress and possess the capability of transforming their own communities as soon as the politicians and bureaucrats get out of the way. Both of these approaches are constructed around unrealistic stereotypes of both the farmers and the government elites who are trying to help. Chinese peasants, on the whole, are more capable and responsive than the paternalistic model holds, but there is a fundamental flaw in the paternalistic approach that professes at the same time that farmers are unable to manage their lives and farms but are wise enough to “learn from Dazhai” to become active, productive farmers and responsible citizens. At the same time, the populist approach is based on an unrealistic belief that farm families can change their lives autonomously, as they were expected to do at the onset of the household responsibility system. The populist approach provided responsibility relief for government at all levels, but it neglected the reality that local interests could dominate organizations at the community level without guiding policies from higher levels. The populist approach also ignores the reality that farm households may well lack the resources, technical know-how, organizations, and leadership to be self-sufficient.⁵⁴ Add into the mix the reality that this was happening in China at precisely the same time that local government plans, goals, resources and priorities were very badly skewed by unrealistic industrialization goals and distorted tax policy. (These problems and their effects are described in subsequent chapters).

“What should be developed is an institutionalized system which is neither just

⁵⁴ Ibid.

top-down nor bottom-up nor exclusively governmental.”⁵⁵ This conclusion parallels what was discussed in earlier sections of this chapter about policy implementation theory in which top-down and bottom-up initiatives became fused in collaborative combinations. Thus the logic of the several literatures takes this research inexorably to similar conclusions about the desirability of integrating development efforts.

Uphoff *et al.* tested how the various approaches to rural development were working in developing countries. What the research team found in several Asian case analyses, was that there was more organization reaching down to the local level, accountable to the local people, and involved with rural development functions – cases that they identified as more organized and more successful at identifying available resources than those with less reach into rural areas.⁵⁶ Not surprisingly, they also noted there were many independent variables affecting the extent and pace of development, one of which calls attention to the ways local people make use of available organizations in which they have developed some confidence. The implication is that farm bureaus, research stations, extension services and other agencies can serve a variety of needs and solve a wide range of problems. This is the type of infrastructure support that brings the *right kind* of resources to bear on rural development problems.⁵⁷

⁵⁵ Ibid, p.xiii.

⁵⁶ Norman Uphoff, Milton Esman, and Anirugh Krishna, *Reasons for Success: Learning from Instructive Experiences in Rural Development* (West Hartford: Kumerian Press, Inc., 1998). p.298.

⁵⁷ Anirugh Krishna, Norman Uphoff, and Milton Esman, eds., *Reasons for Hope: Instructive Experiences in Rural Development* (West Hartford: Kumerian Press, Inc., 1998).

This body of work by Uphoff *et al.* takes us to the same conclusions as previously mentioned literature. The work of rural development, they recommend, should be undertaken first as a learning process, and then with planned “assisted self-reliance” that are to be valued as both ends and means. What is to be learned in this “learning process?” The core of this research is that development capacity must be understood within its local context in order to proceed with some probability of success.⁵⁸ This philosophy of development is also the strategy that is the core of this thesis.

Local capacity is most effectively built in connection with meeting some particular need that communities identify as pressing. But success is not to be measured just by how well certain material or social needs are met. Rather, the aim is to create local capabilities for mobilizing and managing resources so that needs can be met on a sustainable and expanding basis. Such capacities are commonly extended or extrapolated to solve still other problems that local people experience.⁵⁹

So how do these several literatures identify development capacity? To begin, they report a consistent theme related to process leadership – the talent, creativity and dedication of people in the organizations charged with responsibility for helping development along. The idea of a dedicated development cadre has been quite regularly associated with leftist political literature, but this factor is particularly pronounced in successful rural development programs. Successful cadres are

⁵⁸ Norman T. Uphoff, Milton J. Esman, and Anirudh Krishna, *Reasons for Success: Learning from Instructive Experiences in Rural Development* (West Hartford, Connecticut: Kumarian Press, Inc., 1998).

⁵⁹ *Ibid*, p.38.

regularly described as catalysts, supporting the notion of a collaborative effort as opposed to an elite-led development.⁶⁰ This adds depth and meaning to *leadership* as a critical element of development capacity. Development leadership should focus first on the farm families themselves, whose knowledge, ideas and efforts are being mobilized. These ideas and commitments mean that the people themselves are a key element in community development capacity, but become so only in the presence of knowledge and resources, and when coordinated by their leaders. Systems of local organization are needed that are appropriate to the task and to the capacities of rural people. Strong program leaders from outside, whether from higher levels of government, government agencies, NGOs or any outside source, make it impossible to establish sustainable improvements in productivity, well-being and self-reliance when they displace local leadership. At the same time, responsible leadership must relate well to various agencies and actors from whom technology and resources may become available. Technology and training represent advances in knowledge about sustainable use of the world's resources – natural, physical, and human. Training is the means for transmitting such knowledge and putting it to practical use. “Sustainable introduction of technology for rural development involves local capacity and control, not just invention and adoption as focal activities.”⁶¹ When these elements are combined in a local setting, perhaps the fine line between dominating or directing and coordinating is best described as *facilitating*.

⁶⁰ Krishna, Uphoff, and Esman, eds.

⁶¹ Uphoff, Esman, and Krishna, *Reasons for Success: Learning from Instructive Experiences in Rural Development*. p.113.

Information is a special capacity resource that sets it apart from funds, personnel, incentives, and materials, because information is not diminished by being given away. Indeed, the value of information increases by sharing it more widely, except among competitors. Information in use evolves and mutates and constantly increases in value.

Uphoff *et al.* also consider the case for external resources. Badly offered and managed, external resources can adversely influence self-reliance and sustainability, but in the case when internal resources are missing or inadequate, resources of all kinds become a logical part of development capacity building and are not inconsistent with self-reliance, provided the “aid relationship is appropriately conceived and maintained.”⁶²

Turning to international development assistance, Rondinelli *et al.* summarized the requirements for successful Integrated Rural Development:⁶³

- A strong national political commitment
- Pervasive administrative support
- Complementary domestic and foreign trade policies
- An integrated package of technical inputs
- Investment in productive activities

⁶² Uphoff, Esman, and Krishna, *Reasons for Success: Learning from Instructive Experiences in Rural Development*, p.157.

⁶³ Dennis A. Rondinelli and Marcus D. Ingle, "Improving the Implementation of Development Programmes: Beyond Administrative Reform," in *Institutional Dimensions of Regional Development*, ed. G. Shabbir Cheema (Nagoya, Japan: Maruzen Asia for United Nations Centre for Regional Development, 1981). p.58.

- Local political support and administrative capacity
- International financial and technical assistance

In his later work with Ingle, implementation is proposed as the core of development strategy, a concept recognized by nearly all national development plans; and “implementation capacity” was introduced as a concept to describe the readiness or fitness of a country for international development assistance. The concept incorporates crucial variables such as political will, bureaucratic attitudes and behavior, cultural norms, economic structure and spatial and physical systems. Their work highlights that there is always a “trust gap” between local officials and people – a gap that can reduce implementation capacity. It was certainly true in nearly all of China’s rural communities that local cadre behaviors created resentment and hostility that negated the government’s attempts to build support for development policies and created uncertainty about government intentions. Additionally, as can be seen in the background chapters in this research, limited resources for development support choked off or rendered meaningless all attempts at decentralization of functions. Rural communities were reduced to subsistence farming and waiting for help to arrive on a better day. Under these circumstances, any talk of participation or engagement is rendered meaningless, since farmers recognized they had little or no control over any resources with which to carry out their plans. In many of China’s rural communities, a lack of physical infrastructure and little in the way of access to transportation and

communications are symptoms of larger problems that adversely affect decentralized administration and implementation.

And finally Rondinelli and Ingle identified political affiliations, defined as stable networks of communication and exchange between local decision makers and sources of information and resources, as basic to successful development. In the absence of these affiliations there is little opportunity for generating and implementing public policy that responds to the needs of the population.⁶⁴

The last of the writings that helped in the creation of the framework for this thesis comes from Yujiro Hayami, a Japanese economist who studied and wrote about rural development in Japan. Hayami believes his work to be relevant at least to all Asian countries because they are tied together by very strong population pressure.⁶⁵ In an early work with Ruttan, Hayami introduced an “induced-development” model that included five elements: Induced responses of farmers, Induced innovations in the private sector, Induced innovations in the public sector, Induced institutional innovation, and Dynamic growth sequence.⁶⁶ He and Ruttan stressed the importance of not only an economically viable, but importantly also an “ecologically adapted” agriculture technology.⁶⁷ They also warned that technical disruptions require a corresponding institutional evolution, but there is invariably a time lag, which may be

⁶⁴ Ibid, p.77.

⁶⁵ Yujiro Hayami, *A Century of Agricultural Growth in Japan: Its Relevance to Asian Development* (Minneapolis: University of Minnesota Press, 1975).

⁶⁶ Yujiro Hayami and Vernon W. Ruttan, *Agricultural Development: An International Perspective* (Baltimore,: Johns Hopkins Press, 1971).

⁶⁷ Ibid, p.4.

substantial, and the risk is that a too rapid pace or magnitude of technological evolution may substantially increase the danger of conflicts between technology and institutions. The implication is that while change is essential to progress, it must be managed and not turned loose to run its own course.

Hayami credits two kinds of technological change as major growth factors in Japanese agriculture: progress in saving land, and progress in increasing land productivity per unit of area. The keys to these two breakthroughs came in the form of education of the farmers, public expenditures for agriculture research and extension services, and improvements in land infrastructure. These initiatives do not necessarily mean that the central government must take responsibility – rather it appears that local governments are better agents for allocating resources because it is clear that the effective use of resources is highly location specific and constrained by local environments. If research, for example, is primarily for the benefit of local people it is fair and effective for the local government to manage it.⁶⁸ Hayami thus places himself in the camp which favors a decentralized system where agricultural scientists have a better handle on the needs of farmers by virtue of working closely with them all the time. Local adaptation of technology becomes more important than technology diffusion.⁶⁹

Hayami's work contributed to this thesis in three important ways. First, it identified the fundamental role of technology, the importance of agricultural

⁶⁸ Hayami, *A Century of Agricultural Growth in Japan: Its Relevance to Asian Development*.

⁶⁹ *Ibid*, p.140-141.

infrastructure, agricultural research and the education of the farmers as elements of development capacity. Secondly, he identifies markets as inadequate to the task of mobilizing the kind of effort required to effect real development progress; and therefore, making the role of public agencies critical to the adaptation and diffusion of technology, research and education, all of which must respond to local conditions.

Although this thesis borrows from economics, sociology, and geography for support, the clearest pathways that informed the planning and execution of this research came from implementation theory, including policy instrument theory, and rural development theory, including the results of international assisted rural development case studies. These literatures provide the links that hold together the logic, structure, process and outcomes of the research. China's leaders and their advisors have been taking unprecedented steps in their determination to improve rural conditions, and the extent of their successes and missteps, examined in the light of what has gone before, is certain to help this exploratory research to enrich the theoretical archives and facilitate further study.

Research Design and Methods

Research objective

The objective of this research is to answer the research question by conducting research on social and political processes and connections in rural China. An analytical retrospective study of central policy, local implementation and rural

engagement are the subjects of the background chapters. But the study of historical information and data is obviously limited in its ability to predict, explain or even describe what is happening in China today, which is what really matters for current policy implementation.

The primary value of this project is its focus on field research. I report on the conversations and behaviors of people who are involved in the current rural revitalization programs at different levels of the Chinese government, as well as the policy target population at the grassroots level, formerly lumped together under the heading of China's peasants but now classified as farmers, sideline workers, migrant workers and rural entrepreneurs. By recording and comparing actions and results in the selected case areas, the final objective of relating success and failure to local development capacity can be realized.

Selection of Methods

The research method that best fits the circumstances is the comparative case study. The case study approach facilitates an investigation of "a contemporary phenomenon within its real-life context . . . when the boundaries between phenomenon and context are not always clearly evident."⁷⁰ Compared to a single case study, multiple, comparative cases were explored and expected to add materially to the amount of information that can be gained from research of this kind. While this research design does not begin to solve the problem of "too many variables, too few cases," it takes

⁷⁰ Robert K. Yin, *Case Study Research : Design and Methods*, 2nd ed., Applied Social Research Methods Series ; V. 5 (Thousand Oaks: Sage Publications, 1994). p.13.

long strides in the right direction, as does the ability to select interviewees from all walks of rural life and many different levels of government.⁷¹

Scope of the Study

This research project covers the three most significant changes to Chinese rural development policy since the founding of the People's Republic of China in 1949: the period of the communes; the economic reform period which was characterized in rural China by the household responsibility system; and the new socialist countryside, which began in 2000 and has been gaining momentum ever since. Since the research seeks to answer questions about the chances of success of the current rural reform, it is this current period which is the primary focus of this research – the earlier studies included by way of forming a contextual background. While generalizability is a desirable outcome, the reality of China's geographical size and the size of its population make it impractical to attempt in a detailed study, though a step in the right direction was made through the selection of four case sites from China's thirty-one provinces. These sites represent average or typical conditions in terms of development levels, infrastructure condition, geographical location and product types. The sample is described in greater detail a little later.

Operational Definitions

A challenge for this study is to operationalize the concept of development policy

⁷¹ Malcolm Goggin, "The "Too Few Cases/Too Many Variables" Problem in Implementation Research," *Western Political Quarterly* 39, no. 2 (1986).

implementation capacity in terms that are observable and measurable. Although there are many possible taxonomies that were considered earlier in this chapter, such as the concepts used by Uphoff and Rondinelli, a useful starting point for this project was the selection of locations that operate with local governments that are similar in size and organization and with similar villager organizations. The first task was to identify the essentials for local prosperity under various local environments as key elements of local capacity. This is not a mysterious process. Soil condition and proximity to markets, for example, greatly simplify the task of estimating the relative ease or difficulty of finding a development approach that can lead to prosperity. The interrelationship between all of the identified capacity variables, however, means that some elements are essential in one place but not in another. The number of interaction possibilities makes it impractical to derive a quantitative measure of development capacity for this study, though improved classifications may well lead to that capability in future studies. For the purpose of this project, however, current limitations mean that capacity is observed, recorded, and collated in a qualitative sense.

It is also noteworthy that policy implementation is properly studied years or sometimes decades after its administration to understand the full meaning of its consequences.⁷² The policy changes that are driving this research are only now being developed, so it is not policy results that this research seeks or can hope to discover –

⁷² Goggin, *Implementation Theory and Practice: Toward a 3rd Generation*, Paul A. Sabatier, "Policy Change over a Decade of Move," in *Policy Change and Learning: An Advocacy Coalition Approach*, ed. Paul A. Sabatier and Hank C. Jenkins-Smith (Boulder, Colo.: Westview Press, 1993). Goggin, "The "Too Few Cases/Too Many Variables" Problem in Implementation Research."

it is the policy process itself.

Research Limitations

The case study approach carries inherent validity problems. Using eight cases was an attempt to broaden the analysis beyond a single case. It is characteristic of case studies to manifest a *small n* problem that reveals the universal conflict of depth and width in studies of this kind. Nevertheless, the care in case selection and the nature of this exploratory research served its purpose by yielding information that may be of great value to both scholars and practitioners; and the presence or absence of key capacity elements exhibited sufficient variation to permit a wide variety of China's rural communities to identify with the reported cases.

There are regions in China where the results of a study such as this one would be skewed by local ethnic, cultural, sociological, political, language and economic conditions, and where psychological judgment could distort the intent and meaning of interviews such as the ones upon which this research is based; and in those cases, it would be easy to misinterpret the very complicated Chinese local social and political conditions. The selected case villages, though remote, are not on the fringes of Chinese rural society, however, but in the mainstream.

Site Selection

In order to compensate for research design limitations and to maximize the reliability and utility of the information in this research, it was necessary to take some basic precautions. As previously noted, case visit sites were selected in four different

provinces in China (Liaoning, Jiangsu, Gansu and Sichuan).

The case site selection criteria included peasant per capita income, economic development model, and geographic and topographic differentiation, which come from chapter four and are the four main aspects of China's regional disparity. In this way, the uniqueness and representativeness of those cases are both considered.

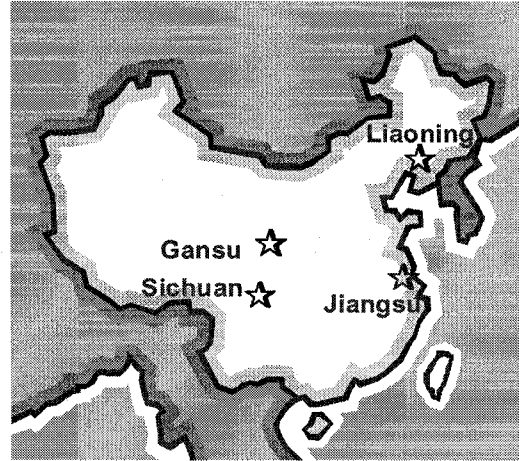


Figure 2-1 – Case site locations

Liaoning Province is in the old industrial base of northeast China, and per capita farmer's income there ranks at the high middle level. Jiangsu is in the prosperous Yangtze River Delta on China's east coast, and the farmer's per capita income ranks at the highest development level. Sichuan is one of China's most populous provinces, and per capita farm income ranks at the low middle level; and Gansu is considered a less-developed remote northwest region where per capita farmer's income ranks in the lowest level. The selections included towns that represent average levels of prosperity in each of the regions. Within each area cases were selected from the plain areas, for example, and also from the hills and mountains. Neighboring communities with very similar conditions but very different results were chosen when possible, to expose key input variables.

Table 2-1 Case Site Selection Variables

	Per Capita Peasant Income	Economic Development Model	Geography	Topography
Jiangsu	>¥5,000	Fast growing	East Coast	Neighboring plains towns
Liaoning	¥ 4,000 - ¥5,000	Old Industry base	North East	One plain One hilly
Sichuan	¥2,000 - ¥4,000	Most populous agrarian	Southwest	One hilly suburb One hilly remote site
Gansu	< ¥2,000	Less developed	Northwest	One plains town One hilly

The key similarities among the chosen cases are: organization of government into towns and villages; similar size, roughly ten thousand to fifteen thousand households; and (in all but one of the cases) agriculture as main component of the economy.

Data Collection

This research aims at evaluating local capacity for implementation and the great preponderance of the interviews accordingly take place, principally with peasants, village leaders and town level leaders, and secondly with township industry heads, migrants and NGOs' officials. At the same time, it was prudent to hear from higher levels of government, and the cases and background materials include information from interviews with county, city and provincial officials and agencies as well as the

Beijing government Ministry of Agriculture. These interviews represented not only an opportunity to gain important insights into the thinking of those who have responsibilities for China's current rural revitalization program, but also provides a means of testing the consistency of the results between different perspectives.

This research follows the Grounded Theory approach to the accumulation of information. The basic idea of the grounded theory approach is exploratory – that is, instead of beginning with a set number of answers and seeking many responses or data points, the grounded theory project begins with a general question and the researcher goes where the research takes him or her. Each interview builds upon the knowledge gained in the previous one. The idea is not to pinpoint a truth but to gain an accurate big picture. Information analysis in Grounded Theory means to read (and re-read) a textual database (such as a corpus of field notes) and "discover" or label variables (called categories, concepts and properties) and their interrelationships. The ability to perceive variables and relationships is termed "theoretical sensitivity" and is affected by a number of things including one's reading of the literature and one's use of techniques designed to enhance sensitivity. Grounded theory takes a case rather than variable perspective, although the distinction is often nearly impossible to draw. A case-oriented perspective tends to assume that variables interact in complex ways, and is suspicious of simple additive models.

The following example is included to demonstrate the approach and the effectiveness of Grounded Theory. While waiting for a party leader in a town to finish

his meeting, the interviewer had a fascinating conversation with a bright and curious eight year-old girl who had a story to tell about the effects of rural-to-urban migration on Chinese farm families. Her conversation, with all its hopes and doubts, shaped the questions and discussions of subsequent interviews. One of the case villages was on a remote hillside and could only be reached via a fifteen kilometers trail that had been turned to mud by three days of rain. The author shared a bed with a discouraged farm housewife who was a friend of a relative. Our conversations led to much more information than I could have otherwise obtained. She was often in tears, talking about the effects of China's family-planning policy and the sources and abuses of local power. This particular conversation materially changed the interview I'd planned with a party secretary in a nearby town. During the analysis process, comparing notes from two of them reveals the significant differences in the way people in different walks of life consider the same set of circumstances. Both of their perspectives are valuable in themselves, and taken together they provide the ability to triangulate conversations for reliability. It was not practical to return to China to deal with gaps and inconsistencies in the data, but the cellular phone has become ubiquitous in China, and enabled follow-up with eleven interviewees to resolve inconsistencies.

Chapter Three

China's Rural Policy Development History

During the 1980s and 90s, interest in China's rural development and a new era of gradually increasing openness by the government combined to stimulate two periods of brisk research activity. The first responded to a world-wide curiosity about a socialist society that had been shrouded in obscurity until the late 1970s. For the public, China had been portrayed as a poor country with a pugnacious government. China was best represented and best understood by watching Taiwan which had become one of the "Asian Tigers" best known for its booming economy. For academia, however, the opening of China's gates created an opportunity to understand the results of a grand experiment with Maoist-Leninist-Marxist socialism, communes,

and a “planned market economy.”⁷³

The second wave of academic interest was occasioned by the seemingly sudden shift in Beijing toward a decidedly western-flavored economic model, accompanied by political, social and legal shifts of enormous portent. Development scholars wished to understand what was to become of China’s huge peasant-farmer population that had paid most of the bills for industrialization during the first three decades following the communist takeover. This group examined rural issues against the backdrop of China’s booming urban-industrial economy to understand the full meaning of the “household responsibility system.”⁷⁴

Interest and academia are gearing up for a new round of scrutiny of China’s rural situation, and once again it is a central government shift in policy that is raising the stakes for China’s peasants and thereby increasing the level of interest in academic circles. The environment for researchers is tantalizing because in addition to the

⁷³ Randolph Barker and Radha Sinha, *The Chinese Agriculture Economy*, ed. Randolph Barker, Radha Sinha, and Beth Rose (Boulder, Co: Westview Press, Inc., 1982), John P. Burns, *Political Participation in Rural China* (Berkeley: University of California Press, 1988), Jean Chun Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government* (Berkeley and Los Angeles: University of California Press, 1989), William L. Parish, "Introduction: Historical Background and Current Issues," in *Chinese Rural Development: The Great Transformation*, ed. William L. Parish (Armonk, New York: M. E. Sharpe, Inc., 1985), Vivienne Shue, *Peasant China in Transition: The Dynamics of Development Towards Socialism, 1949-1956* (Berkeley: University of California Press, 1980).

⁷⁴ Thomas P. Bernstein and Xiaobo Lu, *Taxation without Representation in Contemporary Rural China* (New York: Cambridge University Press, 2003), Elisabeth Croll, *From Heaven to Earth: Images and Experiences of Development in China* (New York: Routledge, 1994), Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999), Louis Putterman, *Continuity and Change in China's Rural Development - Collective and Reform Eras in Perspective* (New York: Oxford University Press, 1993), Eduard B. Vermeer, Frank N. Pieke, and Woei Lien Chong, eds., *Cooperative and Collective in China's Rural Development* (Armonk, New York: M.E. Sharpe, Inc., 1998), Susan H. Whiting, *Power and Wealth in Rural China: The Political Economy of Institutional Change* (New York: Cambridge University Press, 2001).

previous two eras of already well-plowed data, China is more open than in the past, the statistical data is improving in quality, and the developing world is still in the hunt for development formulas that work.

This chapter briefly summarizes the recent history of the policy environment in rural China. Chapter four follows by providing a similar treatment to help explain the condition of local government, and chapter five similarly explains the current condition of China's peasant population. Taken together, these chapters set the stage for this thesis by explaining the current environment in rural China, and the historical process and deployment of power that created this current set of conditions in which our research question that the capacity of China's towns and villages can adequately support a new drive for prosperity or can be raised to that purpose, or will fail once again can be answered.

The impact of agriculture on China's economy has declined. In 2006, agriculture generated less than 12 percent of China's GDP as compared with 48.7 percent industry and 39.5 percent services.⁷⁵ Still, it would be a mistake to conclude that the peasants are no longer a critical issue for China. Rural China is home to about 800 million peasants, and agriculture provides about half of the employment for China's huge population. These are realities that will continue to have economic, political and social impact and the potential for political drama.

Chinese agriculture has been transformed from a tightly controlled system of

⁷⁵ Data source comes from "Statistics Bulletin of National Economic and Social Development of P.R.China in 2006," Feb. 28, 2007, National Statistics Bureau of P.R.China.

socialized commune farming into a smallholder household farming system largely driven by markets. It is true, however, that in some regions that are suited for it by terrain, markets and growing conditions, farming has been modernized, which means that small farms have been assimilated into large ones and mechanized farming has become the norm. That combination of results is the rural situation today, and in some locations, particularly along the east coast but also in many areas of China where markets have been created by large population centers, these approaches to agriculture are working well and have created a class of successful farming communities. In other regions, many of China's peasants are engaged in subsistence farming, and depending on whose definition is applied, somewhere between 26-150 million Chinese live below the poverty line.⁷⁶

It is the subsistence farming and poverty-stricken rural villages that China's government now seeks to do something about. Here is where China's revolution is still incomplete, and where the government plans to create a "new socialist countryside" for the target population, the majority of the society. This chapter extracts from the two significant bodies of literature—the collective era literature and the household responsibility system literature—the salient features, achievements and missteps of the government's previous attempts at restoring equity in Chinese society. In so doing, this chapter creates a background against which new plans and policies

⁷⁶ According to China's statistics, the absolute poor population in rural areas is 26.1 million. PRC Development Research Center of the State Council, "China Human Development Report," (Beijing: Development Research Center of the State Council China Development Research Foundation, 2005); yet, according to the UN standard on poverty which is below \$1 per person per day, China still has 150 million poor. (Cao, 2005; Development Research Center of the State Council, 2005)

can be examined.

The first 28 years after the communist revolution

Just prior to the CCP takeover of government in 1949, a long term development policy and model were created. The following quote from Mao Zedong provides insights:

The peasant's economy is scattered. According to the experiences of the Soviet Union, it requires a very long time and careful work to attain the socialization of agriculture. Without the socialization of agriculture, there will be no complete and consolidated socialism. And to carry out the socialization of agriculture, a powerful industry with state-owned enterprises as the main component must be developed. The state of the people's democratic dictatorship must step by step solve this problem of the industrialization of the country.⁷⁷

During the three decades after this was written, Mao and the CCP never wavered in their determination to see their vision become reality. Politically, socially, economically, China's peasant society was brought into the main policy stream of government, was tightly regulated within China's planned economy, and was treated as the centerpiece of China's overall economic revitalization.

1949-1952 During the first three years following the CCP takeover, China's agriculture sector was assimilated into the grand plan, made subject to central policy and readied for implementing land reform and drive agricultural recovery. The Land Reform Law was promulgated on June 30, 1950. This law provided for the seizure of land (other property, including homes, were not subject to seizure) from landlords, rich

⁷⁷ Written on June 30, 1949 in a letter commemorating the 28th anniversary of the CCP by Mao Zedong, "On People's Democratic Dictatorship," in *Selected Works of Mao Zedong*, www.marxists.org/reference/archive/mao/selected-works/index.htm

peasants and large leaseholders. There had been some land redistribution in China prior to 1950, but no policy ever so deeply affected so many people (half a billion) as the massive redistribution that followed land reform. An approach to agriculture that had prevailed for centuries was swept away throughout all of China in one bold stroke. The undertaking required massive political and administrative support and elaborate propaganda preparations.

The results were encouraging. The total agriculture output saw a growth rate of 41 percent during the period 1949-1952. Total grain production rose from 113.2 million tons in 1949 to 163.9 million tons in 1952. Cotton production increased from .44 million tons to 1.3 million tons in the same period for an annual growth rate of 42 percent. These and other achievements represented great progress in a very short time.⁷⁸

Agriculture remained the primary economic pump for the new China. In 1954, only 33 percent of the national income was derived from modern industry, and more than 80 percent of the population was living and working in rural China. Agricultural productivity was not the only desired end of the agricultural reforms. The changes served the political end of indoctrinating the masses with respect to Maoist-Leninist-Marxist thought; as well as the political goal of organizing the previously individualistic peasants to the service of the party and government. The traditional Chinese village was changed from a society of individual peasant farmers into a highly

⁷⁸ Liu Bing, Zhang Zhaogang, and Huo Gong, *Zhongguo sannong wenti baogao* (Report of China's Three Dimensional Issue), Beijing: China Development Press, 2005.

organized community that was being prepared physically and psychologically for the communes.⁷⁹

1953-57 The next period was one of continued socialist reform and agricultural growth. Farming was guided first to mutual aid groups then to primary cooperative teams and then to advanced cooperative teams. It was the beginning of a planned, collective economy which overcame some of the weaknesses of smallholder farming and continued to increase productivity. Although the moves generally received good marks from the hundreds and millions of poor and middle peasants and achieved desired policy results, there were some critics, both contemporary and with the benefit of hindsight who believed the transformation was attempted too quickly, without adequate preparation, and often using rougher persuasion than would be healthy as a foundation for a new nationwide way of life.

It was during this period that China developed its first five-year economic plan. It called for increasing the amount of arable land, developing irrigation systems, creating water-conserving facilities and improving seed research and technology. The results of that first plan included 8.67 million mu (5,780 km²) being returned to farming and an additional 218 million mu (145,333 km²) irrigated. The government invested ¥2.67 billion in water conservation.⁸⁰

Once again, the projects achieved laudable ends. Between 1952 and 1957, total

⁷⁹ Kuo-Chun Chao, *Agrarian Policy of the Chinese Communist Party 1921-1959* (Bombay, India: Asia Publishing House, 1960; reprint, University Microfilms, A Xerox Company, Ann Arbor, Michigan, U.S.A).

⁸⁰ Liu, Zhang, and Huo. p.30.

agricultural output increased by 25 percent. Grain production reached 195 million tons, an increase of 19 percent. Cotton increased 26 percent to 1.64 million tons. Beef, pork and lamb production grew 18 percent to 3.985 million tons. While some China scholars base their work on the supposition that communization is the ultimate goal of the CCP plans and policies, others see such things as this increase in agrarian productivity as the ultimate goal with collectives representing intermediate, enabling objectives.⁸¹ Mao himself described the rapid changes with his own Utopian ideal motivation:

The high tide of social transformation in the countryside, the high tide of co-operation, has already swept a number of places and will soon sweep the whole country. It is a vast socialist revolutionary movement involving a rural population of more than 500 million, and it has tremendous, world-wide, significance.⁸²

Another benefit of the collectives was the ability to marshal the labor necessary for major construction projects, and campaigns to build roads, water conservation systems, land improvement, and other improvement projects became a regular feature of off-season activity for China's farmers. Some of these projects were planned and managed by the central government, while others addressed local needs.⁸³ Many of the facilities built this way are still working for rural communities while others have fallen into disrepair.

Comparing to 1949, perhaps the most important gain for the CCP is more than

⁸¹ Chao, p.149.

⁸² Mao Tse-tung (1955), "On the Co-Operative Transformation of Agriculture." In *Selected Works of Mao Tse-Tung*. www.marxists.org/reference/archive/mao/selected-works/index.htm

⁸³ Thomas G. Rawski, "Agricultural Employment and Technology," in *The Chinese Agricultural Economy*, ed. Randolph Barker, Radha Sinha, and Beth Rose (Boulder, Co: Westview Press, 1982). p.128.

what we address here. From learning Soviet's experiences to lessons drawn from it, the nation's development policy started to draw its own blue-print which can be found from Mao's own words "On the ten major relationships in socialist revolution and socialist construction" in 1956:

There are now two possible approaches to our development of heavy industry: one is to develop agriculture and light industry less, and the other is to develop them more. In the long run, the first approach will lead to a smaller and slower development of heavy industry, or at least will put it on a less solid foundation, and when the over-all account is added up a few decades hence, it will not prove to have paid. The second approach will lead to a greater and faster development of heavy industry and, since it ensures the livelihood of the people, it will lay a more solid foundation for the development of heavy industry.⁸⁴

1958-1965 During this period, smaller collectives were combined and organized into communes. In 1958 the CCP announced a new series of grand projects involving irrigation, rural industries and roads. Because of the scale of some of these projects, the demand for labor was more than the advanced cooperative teams could handle, and it became necessary to collectivize on a grander scale. Within a short period virtually all the farmers in China were organized into peoples' communes.

This was also the period in which the "Great Leap Forward," the excesses of life in the communes, the blind commands from all levels of the party, worsening relations with the Soviet Union and a series of natural disasters tumbled China to the brink of being a troubled state. From the heady years of progress until this time, food security declined as a result of dropping grain production. Per capita grain consumption went

⁸⁴ Mao, Tse-tung (1956), "On the Ten Major Relationships." In *Selected Works of Mao Tse-Tung*. www.marxists.org/reference/archive/mao/selected-works/index.htm .

down from 203 kg in 1957 to 163.6 kg in 1960. The population had grown by close to one hundred million people. “China is more of an agrarian community today [the mid-1960s] than she was at the start of the second five-year plan; yet she is less able to feed the urban and industrial population from indigenous sources than she was then.”⁸⁵ Conservative estimates place the number of Chinese who died of starvation at approximately thirty million.

Beginning in 1962 and the “new economic policy” turning away from backyard foundries that came to symbolize the Great Leap Forward, the state redirected its efforts toward “*tiaozheng, zhengdun, gonggu, tigao*” (adjustment, consolidation, reinforcement and enhancement), and the “eight Chinese characters principles of agriculture.” The primary purpose was to reestablish the principle that agriculture is the foundation for the national economy. Economic development was planned that would balance industry and agriculture to achieve a comprehensive, balanced recovery. Premier Zhou Enlai announced that China’s new strategy would be known as the “Agriculture First” policy – testimony to the party’s concern for the welfare of the masses.⁸⁶

In accordance with one of the prime assumptions of this project, a full understanding of the central government’s agrarian programs is not possible by looking only to economics for the answers or even for the questions. Chao credits

⁸⁵ W. K., “China’s Third Five-Year Plan,” *The China quarterly* 25 (1966). p.171.

⁸⁶ Robert Dernberger, F., “Agriculture in Communist Development Strategy,” in *The Chinese Agriculture Economy*, ed. Randolph Barker, Radha Sinha, and Beth Rose (Boulder, Co: Westview Press, Inc., 1982). p.74.

social reforms such as mass education programs, political moves such as organizing villagers for work on public projects, the removal of the landed gentry, and mass line movements such as the Youth League, the Women's Federation and the Children's Corps for much of what had happened in China, both good and bad. These mass movements became effective mechanisms for social engineering, communication, indoctrination and persuasion.⁸⁷

The Cultural Revolution (1966-1976) – this period includes the ten chaotic years of the Cultural Revolution and the following two years it took to restore order. The excesses of the communes were exacerbated during the Cultural Revolution.⁸⁸ Additionally, the corrective measures that had been attempted in the early 1960s were labeled as “right deviationist” and were discontinued. A small mountain village in Shanxi Province became famous as the result of a Supreme Directive that instructed peasants all over China to “learn from Dazhai.” The management style that characterized this period in China's history was management by exhortation, and leadership through slogans. What Mao admired about Dazhai is that it transformed itself through hard work and with no government backing into a prosperous farming community.⁸⁹

⁸⁷ Chao. p.147-148.

⁸⁸ For a vivid account of life in China during the Cultural Revolution, see Anita Chan et al., *Chen Village: The Recent History of a Peasant Community in Mao's China* (Berkeley: University of California Press, 1984).

¹⁷ David Zweig, *Agrarian Radicalism in China, 1968-1981* (Cambridge: Harvard University Press, 1989). p.6. In order to understand the full meaning of the phrase “Learning from Dazhai” it is also necessary to recall that China was locked into a hostile international environment and a “three fronts” strategy to become a modern, self-sufficient socialist state. “Three fronts” strategy - Facing the

Among policy measures that were undertaken during this period were an expansion of the scope of work teams and brigades and deployment of the egalitarian distribution system of the Dazhai brigade, in which pay and food were distributed according to strictly measured and democratically controlled work points. Sideline work was prohibited, which stopped the practice of tending small household gardens. The system spawned frustration and discontent and after a honeymoon period of enthusiastic response, many commune members reacted to the lack of incentives by slacking off on their work. Agricultural production increased, but slowly, and farm produce became increasingly scarce. In an effort to meet quotas, commune leaders had to push harder and harder, and other considerations were forgotten. As an example, the environment was sacrificed to air and water pollution, deforestation, over-farming and overgrazing, all in the name of economic progress.

During the twelve-year period of the Cultural Revolution, total agricultural production grew only 5 percent. Grain production increased from 200 million tons to 300 million tons during that period, but the population grew faster and consumption remained at 1957 levels. The agriculture sector continued to operate under the unified purchase system until the end of the 1970s. This meant that prices for goods and supplies were identical from one end of the country to the other – one of the few

aggressive military action of the US in Vietnam in 1964, to preserve its limited infant industry strength and prepare for a possible war, the newly developed third Five-year plan supposed to invest more on agriculture had to be adjusted to construct “the third line,” in today’s territory concept, mostly the central and western inland areas. Mao was grateful for any evidence that an organization could improve itself while the central government faced these serious problems. The appearance of Dazhai’s case as an example of self-reliance with hard work and strong spirit to overcome the natural difficulties was used to encourage rural Chinese under that particular special circumstance.

policies that made it possible to continue farming in many remote towns and villages. Supplies and consumer goods were in scarce supply and distribution was tightly controlled through a rationing system. Food security was nonexistent for about 250 million rural Chinese during this period.⁹⁰

Agricultural policy assessment

There has been a perceived shift in attitudes among both Chinese and western scholars about China's collectivist era. When it was finally abandoned, the peasants, the officials and students of Chinese development breathed a sigh of relief. The excesses of the Cultural Revolution had produced a cynicism about most government and party-related people and systems, and it became fashionable to criticize all of the economic, political, ideological and social mechanisms that had characterized the period. As people gained experience in the household responsibility system, however, some of the benefits of the collectives came into sharper focus.

The commune system guaranteed employment and managed social services such as education, public health and retirement. Food was not an issue for most, regardless of the ability to pay, and low wages were matched by low prices for the basic consumer necessities. During the early years of the collectives, the leadership, technology development, communication networks and tight control made it easy to improve technology related to fertilizers, irrigation and seeds, and rural China

⁹⁰ Du Rongsheng, *Du Rongsheng Zishu: Zhongguo Nongcun Tizhi Biange Zhongda Juece Jishi* (An Account in Du Rongsheng's Own Words: An on-the-Spot Report of Major Issues of Chinese Rural System Reform) (Beijing: renmin chubanshe (People's Publishing House), 2005). p.98.

managed a leap in productivity that easily matched a leap in the population that needed to be fed.⁹¹ Compared to other developing countries, health standards and life expectancies were high in China, despite low levels of income and consumption.⁹² According to the World Bank 3A research, before 1970s, 90 percent of China's rural population had been covered by rural medical cooperative system.⁹³

In addition to significant benefits, China was able to avoid some of the problems of other developing countries, such as unbalanced ownership and distribution of lands and farm output, concentrated control over credit, class polarization and widespread corruption.⁹⁴ Another western observer concluded that China's leaders had successfully institutionalized a balance between agriculture and industry and between cities and the countryside. This meant, among other things, a significant expansion of services in rural areas: public health, education, transportation, and communications.⁹⁵

During the Cultural Revolution critical resources and programs were diverted from urban to rural areas. Intellectuals, medical personnel and administrators were "sent down" to rural villages to learn and to teach. High school graduates were recruited to serve the people by creating and sustaining educational and medical

⁹¹ Liu Bing, Zhang Zhaogang, and Huo Gong, *Zhongguo sannong wenti Baogao* (Report of China's Three Dimensional Issue), p.31.

⁹² Barker and Sinha. p.203.

⁹³ Chen Wen, Liu Guoen et al., "*nongcun yiliao baoxian – yinjie tiaozhan*" (Rural Medical Insurance meeting challenges), *Zhongguo nongcun weisheng - jianbao xilie* (Rural Sanitation of China: Bulletin Series), World Bank, 2004.

⁹⁴ Putterman. p.5.

⁹⁵ Jon. Sigurdson, *Rural Industrialization in China* (Cambridge: Harvard University Press, 1977). p.217.

facilities. Although these students knew little of farming, they furnished helpful labor and were able to help with bookkeeping and other technical skills to some extent.⁹⁶

State pricing policies tilted the balance of trade between agriculture and industry in favor of the peasants. The prices of agricultural inputs including supplies and machinery were reduced to levels that supported a rural economy.⁹⁷ In some developing countries, adding mechanization to an agriculture sector already beset with idle labor created problems, but the Chinese succeeded in mechanizing systems to complement rather than compete with rural labor. The goal was not so much to reduce the cost of farm produce as it was to increase farm and labor productivity.⁹⁸

Despite these positive effects of the commune system, there is no rush to return to them, though cooperatives are showing signs of strength and collectives appear to be making a comeback in some Chinese communities. Although the communes were characterized by internal equity, there was a continued disparity between regions and between urban and rural production, income and consumption that were not very different from that found in other developing countries. Part of the problem stemmed from a policy of local self-reliance on food despite enormous regional differences in farming conditions. The quality of peasant diets had not substantially improved since the 1950s and access to consumer goods such as radios and bicycles had not significantly improved. There was only a two to three percent annual growth in

⁹⁶ Putterman.

⁹⁷ Demberger. p.75.

⁹⁸ Rawski. p.124-125.

peasant income during the 1960s and 70s. Farming costs were increasing slowly, while state payments for grain quotas were stable so that over time real farm income was steadily dropping until the peasants were losing money growing the grain and cotton to meet quotas.⁹⁹

There were unpleasant side effects associated with communes, including such things as the lack of incentives, the relentless regimentation and frequent problems with favoritism and autocratic leadership that adversely affected relations and therefore the productivity of the work units.¹⁰⁰ There is no doubt the aggressively extractive nature of China's agriculture policy created disincentives while creating party monopolies of economic and political power, setting the stage for more serious management problems. Those who resisted ran the risk of attack through class or ideological labels.

Although the communes were launched with an egalitarian foundation, the problems described above meant that participative and democratic governance principles, never on the list of goals, but important to the changes that came next, were compromised from the beginning. Regimentation was too rigid, the hierarchy too uncompromising, and mass line campaigns too compelling to allow for initiative, self-organization, and creativity to achieve production breakthroughs. An example of social control was the *hukou* or household registration system developed to strictly

⁹⁹ Barker and Sinha. p.203; Putterman. p.6; Dernberger. p.76.

¹⁰⁰ Benedict Stavis, "Rural Institutions in China," in *The Chinese Agriculture Economy*, ed. Randolph Barker, Radha Sinha, and Beth Rose (Boulder, Co: Westview Press, Inc., 1982). p.97.

monitor and control the movement of citizens in China. More will be said about this system in chapter five. Centralized planning, mass lines, propaganda, and a rigid hierarchy help reduce organizational uncertainty, but also end up stifling the human spirit and tend to generate and systematize their own mistakes and excesses.¹⁰¹

Second 28 years

Following Mao's death, it quickly became apparent that the Chinese had been poised for big change. The peasants began agitating almost immediately, and the central government soon picked up on the needs and wants of the people. The communes had to go. Here's how Deng put it:

That was in 1980 we took real action [in reform]. We mainly focused on rural reform in 1981, 1982 and 1983. After 1984, our reform was refocused on cities. The economy had seen rapid development during 1984 to 1988. During those five years, rural reform had brought lots of changes, such as a large growth of agricultural products and peasants' income. Rural industry suddenly emerged as a new force. Thanks to the increase in peasants' purchasing power, many new houses were built, and bicycles, sewing machines, radios, and wrist watches ("the four big things," *si da jian*) and other luxury consumption goods found their way into peasant homes. Increased agricultural and sideline products, enlarged rural markets and the transfer of rural labor surplus strongly propelled industry forward. Agriculture and industry, rural and urban societies, just like this, influenced each other and helped each other forward. That was a very vivid, very persuasive development process.¹⁰²

1979 ~ 1985 The commune system was abandoned in favor of the household

¹⁰¹ Putterman. p.349. Chiao-min Hsieh, *China: Ageless Land and Countless People* (Princeton: D. Van Nostrand Company, Inc., 1967). p.112; Du. p.83; Guy Benveniste, *Bureaucracy* (San Francisco: Boyd & Fraser Publishing Company, 1977). p.195.

¹⁰² Deng Xiaoping, *Deng Xiaoping Selected Works*, vol. 3rd (Beijing: People Press, 1993). p.376. Deng Xiaoping became known as the reform leader for his views about development.

responsibility system. The agrarian economy responded with a period of rapid growth.

The Third Plenary Session of the 11th Central Committee of the Communist Party of China created a draft “Decision about several issues to speed up agricultural development” and the “People’s commune regulation” (also released as a draft). These documents documented a realistic appraisal of China’s agrarian economy, summarized the experiences and lessons from the previous twenty years, and concluded that regions should work to correct “left deviationist” excesses, protect rural collectivism by distributing benefits in proportion to merit, and improve labor management and foster production responsibility.

As a result of these two documents, there were many new variations of agricultural production responsibility systems. The two that were most popular were contracting labor to a group (*baogong dao zu*), and contracting production to a group, (*baochan dao zu*). By the end of 1979, more than half the production brigades were contracting labor to groups, and a quarter of the production brigades were contracting production to groups. There were very few examples at that time of contracting production to households (*baochan daohu*). Household responsibility had been undergoing a period of evolution. At first the practice was strictly banned. Later it was permitted, but only in exceptional circumstances. Still later it was permitted on a small scale in poor regions, then finally it was officially encouraged.

In January, 1981 the CCP endorsed the contracting of production to the household (*baogan daohu*). Under this system the individual household replaced the collective

as the basic farm management and production unit. By 1983 this system had spread all over rural China, effectively removing the last of the support for the commune system. Du Rongsheng credited this combination of peasant enthusiasm and innovation along with high-level political support for the immediate success of the household responsibility system in China's agrarian economy.¹⁰³

In October 1983, the Central Committee of the CCP and the State Council announced a substantial change in policy. It was termed "separating politics from the communes." Since the communes were morphing into townships at the time, the task seemed achievable as a natural part of reorganization. In theory, the township governments were to assume responsibility for the administration of government services, to include such functions as civil administration, judicial administration, education, family planning, finance, and construction. Although township organizations varied widely, a common organizational form placed responsibility for economic activities with economic committees, *jingji weiyuanhui* that exercised responsibility for economic production, development and planning, and which also supervised the companies that managed agriculture, enterprises, commercial, real estate and other such responsibilities. In the spirit of separating politics from agriculture, these committees were to be administratively distinct from the township government, but in reality most found themselves reporting to a township leader or assistant. There is no known statistical data to assess the extent of this malfunction, but contemporary sampling as well as current samples reveals little or no dividing line

¹⁰³ Du, p.127.

between economics and government.¹⁰⁴ Similar attempts to separate the party from government succumbed to the same deployment of party power.

Also in this same period, state policy was adjusted in several moves that greatly benefited China's peasants and spurred agricultural production. First, the price of grains and sideline products was greatly increased. In 1979 the average purchase price of eighteen different kinds of produce was raised by 22.4 percent. Secondly, raw materials were allocated to agriculture in greater volume. This included the direct benefits of chemical fertilizers, but also such inputs as diesel oil and electricity. At the same time, the state imported grains in large quantities and reduced peasant grain quotas accordingly. This allowed for experimentation with different commodities such as cash crops in vegetables and fruits, and also specialties such as teas, mulberry bushes for the cultivation of the silkworm, and different herbs and spices. At the same time, government agriculture research and services was helping the peasants identify the best crops, crop rotation, simultaneous production, seeds, soil treatments and other technical advances. In combination, these moves provided a significant boost to China's agricultural output and had the important benefit of increasing peasant incomes at the same time. When the pressure of grain quotas was lifted, the alternative crops became part of the beginning of the long process of creating a market, with its complex melding of consumer tastes, adequate handling and packaging and cleanliness standards, storage and distribution networks and wholesale and distribution

¹⁰⁴ J. Bruce Jacobs, "Political and Economic Organizational Changes and Continuities in Six Rural Chinese Localities," *The Australian Journal of Chinese Affairs*, 14 (1985).

mechanisms.

Between 1979 and 1985 total grain production increased from 300 billion kg to 400 billion kg. Total agriculture output increased 68 percent and per capita peasant net income increased 166 percent. The significant increase in peasant income came mostly from household sideline businesses and multiple sources of income.¹⁰⁵

During this same period, rural industry grew to more than ¥200 billion per year and absorbed 60 million laborers, taking away much of the rural unemployment pressure caused by shortages of land and capital and a surplus of labor. Wen Tiejun observed that during this period the three factors of agricultural production—land, labor and capital—were all cycling within the agriculture sector instead of tending toward the cities and factories. As it increased peasant income, this boomlet also fueled a general demand-driven increase in domestic consumption that was good for the entire nation. He referred to it as a golden period for China's agriculture sector.¹⁰⁶

¹⁰⁵ In 1984, peasant income from sideline activities was ¥285.4, or 80.3 per cent of total net income, up from 26.8 percent of total net income in 1978. Data source came from Yearbook of National Statistics Bureau of P.R.China: www.state.gov.cn.

¹⁰⁶ Wen Tiejun, "Reflection in Building New Countryside Practice," in *Chinese Countryside Construction: Rural Governance & Township Government Reform*, ed. Reform Development Institute of China (Hainan) (Beijing: Chinese Economic Press, 2006). p.23-27.

1986 – 1997

Agriculture growth fluctuates as new problems appear. After a big harvest in 1984, China launched a reform of its grain markets by raising prices it paid the farmers, while

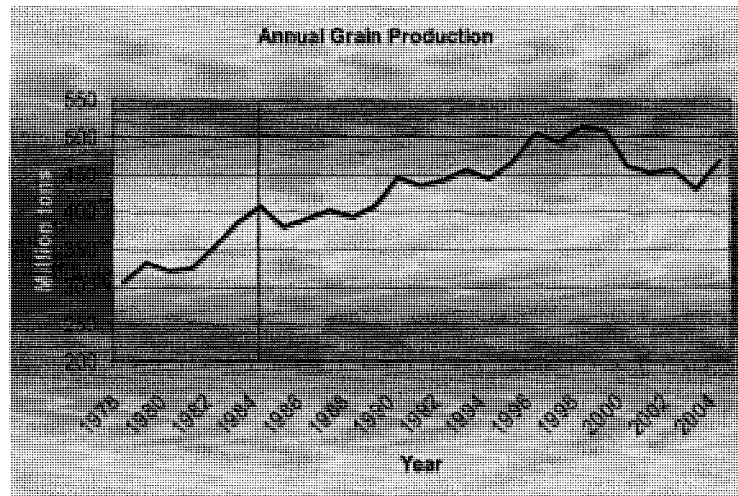


Figure 3-1 -- Source: National Bureau of Statistics, 2005 Annual yearbook

maintaining low prices for consumers. This move required government subsidies to make up the difference between purchase and sales pricing. In 1987 the reform was deepened to confirm that households had the right to decide which crops to farm. A commitment was also made to continue the marketization of the agriculture sector, leading to the government's eventual withdrawal from price controls.

Despite these moves, how far the government was willing to go was constrained by a widely perceived need to continue to favor urban reform with lower priced goods. There was also a general recognition that the easy work had been done, and further progress would depend on much deeper and broader economic and political structural changes. While there was broad recognition in government circles that something would need to be done to improve peasant incomes, there was a hesitation to move too quickly, and there was some uncertainty about what could be done. This was reflected in the fact that after making agriculture its "No. One File" each year between 1982 and

1986, agriculture disappeared from the top of the government's priority and did not reappear until 2004.¹⁰⁷

In February 1993, the State Council took another step to “. . . speed up the reform of the grain market . . .” and removed state price controls and production quotas. The move released the state from the burden of its price support obligations, and pushed grain into a commodity market. The move was short lived, however, because a good harvest in 1993 kept prices too low, and the state was back in the grain business after just a brief layoff. In 1994, the state strengthened its control to the extent that state-owned grain enterprises owned 70-80 percent of the supply. The state simultaneously improved its central and local supply and storage facilities and manipulated supply to help control prices, though the manipulation was of doubtful success and farming and sales of grains continued to fluctuate.¹⁰⁸

The rest of the agriculture market was not standing still. Large quantities of agricultural products were no longer dependent on small local markets, but were finding their way into nongovernmental wholesale markets, serving a growing variety of retail outlets. As the marketplace increased in influence, those farming communities within its reach experienced significant changes. Grain fields were replaced by vegetable cash crops under plastic greenhouses. Later, with the growth of rural industry, farming became a sideline for many as they increased their earnings in

¹⁰⁷ See Du. p.145.

¹⁰⁸ The total grain output climbed only very slowly after the mid 1980s, and experienced unpredictable fluctuations. See Figure 3-1.

nearby enterprises. Some left farming to the elderly and the women, while others leased their lands to large growers. Animal husbandry, fisheries, dairy farming, poultry products and a host of related (feed, processing, waste handling) industries sprouted nearby. During this period, grain output increased only 14.6 percent while sales of meat products increased 211.2 percent and fish products grew by 306.6 percent. Thanks to these non-grain products, total agriculture output continued to grow at 3.4 – 10.9 percent each year, while grain output experienced a slow climb but with much fluctuation. Many consider the diversification away from grains as a result of the relaxation of state control to have represented a healthy trend. As a result of quotas, many farmers were attempting to grow grain in soil and on terrain not well suited to grain farming, and the experimentation with different kinds of cash crops created profits for farmers and introduced more variety for the consumers.¹⁰⁹

Despite the beneficial effects of marketization for many of China's farmers, average income rose very slowly during this period because many did not succeed in finding a path to the market. Infrastructure construction lagged marketization in rural areas, as the government continued to emphasize economic development for urban areas and industries. Similarly, the decline of state investment in technology development and diffusion contributed to stagnation. The ability to work through droughts and floods and other natural adversities had not materially improved in most

¹⁰⁹ Data source comes from Yearbook of Ministry of Agriculture, also Yearbook of National Statistics of Bureau online: <http://www.stats.gov.cn>, agriculture section.

rural areas¹¹⁰; and although the selling price of farm output was climbing slowly, the open market for farming equipment and supplies was also responding to market demands, and prices were climbing, often more quickly than selling prices.¹¹¹

Another factor that was affecting rural life was government policy that was leading to the decline of Township and Village Enterprises (TVEs). State-owned companies had a competitive advantage over the rural TVEs, as well as much better access to credit and preferential treatment with respect to sources of supply. Non-agriculture income began to drop in rural communities where TVEs had provided an outlet for idle labor, and as the TVEs closed their doors or moved to urban areas to survive, many migrants or part time workers had to return to their farms.

In the early days of economic reform, rural cadres had been able to mesh their own interests with those of local enterprises. They had the means to manipulate taxes, lean on local banks for credit and otherwise control local political economics to suit themselves. By the 1990s, however, the central government had regained control over its fiscal policy and had begun taking a greater proportion of the local government's shrinking revenues. In prosperous areas along the coast or near urban centers, the

¹¹⁰ State financial support to agriculture dropped from 13 to 8 percent between 1985 and 2000. The total accumulated investment on rural infrastructure during the same 15 years was ¥170.4 billion, which only accounted for 2 percent of the total investment on economic infrastructure. (Yearbook of National Bureau of Statistics of China).

¹¹¹ Within one six year period, the selling price of agriculture output and rural sideline products increased 64 percent; however the price of farming supplies and equipment increased 58 percent during the same period. On the rural balance sheet, the big picture was that the costs of farming were outpacing the gain and the net result was a small loss in farm income by 1990. (Yearbook of National Bureau of Statistics on line).

business-cadre symbiosis continued and many small businesses prospered; but in more remote areas, many TVEs disappeared. Because local government revenues were drying up, the peasant's burdens increased as those governments increased their collection pressure and took every conceivable measure (e.g., fines, land seizures and sales, new education fees) to meet their payroll obligations.¹¹²

The first fifteen years of China's economic reform featured an early boost for agriculture, followed by years of rural neglect as state policy focused its benevolent eye on urban and industrial development. Industrialization remained at the top of government's agenda, driven by radical reform to speed up recovery in 1988, the Tiananmen Square incident in the summer of 1989, and Deng's southern tour of 1992, during which he sanctioned the burgeoning entrepreneurialism he found there and launched a frenzy of industrialization, industrial parks, free trade zones and other capitalist-flavored medicine for China's long somnolent economy.¹¹³

During the years after 1992, China was gripped by an economic, political and social upheaval of enormous proportions as those people and governments who understood profits positioned themselves to take advantage of the momentous turnaround in China's ideological and political climates. More will be said about the response of local governments to these changes in central policy in chapter four, but it should be noted that the effect of this shift in direction had enormous consequences for

¹¹² Rural taxes and fees continued to increase as local share of tax revenues dwindled. Thomas Bernstein and Xiaobo Lu, *Taxation without Representation in Contemporary Rural China* (New York: Cambridge University Press, 2003).

¹¹³ (radical reform to speed up economy)

all Chinese. Along the east coast, the economy boomed. The demand for energy, water, infrastructure and other government-furnished commodities exploded, and responsible agencies struggled to keep up. Concern for the environment, always a low priority in a land where food security is in question, dropped even lower on the government's agenda. Rarely has the "invisible hand" of the market been tested so severely, and it is difficult to imagine how its response could have been more encouraging.¹¹⁴ Modern cities grew out of the swamps. Highways, railroads, airports, modern ports and harbors and electrical generating stations sprouted everywhere. The market mobilized the mining industry to feed coal to its steel mills and generating plants, and entrepreneurs made holes in the ground for coal and other minerals, and hired unemployed workers in huge numbers.

With an economic dragon by the tail it is not surprising that some aspects of governance didn't turn out so well. The economic reform created an environment in which conflict of interests, self-interested behavior, abuse of power and neglect could grow unchecked to reach the highest levels of government and the banking industry. Water pollution created hazards for China's people, and air pollution affected its neighbors and even distant countries such as the U.S. Importantly, the heady rush to economic miracles bypassed large numbers of China's peasants who were still subjected to aggressive extraction policies. Those not fortunate enough to live close to the eastern seaboard or large urban areas received none of the gifts the market can

¹¹⁴ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Editor in Chief Robert Maynard Hutchins, 54 vols., vol. 39, *Great Books of the Western World* (Chicago: William Benton, 1952).

bestow, and in fact market forces were increasing their costs even as the government was cutting back on public programs that had made rural life bearable if not pleasant. As importantly, some early rural reforms like the thirty-year land contracts, the grain distribution systems and other mechanisms to reduce peasant burdens had fallen into disuse and disarray.

By the end of the 1990s, all three factors of agricultural production were fraying as a result of central policy neglect. Because of urban expansion, infrastructure construction, and industrial expansion, large amounts of land were converted to non-agrarian use. Farm laborers moved to urban enterprises, a constant source of cheap labor. The flow of capital into the agrarian economy, already low, dried up completely as the banks moved their money into profitable eastern, urban and industrial investments. With the constant leaching of resources away from the agricultural sector, peasant options were dwindling. The effects of these developments on peasant life are described in chapter five but the end result of this combination of central policies and actions was a drop in real peasant income and a dramatic increase in the income gaps, one of several debilitating effects that were creating an increase in unrest and “contentious politics.”¹¹⁵ It also became possible for the first time since the days of the communes to divide China into well-delineated regions – separating the rich from the poor. It was a radical change from the aspirations the peasants had during the opening scenes of China’s economic reform.

¹¹⁵ Wen Tiejun, *Zhongguo nongcun shiji fansi* (Rural China's Century's Reflection) (Beijing: Sanlian book store, 2005). p.26.

1998 ~ 2006 Agriculture and peasants became hot topics and drove new policy initiatives.

In 1993, Wan Li, a vice Premier, argued that rural development had become a critical issue for all Chinese. He argued that it was time to stop thinking of agriculture in isolation and consider it as part of an integrated political, economic and social system that encompassed all of China. Clearly this was an issue that required careful consideration, detailed study, and planning at the highest levels of government.¹¹⁶ In 1998, China's communist party faced this issue in its third Plenary Session of the 15th Central Committee with the "Decisions about several major issues on agriculture and rural work." The directive stated that from then until 2010 a key objective for China would be to build a "new socialist countryside with Chinese characteristics." In 2000, the central government had launched an experiment in Anhui province which had been one of the provinces hardest hit by the GLF and consequently the place of early household-based agricultural experimentation as well as in counties in other provinces to reduce rural taxes and fees.

Work began once again to address conditions in rural China, to increase peasant income, to increase investment and to restore poverty relief measures. In 2003 at the Agricultural Work Conference of the central government, the communist party identified the three dimensions (agriculture, farmers and the countryside *nongye*, *nongmin*, *nongcun*) of the rural economy as a key priority for the CCP. The new

¹¹⁶ Wan Li, "*dangqian nongcun jidai jiejie de wenti*" (Conscientiously Solve the Problems in Current Countryside) in *Wan Li Collected Literary Works* (Beijing: People Press, 1995). p.631-636.

slogan was “Give more, take less and don’t interfere” *duoyu, shaoqu, fanghuo*. The slogan constituted the goal, the strategy and the guiding beacon for central government policy-making vis-à-vis rural China. Fortunately, the planning did not end there but began stimulating real policy and investment.

In 2004, peasant income once again became the government’s “No. 1 file,” placing the plight of the peasants at the top of the priority list for the central government and all its agencies. Clearly farm income was no longer simply an economic concern but had also become a critical political issue. Shortly after the release of that document, grain prices, agriculture taxes, investment in farm technology and farm subsidies were modified to the benefit of farmers, all of which rekindled peasant enthusiasm for farming as a way to make a living. In 2004, grain output and per acre yield both rose sharply and peasant income reached double-digit growth – the fastest rise in a decade.¹¹⁷

In early 2005 a new No. 1 file was issued confirming once again that closing the income gap between urban and rural areas, strengthening the rural economy, increasing the wealth of the peasants and generally creating a prosperous countryside continued to dominate economic and social policy. The biggest surprise for China’s 800 million peasants was the elimination of the agriculture tax which had been a prominent part of rural life in China for all of recorded history.

From 2003 to 2005, the agricultural tax, “three contributions” (*san tiliu*), and

¹¹⁷ 2005 Yearbook of National Statistics of Bureau online: <http://www.stats.gov.cn>.

“five unified plans” (*wu titong*) were gradually eliminated throughout rural China.¹¹⁸

In addition, the “special fees and taxes” that local governments had attached to the basic national agriculture taxes were also eliminated. This tax reduction reduced peasants’ annual tax burden by ¥120 billion.¹¹⁹ Beginning in 2004, the state began handing out direct grain subsidies as well as subsidies to encourage the use of improved seeds, the purchase and use of newer equipment, and for reforestation efforts. These were the core programs of China’s eleventh Five Year Plan. Close on the heels of that plan, the 2006 No. 1 Document confirmed the blueprint and committed to funding and to supporting reforms.

The state took responsibility for compulsory rural education and for a revitalized, well equipped mobile public health service. These changes were to be accompanied by major investment in infrastructure development, including roads, rail facilities, electrification and irrigation and water conservation.¹²⁰

Policy assessment

To summarize the reform era results, we can see the state as a very powerful presence in rural life – first by its very dramatic move to eliminate the communes, and during the late 1980s and 1990s by a series of actions that were bound to make peasant

¹¹⁸ “Five Unified Plans” (*wu Tongchou*) - Township levies: education supplement tax, social expenses, family planning, public (collective) transportation, and militia exercises expenses. “Three Contributions (*san tiliu*) – Village levies: contributions to the public accumulation fund, the public welfare fund and other administration fees. More will be said about taxes and the peasants in Chapter Five.

¹¹⁹ “China to deepen rural tax reform by cutting administrative staff,” Xinhua news, July 7th, 2004; “China to hold meeting on rural tax reform,” China Daily, June 2nd, 2005.

¹²⁰ Data source comes from “The Outline of the 11th Five-Year Plan of National Economy and Social Development of P.R.China.” March 16th, 2006.

life worse than ever. Some believe that this was not a deliberate throwing of the peasants to the wolves, but a hands-off policy with good intentions. As Du has stated, “. . . at that time [early reform] many of us didn’t consider the problem was the system itself but thought it was mainly an issue of bad management, bad implementation and bad cadre behavior.”¹²¹ One line of debate about how to handle the situation for the peasants was the issue of a paternalist versus a populist approach, and it looks as though the government simply went from one extreme (paternalist – highly regimented communes) to the other (populist – nothing: just get out of the way).

Shortly after the onset of reform, the government stepped in to encourage and guide the peasant-initiated smallholder farm approach to agriculture management. The abandonment of the communes in favor of the household responsibility system took only three short years. The early results were good by whatever measure was used, so it was natural for the central government to turn its attention back to the cities, leaving the farmers to cope for themselves. This happened at the same time as fiscal reform was transforming the flow of taxes and fees as the government worked to bring its finances under control and to wrest enough money from local coffers to fund a national government. The resulting vacuum left local governments scrambling to support themselves, and it was years before the central government noticed that the local governments had become predatory monsters in the Chinese countryside. In an attempt to gradually allow the invisible hand of the market to replace the visible hand of government planners, central policy unleashed the grabbing hand of local

¹²¹ Du. p.97.

government.¹²²

Peasant life was adversely affected in other ways. In the early 1990s, the government reduced its investment in agriculture research and in farm bureaus. Local offices had performed a valuable service in agriculture research and in providing training and information to local farmers. When funding dropped, these offices were supposed to become self-supporting through fees, and the entire system fell apart. Similarly, it was the communes that had supported social programs such as public health and education, and although those functions had been taken over by local governments, the cash squeeze was making it more and more difficult to support. The principle of local government self-support stopped working because the local share of tax revenues kept shrinking and there were fewer and fewer “unbudgeted” sources except for illegal fees and illegal land grabs. And finally, as the full scope of China’s banking crisis came into view, money for local programs became tighter yet as banks were reorganized under centralized control and removed from the influence of local party heads. There were conflicts between levels of government, between different agencies and between government and the peasants. These were some of the effects of the central policy developments of the 1980s and 90s. More will be said about the effect of policy on local governments and peasants in chapters four and five.

The rural reform that was to accompany China’s economic reforms had two main

¹²² Perhaps the best way to show government reliance on the “invisible hand” or that the central government took “years” before noticing what was happening is Deng’s own words we cited on page 85 of this chapter - Deng Xiaoping, *Deng Xiaoping Selected Works*, vol. 3rd (Beijing: People Press, 1993). p.376.

thrusts. The first was to marketize farm outputs and the second was to do away with the collectives.¹²³ Although the market for secondary crops and livestock had been opened soon after the December 1978 party plenum, grain trade continued to be subjected to the heavy hand of government throughout this period. 1984 was the last year of the Unified Purchase and Sales System, and in that year the total amount of grain output that had been purchased by the state was about 87.3 percent of the total. By 1990, the state's purchases were down to 37.1 percent, and in 2004, the state backed out of the picture completely, and China's agricultural sector was completely marketized.¹²⁴

Decollectivization, on the other hand, was not so much managed by the government as it was a spontaneous response to the changing policy environment. It began as an experiment to reduce poverty in the poorest areas in certain provinces and quickly spread throughout China. By 1983, peoples' communes and production teams had ceased to exist in most of China. Smallholder family farms became the norm, and the state issued policy declaring that land use contracts would be valid for fifteen years. In 2003, the term of land contracts was extended another fifteen years. One of the desirable end results of China's rural policy is that the state reached self-sufficiency in grains in the 1990s and today shows a surplus in some years. Nationwide shortages

¹²³ Dwight Perkins, "Completing China's Move to the Market," *The Journal of Economic Perspectives* 8, no. 2 (1994).

¹²⁴ June 2nd, 2004, in the Working Conference of the Heads of the National Grain Administration Bureau in Beijing released two documents: "Opinions of the State Council about Further Deepening the Reform of the Grain Distribution System" and "Administrative Regulations of Grain Distribution." When grain was finally delegated to the market, China's agriculture sector was finally completely marketized.

have been replaced by periodic structural and regional surpluses. Food security appears to have been permanently removed from China's crisis management list.¹²⁵

Since 1978 and especially into the 1990s, China's rural employment picture has seen significant change. In 1983, farm and related labor employment accounted for 316.4 million people. By 2004, that figure had dropped to 305.9 million, even as China's population continued to grow. In a related perspective, in 1983 agriculture, forestry, animal husbandry and fisheries employed 74 percent of China's labor force, and by 2004 that number was down to 44.6 percent.¹²⁶ Per capita peasant PPP income grew from ¥133.6 in 1978 to ¥3,255 in 2005. Despite this real progress, the income gap between urban and rural and between regions has continued to grow. It is this gap that has drawn attention from academics, economists, and Chinese political figures.

Grain as a strategic issue

There is consensus in development theory that grain reserves are important for developing countries, and there's no doubt about its strategic importance in China with its huge population and relative paucity of arable land. Since taking power in 1949, the CCP has never been able to relax its vigilance over grain production, and there have been countless policy changes in an attempt to encourage production and manage the distribution and storage systems to assure China's self-sufficiency and food

¹²⁵ Liu Bing, Zhang Zhaogang, and Huo Gong, *Zhongguo sannong wenti Baogao* (Report of China's Three Dimensional Issue),

¹²⁶ "Agricultural Development Report of China," (Beijing: Ministry of Agriculture of the People's Republic of China, 2005); D. Gal Johnson, *The Issues of Agriculture, Countryside and Peasants in Economic Development* (Beijing: Shangwu Yinshuguan (The Commercial Press, 2004). p.109.

security. Since 1978, the state has made attempts to hand the reins to the market, but whether for unexpected problems or because of the resistance of government institutions to change, the administrative habits were hard to break.

According to the UN standard, if a state maintains reserves in the range of 18 percent of total consumption of society, the grain markets will stabilize. Since the economic reform, reserves in China have been above these recommended levels most of the time, but fluctuations have never stopped and the results have always ratcheted peasant income downwards. One of the problems appears to be related to quality. During a slow production year, the state released large quantities of its reserves to stabilize the prices. The 10 billion *jin* of grains that were dumped into the market, however, were not market purchased but came from administrative quotas and were consequently of lower perceived quality. There were additional issues related to how the reserves are managed: whether they are adequately cycled (first-in-first-out), properly stored – and whether the inventory was to be stored or transported from centralized or released from local storage and other questions of this type created conflicts and a general lack of control. Prices were not affected by the government's moves to increase supply.¹²⁷ Part of this effect also comes from the old adage that food sufficiency creates an inelastic supply-demand curve. If the price of bread drops, demand doesn't necessarily go up.

An obvious conclusion that can be drawn from China's rural history is that there

¹²⁷ Liu, Zhang, and Huo. p.206-207.

are no universal solutions because of the wide variety and diversity of local environments. In the CCP where the word of a paramount leader was immediately cast in gold, it should have been easy to predict trouble, as plans were executed where they were not appropriate or not wanted. In another area of significant state intervention into rural life, the state was slow to respond to problems associated with the transition away from the communes. Difficulties arose when the commune regimes gave way to the new town and village governments. In theory, township governments were to have administrative and social program responsibilities, while villages were to have considerable autonomy. However, it was village and township government and party elites who had managed the economic life of the communes, including the TVEs, so it was quite natural for them to continue doing so. As a result, the party, the government and the economic institutions were interwoven, leaving no dividing line between politics and the economy and between government and business. Jean Oi called it a “corporatist” government that was little more than an extension of the old communes. Government had inherited the power of Maoist communism combined with the power of developmental capitalists.¹²⁸ This state of affairs was sure to create conflicts of interest and problems with abuse of power, and the failure of the state to do something about it affected the effectiveness of grassroots governance in the significant development and urbanization tasks that needed fair and impartial administration. These problems created doubts and mistrust among those who had initially held high hopes that the household responsibility system could carry them to

¹²⁸ Jean Oi, 1992, *Rural China Takes Off: Institutional Foundations of Economic Reform*. p.193.

new levels of prosperity.¹²⁹

The central government was also slow to respond to the general decline of social programs following the demise of the commune. As stated earlier, public health, education and other social programs were to be taken over by either governments or private employers, but private employers didn't want to spend the money and local governments found it increasingly difficult to afford. Rural mortality figures which had fared well during the era of the communes began to climb, as school enrollments dropped and infant mortality rates rose. Birth rates climbed as peasant families once again looked at their children as sources of labor and income. Poverty struck many families swiftly whenever there was an accident or illness that required medical treatment, and many who needed medical treatment didn't get it. Some families chose poverty if one of their children seemed to have the ability to go to college. Social equity was replaced by prosperity as a core value on the part of China's leaders and administrators; and income inequality, already an issue, continued a steady climb creating local, urban-rural, industry-agriculture and east-west imbalance.¹³⁰

The main theme of China's agricultural strategy has remained constant since the early days following the communist party takeover in 1949. The strategy consists of extracting food to feed a large population and taxes and raw materials to fund industrialization as a part of China's overall development and modernization. Until the 1980s, the agriculture sector also led the economy in exports, thus earning foreign

¹²⁹ Ibid, p.200.

¹³⁰ Putterman, p.48.

exchange; but this role began fading after 1980 when industrial exports grew to become the main engine of foreign exchange earnings. Importantly, the agriculture sector has always been viewed as the primary means of employment for China's huge rural population. In order to deploy these primary goals, the policy regime sought to stabilize grain production, maintain adequate grain reserves, provide inexpensive food for its large urban population and assure national food security. Until recently, the goal of raising farm incomes has simply been overshadowed by these other national imperatives.

Summary

Change will not come quickly. While urbanization is expected to create jobs for a development economy in transition, China's seemingly inexhaustible supply of cheap labor has kept wages low and working conditions often atrociously difficult and unsafe. In some places, miners are pushed to their limits for three months then sent home as physically and mentally debilitated wrecks. In the cities, oppressed workers finally leave their bad jobs in disgust. In all these cases eager recruits arrive from the farms in numbers that exceed demand because dependable low wages are preferable to the risks and losses they face on the family farms.

Current reform plans include such vital changes as support for education and public health. The elimination of taxes can help, but if China's recent past is a reliable indicator of the future, it seems probable that agencies that have been deprived of tax income could easily subvert the intent of the tax law changes by increasing their fees –

similar to the moves that virtually killed rural education and medical care in rural China. In order to assure real progress, the government will need to learn from its experiences in the early days of its economic reform and be more attentive to both the direct and unanticipated consequences of its actions, and particularly to local reaction to policy shifts. It will also be necessary to increase its investment in social spending, agriculture technology and in supporting infrastructure.¹³¹

¹³¹ OECD, *China in the World Economy: The Domestic Policy Challenges* (Paris, France: OECD Publications92-64-19707-9, 2002). p.60.

Chapter Four

Local Government in Action

Chapter Three explored the policy environment and demonstrated the power that emanates from Beijing over the daily lives of peasants. This is the first of the “power grids” that blankets China’s rural areas. A second source of significant influence comes from local governments: village, township and county. Despite strong centralization and a rigid hierarchy, many authors have observed that local governments have the ability to work their own agendas in China’s rural towns and villages. James Anderson put it succinctly: “It must be kept in mind . . . that the content of policy, and its impact on those affected, may be substantially modified, elaborated, or even negated during the implementation state.”¹³² Some of this freedom comes from policy, some from policy deficiencies or ambiguity, and some from risk-

¹³² James E. Anderson, *Public Policy-Making* (New York,: Praeger, 1975). p.20.

takers who are willing to test the limits of their autonomy.¹³³ Jean Oi extended this line of thought to identify local government as an important catalyst for rural development because of the autonomy it has either inherited or has created for itself, or that came about as a consequence of geographic and political isolation.

This chapter examines rural town and village government to explore the lessons of China's recent experience as an economy in transition, and to understand the impact of that process on local governance as Beijing seeks to develop its countryside. This is obviously an important component in a description of community capacity. The chapter asks whether local governments have demonstrated or developed the capacity to manage their share of the work of development. The story begins with a brief overview of the recent history of local governments in China.

After three decades of a highly structured planned "redistribution" economy and rigid social constraints during the collective era, China has been gradually transitioning to a market economy for the last three decades. This economic environment pulls at the chains of old hierarchy habits that are difficult to break. In the economic environment, the hand of government has been visible at the controls, and often seen clashing with the "invisible hand" of the free market. In such an environment rural communities are constantly witness to "conflicts and problems between the superstructure and the economic base, between productive relations and

¹³³ "There's a problem within most policies – they are invariably incomplete – and without a well worked out policy, responsibility becomes problematic for both the administrator and the elected officials." Carl Joachim Friedrich, "Public Policy and the Nature of Administrative Responsibility," *Public Policy* (1940).

production forces.”¹³⁴ Rural China is not painted as a peaceful, bucolic scene, but as a continuous skirmishing between central vs. local objectives, and market vs. planned strategies.

The Cadre Administrative System

China’s administrative system is credited with much that is good. This is a very large bureaucratic population that has come a great distance in the last thirty years; but there are also difficult questions about problems that have been created as a result of the administrative system. There are mechanisms that lead cadres to ignore the public good. Three dimensions of the system have been cited by many studies as problematic: The first is the “one level-down management system,” sometimes called “one rank down” (*xiaguan yiji zhidu*) personnel appointments that replaced the “two-level-down system”¹³⁵ after 1984 in compliance with Deng’s directive “to control better by controlling less.” Under this arrangement, officials at each level gained full authority to appoint their subordinates without higher level review or oversight. County leaders were empowered to decide who will serve as a township party secretary or head of government without approval from a prefectural organization department. This reform was intended to increase responsiveness and allow for greater leeway to accommodate local circumstances. In practice, however, one-level-down management is better

¹³⁴ Xiao Tangbiao and Li Changjin, “*Zhongguo Xiangcun Baogao - Zhengfu Xingwei Yu Xiangcun Jianshe Yanjiu*” (Rural China Report - Governmental Behavior and Village Construction Study) (Shanghai: Xuelin Press, 2005). p.47.

¹³⁵ Some also call this the “two rank down” appointment system. Lynn White explained that during Mao’s *day*, no party cadre could be subject to a single boss. The system was a Leninist incentive for party members. Lynn T. White, *Unstatey Power: Local Causes of China's Intellectual, Legal and Governmental Reforms*, vol. second (Armonk: M. E. Sharpe, Inc., 1998). p.487.

known for having encouraged cadres to be ultra-sensitive to their immediate superiors at the expense of other priorities; and it has increased the ability of superiors to get their underlings to carry out unpopular policies (this can be a strength or a failing) or to apply pressure to deliver on less savory practices, including abusive illegal taxes and land seizures to increase government revenues at all costs.¹³⁶

The second problem springs from the “cadre responsibility system” (*ganbu gangwei mubiao zeren zhi*). The system is a set of rules governing job assignments, performance appraisals, and remuneration, the main purpose of which is to improve implementation. In places where the cadre responsibility system operates as designed, local government assigns a variety of targets to its subordinates when they assume office. Typically, a responsibility commission (*zeren zhuang*) sees that objectives, evaluation procedures, and remuneration are prepared for approval by the party secretary and government head. Cadres must then sign on to that agenda. While this system provides for clarity and transparency in promotions and assignments, it also reinforces a self-serving mentality that often places personal interest ahead of the public good. The rigidity of the system leads cadres to blind enforcement of policies without regard to their effects on the populace, and even without consideration of their rationality, legality or obsolescence. The times may change, but the system rules are

¹³⁶ Kenneth Lieberthal, *Governing China: From Revolution through Reform*, 1st ed. (New York: W.W. Norton, 1995), Kevin J. O'Brien and Lianjiang Li, "Selective Policy Implementation in Rural China," *Comparative Politics* 31, no. 2 (1999). p.171.

cast in concrete.¹³⁷

The third set of problems is caused by “the cadre exchange system” (*ganbu jiaoliu zhidu*), which some call the “top-down method of rotation.” In order to control regionalism, virtually all party first secretaries and government heads are periodically rotated. They thus have a short and fixed term of office in one locality. While frequent transfers may help reduce localism, it can also interfere with accountability and often influences cadres to adopt a short-term view of their responsibilities.¹³⁸

The system just described aligns with well-worn traditions of “management by objectives” and other management schema that link incentives to achievements. These tools carry with them a potential for abuse in the form of self-serving behavior, short-term thinking, and blind allegiance to the party, the hierarchy and central policies. These possibilities may be controlled through adequate supervision by managers and executives, but the literature reported in this chapter and the field studies indicate that supervision has not often been close enough to prevent abuses.

Beyond these three administrative systems, some believe the selection of leaders of the Chinese Party and government – national, intermediate, and local – is perhaps the most obvious source of political friction, even though the trend toward better-educated, expert, and younger cadres was officially supported even down to the

¹³⁷ Maria Edin, “State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective,” *The China Quarterly* 173 (2003).

¹³⁸ *Ibid.* O’Brien and Li.

village level.¹³⁹ The selection and promotion system includes cadre recruitment, cadre retirement and cadre grass roots elections. Among those three functions, cadre recruitment and cadre retirement have one common “hard” standard: age. In China’s current regime, there is no aversion to age discrimination. This preoccupation with age creates anxiety in the hearts of many officials as they scramble to gather enough “points” to be promoted before they are sidelined for younger replacements. Section level cadres, for example, cannot be much older than thirty. This is the lowest level of cadre at the township level, the bottom of China’s administrative hierarchy.¹⁴⁰

From Totalization to Localization: Reorganization of Administrative Systems

Researchers Wing-shing Tang and Him Chung borrowed a Chinese metaphor to explain the management transition that accompanied economic reform: they compared the country to a chess board with white (urban) and black (rural) institutions that each has their own roles, rules and controllers. During Mao’s day, cities and towns administered their spaces in accord with such conventions as the *hukou* system in the cities and the communes in rural areas. Local governments manipulated their resources around their territory and tended the social, economic and cultural gardens in their respective areas in a web of party influence that included state-owned enterprises and banks and was guided by intent to limit urbanization. With the onset

¹³⁹ *White*. Pp. 484-485.

¹⁴⁰ *Ibid.*, p. 486; Chinese core apparatus consists of a fused Chinese Communist Party, government and army at the national, provincial, prefectural (city), county and township five levels. See Michel Oksenberg, "China's Political System: Challenges of the Twenty-First Century," *The China Journal* 45 (2001); and George Brown, P., "Budgets, Cadres and Local State Capacity in Rural Jiangsu," in *Village Inc. - Chinese Rural Society in the 1990s*, ed. Flemming Christiansen and Junzuo Zhang (Honolulu: University of Hawaii Press, 1998).

of economic reform, cities and towns became the primary facilitators of economic growth through such means as infrastructure development, construction, and the recruiting of investors. The end products were simultaneous economic growth, urbanization and the intensification of government.¹⁴¹ In their new roles as stewards of economic growth, cadres added to their administrative functions such business responsibilities as marketing and technology diffusion.

The state took several concrete steps to accelerate this localization process, including an administrative system called “city-leading counties” (*shi guan xian*), and in 1984 relaxed the criteria for an area to be designated a township, and created county-level cities (*xianji shi*) two years later. These measures ceded more autonomy to cities and towns and were expected to yield two important benefits: first, they would provide closer (on site) monitoring and control of local communities; and second, they would permit better correspondence between policy implementation and local needs and conditions. From the state perspective, this autonomy did not come from a liberal urge to increase community participation and freedom of action but was acceptable because it brought a wider territory within the sphere of its control and thus provided some assurance that autonomy would not lead to anarchy and chaos.¹⁴²

While increased local autonomy is considered beneficial to the development process, what happened in China didn't always work in that direction, and what

¹⁴¹ Wing-shing Tang and Him Chung, "Urban-Rural Transition in China: Beyond the Desakota Model," in eds. Si-ming Li and Wing-shing Tang, *China's Regions, Polity, and Economy: A Study of Spatial Transformation in the Post-Reform Era* (Hong Kong: The Chinese University Press, 2000).

¹⁴² Bjorn Alpermann, "The Post-Election Administration of Chinese Villages," *The China Journal* 46 (2001).

happened as China began its economic reform was foreseen in 1964 by Fred Riggs. It gradually became apparent in China that the central government did not cede sufficient authority and revenue to permit the desired level of performance. The system tended to generate unrealistic goals, and the locus of authority was often cloaked in behind-the-scenes maneuvering to accumulate resources or to manipulate reports to demonstrate achievement.¹⁴³ The increased local autonomy did, however, encourage local cadres to work for local interests, but that often backfired and caused trouble because those interests were not compatible with the goals of the state.

An example of this was the cities stretching their charters to micro-manage the counties and towns by intervening into planning, production, distribution and consumption activities. Some went further and treated counties as a ready supply of resources available for extraction in support of city or higher level goals and plans. In most areas, the cities had a great deal of power over such factors as personnel assignments, bank credit, budgets and taxation and could also steer or block investment, construction projects, infrastructure development and other key measures essential to economic progress. The high priority given to important projects such as the three dimensions of agriculture issue created tensions for the controlling cities from which rural development progress is expected but which were also still deeply committed to their own urban and industrial development. The competition for scarce resources was and remains real and is being played for high stakes. Progress is

¹⁴³ Fred W. Riggs, *Administration in Developing Countries* (Boston: Houghton-Mifflin Company, 1964). p.343-344.

expected from Beijing on both ends of the urban-rural spectrum.¹⁴⁴

To understand what's going on, watch the money

Another frame of reference to aid the understanding of local capacity is the finance perspective and the condition of local accounts. The story begins with the principle of “simplifying administration and decentralization,” and “offering incentives to both the local and the central governments.” In practice, this policy from the early 1980s meant that each government was intended to be self-sufficient, that is, able to “get the food from one’s own kitchen.”¹⁴⁵ Local governments have five sources of cash: tax revenues, non-tax revenues (e.g., license fees and fines), extra-budget revenues (e.g., income from town or village enterprises or collectives), illegal revenues (e.g., illegal taxes and fees, illegal seizures), and borrowing.¹⁴⁶

As local governments scrambled to shore up their budgets and meet expectations

¹⁴⁴ Wang Ximing and Cheng Jinxiu, “*Guanyu Hubei “Sheng Zhiguan Xian” Caizheng Guanli Jici Wenti Tanta*o (An Exploration of Fiscal Reform of “Province-Leading-Counties” in Hubei Province),” *Local Fiscal Research*, no. 7 (2005). p.22. It should be noted there is another administrative change in the wind. In Anhui and neighboring Hubei provinces, a new system was launched in January 2004 characterized by “province-leading-counties.” Budget planning and controls are coordinated directly between the provincial government and the counties. Other provinces have been following suit with similar changes. In Zhejiang province, county party secretaries and county heads have been appointed and removed by the provincial level since 2005. In both Zhejiang and Jiangxi provinces, cities still provide financial support for their counties and townships. In these cases, much of the financial planning is done at the local levels, and some assets must be concealed from the provincial governments, although administrators at all levels know this is being done. There is no real concealment, just a recognized practice of “hiding wealth in civil society” *cangfu yu min*, which all involved have agreed not to discuss. See Wang and Cheng. p.25.

¹⁴⁵ *China in the World Economy: The Domestic Policy Challenges*, (Paris, France: OECD, 2002).

¹⁴⁶ Li Binglong and Zhang Licheng, Qiao Juan, and Cao Hongmin, “*Zhongguo nongcun pinkun, gonggong caizheng yu gonggong wupin*,” (Poverty, Public Finance and Public Goods in Rural China), (Beijing: Agriculture University of China, 2003). See also Thomas P. Bernstein and Xiaobo Lu, *Taxation without Representation in Contemporary Rural China* (New York: Cambridge University Press, 2003).

with respect to mandatory programs and projects that demanded investment (this was a period of spending to attract foreign investment), they entered into every kind of arrangement that could generate revenues, including shady deals with local industries to conceal income from higher levels. This was managed by using their authority to give tax breaks, but for a price. Tax breaks were paid for with revenues that went to local government off the books. Businesses saved a little on their taxes: the central government collected a bigger piece of a smaller pie, and local governments managed to continue to meet their payrolls. That cycle led to a pronounced decline in central revenues during most of the 1980s. The government had lost control of its revenues. The problems at the local levels were exacerbated when administrators cashed in wherever they could to fund automobiles, lavish furnishings, ever more beautiful employee housing, and extravagant entertainment. These circumstances also contributed to poverty by creating new opportunities for corruption. Public contracts and staff jobs and promotions carried publicly known price tags (In many areas they still do). Additionally, the disposition of public assets created enormous opportunities for rent-seeking.

Communities compete for resources much as corporations do, and China's communities developed ambitious goals to attract foreign investment. They competed through their cadres with tax breaks, free or low-cost land, well-developed industrial zones and office buildings, and offers of a beautiful community into which foreign business persons wouldn't mind bringing their families. As part of this process, many created broad, tree-lined avenues, elegant new office towers, parks and beautiful

industrial zones. This spurt in construction had the desired effect in some cities, but also caused a rapid loss of arable land, adversely affecting both rural communities and reducing arable land to the point of threatening food security.¹⁴⁷ There was an endless need for funding for these major projects. Joseph Stiglitz, then a Senior Vice President and Chief Economist of the World Bank, said that “China has demonstrated that a country can absorb enormous amounts of physical capital quickly.”¹⁴⁸ The push for industrialization and urbanization and beautification absorbed most of the available funds and more in the form of debt, leaving little for rural development for years to come.

In others’ interviews with local cadres, debt is a sensitive topic since it is frowned upon at higher levels (even though higher level policy and behavior made it inevitable). As a consequence of this sensitivity, cadre conversations about debt fell into three categories during interviews: they blamed their predecessors; they took credit for reducing it against impossible odds; or they compared themselves with other jurisdictions with even bigger problems. In the Chinese version of pressure politics, debt belongs in the debit column of the promote-ability calculations.¹⁴⁹ According to the statistics bureau, one third of the counties in Shanxi Province did not possess the financial capacity to guarantee the salaries of their cadres in 2003. The accumulated

¹⁴⁷ There were also many cases of empty industrial zones and wasted land and resources as incoming *investment* tended to cluster around the major cities and along the east coast. See Minzi Su, “The Role of Foreign Investment in China’s Land-Use Policy,” *Asian Perspective* 29, no. 2 (2005).

¹⁴⁸ Joseph E. Stiglitz, “Towards a New Paradigm for Development: Strategies, Policies and Processes,” (Prebisch Lecture at UNCTAD, Geneva, Switzerland: 1998).

¹⁴⁹ Li and Zhang. p.160.

debts for salaries in Shanxi's counties and towns reached ¥1.34 billion by 2000. The counties and township governments accumulated debts of ¥22.5 billion. Seventy-six counties experienced a deficit, accounting for 91.57 percent of the eighty-three counties in the province.¹⁵⁰

In 1978, China's central government was taking about 67 percent of the total tax revenues and was spending about 46 percent of all government spending. By 2004, according to the data from the yearbook of China's National Statistics Bureau, the state was taking

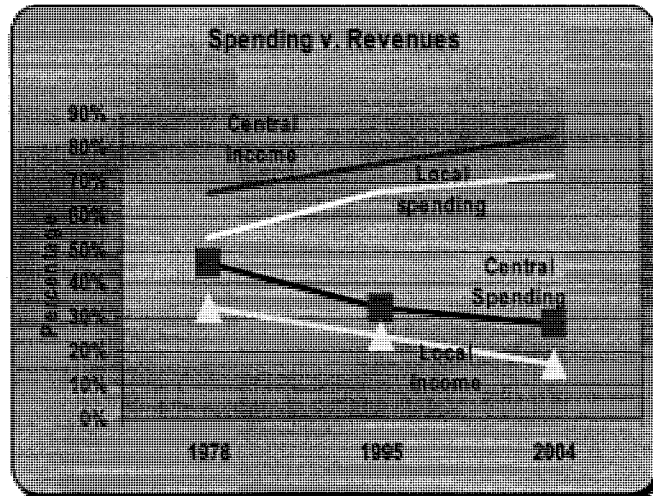


Figure 4-1 Source: Annual Yearbook of China's National Statistics Bureau

more than 80 percent of the revenues, and its spending had dropped to less than 30 percent. (See Figure 4-1). This is not reported to claim that anything should have been done differently, only to demonstrate that local governments were in quite a bind as their revenues continued dropping during the several fiscal reforms while their responsibilities continued to expand.¹⁵¹ In general, the towns and villages that

¹⁵⁰ Yang Hongmei and Liu Qing, "Weile Sanqianwan ren de xingfu - Shanxi caizheng jianli changxiao jizhi huanjie xianxiang caizheng kunnan jishi" (For Thirty Million People's Happiness - Record of Building Long Term Effective Mechanism to Relieve Counties and Towns from Financial Difficulty in Shanxi Province) *Zhongguo caijing bao* (China Financial and Economic News), March 4th 2006.

¹⁵¹ See Box 20.1, p661, OECD, *China in the World Economy: The Domestic Policy Challenges* (Paris, France: OECD Publications 92-64-19707-9, 2002).

survived the changes intact were those with favorable resources: good growing conditions, proximity to cities or industry, or a robust rural industry. The predictable consequence for the poor communities was a drastic decline in social services. Township governments bear about 78 percent of the cost of compulsory education, for example, while the county carries 9 percent and the province 11 percent. The state carries about 2 percent.¹⁵²

It is not clear how the latest fiscal changes will play out in local governments. With the abolishment of agriculture taxes, rural governments without industries or collectives have become entirely dependent upon a transfer mechanism that is yet incomplete. There are early signs that local governments are up to their old tricks (such as property seizures and sales, and new fees for services) as they struggle to survive. What the central government gave away in headlines, the lower level governments have begun taking away in the fine print. Fees for non-agriculture public goods like education and health care are being raised again. The prices of farming supplies, materials and equipment have also gone up, though recent news coverage continues to trumpet free mandatory education in all of rural China by the end of 2007. In the schools, peasant children are being charged for “water drinking expense,” bicycle storage, and after-class study periods. In some areas, peasants are paying new

¹⁵² Data source comes from the survey conducted by *guowuyuan fazhan yanjiu zhongxin* (Development Research Center of State Council). 2002 State Council issued “*guanyu wanshan nongcun xiwu jiaoyu guanli tizhi de tongzhi*” (Information with regard to improving management system of rural compulsory education), which is the first time that it is county government instead of township government to play major role in investing and managing rural compulsory education. Since then, peasants’ burden to take care of their children’s education has become government’s responsibility.

fees for home use, anti-disaster, and common area maintenance.¹⁵³ These activities tell us that the problems of supporting local government have yet to be solved. It also tells us that higher level governments are failing to provide the supervision necessary to prevent a repetition of the fee proliferation that began in the 1990s.

It should be noted that all of these means and outcomes have been necessary parts of the plan to “Let some get rich first” and yet became controversial because of the overheated enthusiasm of local officials. Despite officially being against wild spending, the central government continued to apply the spurs by setting high GDP goals and high foreign investment quotas. The undisciplined spending was also encouraged as the leaders of areas that had succeeded in their ability to attract foreign investment were rewarded with publicity and promotions. Officials simultaneously officially deplored the big spending and rewarded it wherever it paid off. As local governments worked to stay afloat, the central government angled to regain control of the tax system, and ended with a radical reform of fiscal policy that was initiated in 1994 with a goal of establishing a “Socialist Market Economy.”¹⁵⁴

The core of that effort was a nationwide Tax Sharing System characterized by a multi-level network of tax collection and distribution activities. That fiscal package defined only the relationship between central and provincial fiscal agreements, so it quickly led to a wide variety of sharing frameworks throughout the rest of the nation.

¹⁵³ Ma Xiaohe, “*quxiao nongye shui hou nongmin fudan you fantan jixiang*” (Signs for Peasants' Burden Rising after Abolishing Agriculture Taxation), *Zhongguo gongshang shibao* (Chinese Industrial and Commercial Time, Dec. 14 2006).

¹⁵⁴ Similar research can be found in Bernstein and Lu. p.11-12. More information about “evolution of China’s central-local government fiscal arrangement” can be seen in Box 20.1 in OECD. p.661.

Some provinces have simply extended the provincial-central formula while other provinces compiled their own formulations. Some provinces set growth targets for tax revenues to assure the continued funding of government. Unfortunately those targets often created problems. For example a growth target of 20 percent was set for Puding county in Guizhou Province. Puding is a nationally designated poor county. In order to meet the target, the county had to impose 15 percent to 25 percent targets in its townships, adding greatly to the pressure on local government officials. Those that achieved their targets were rewarded, while those that failed were fined.¹⁵⁵

The central government's share of revenues increased as a result of the 1994 Tax Sharing System, but since budgets were not revised to reflect the altered revenue stream, government was left with a large fiscal gap at the county and township levels.¹⁵⁶ Additional trouble came as a result of a mismatch between a uniform tax policy and a decidedly non-uniform state. Some towns and villages had found the right resources and formulas for economic progress, had invested wisely and found themselves with an adequate revenue stream, an adequate infrastructure, little debt and a developed, manageable and growing local economy. For others, the new tax was a disaster; and many were forced toward ever more aggressive fees and taxes and toward debt, and ultimately to the cash value of peasant lands.¹⁵⁷ Many also increased the extra-budget funding means that still remained available to them, creating several

¹⁵⁵ "China in the World Economy: The Domestic Policy Challenges."

¹⁵⁶ Ibid.

¹⁵⁷ Li and Zhang. p.164-166.

additional problems: 1) It was wringing higher taxes out of the normal tax base, adding to a burden the Tax Sharing System had attempted to bring under control; 2) In some places the extra-budget funds made a shambles of spending discipline and encouraged “there’s-no-tomorrow” thinking; and 3) created opportunities for widespread corruption which further heightened tensions between the government and the people.¹⁵⁸

Since all land was state or collective owned, local governments had the authority to seize land for any purpose,¹⁵⁹ pay the peasants a very low price, then sell the use rights to industries, investors or developers for very high prices. The relationship between the government and the governed became hostile in many regions as a result of these behaviors. The problems were quite clearly caused by bad policy, and eventually property use rights were straightened out to make those seizures illegal, though they continued for several years. The courts were dragged into the hostilities but too often lost an opportunity to advance the cause of the rule of law by refusing to hear the cases of peasants who had lost their homes or by ignoring China’s constitution and laws to rule in favor of party elites who had illegally seized property or violated labor laws or tax codes.

Relief efforts

As the prosperity gap widened and it became more and more apparent that the

¹⁵⁸ "China in the World Economy: The Domestic Policy Challenges."

¹⁵⁹ The Chinese Constitution contains wording that requires a “public good” test and fair compensation, but in practice it is the government agent who defines “public good” and “fair.”

poorest communities simply did not have the capacity to pull themselves out of trouble unaided, there was an increase in transfer payments, intended to alleviate the imbalance. Transfer payments are a conventional approach to development that works by moving revenues from wealthy areas into the poor. In China, the transfer system is currently under development. It is not without resources, having reported that as of the end of 2006 there were thirty-seven departments involved in 239 transfer payment projects. Of these, ¥15.6 billion are in process on forty-one different projects that have been extended from past years. Another ¥70.6 billion is being applied to sixty-five projects that are floating around the government with no published project management system. There are seventy-one special projects divided into 44,149 sub-projects that include many valued at under ¥100,000 but which add up to ¥54.6 billion in total.¹⁶⁰ One of the difficulties with transfer payments in China's poorest areas is the lack of recipients who can put the money to work. With no organizations, no infrastructure, uneducated cadres and little or no professional talent, to whom can a government write a check? Clearly the first step before the poorest communities could receive any kind of assistance is a period of capacity building.

There is a Ford Foundation sponsored research into poverty, public goods and public finance in rural China that is providing data and strong support for the transfer payment approach to poverty relief. One of its findings exposes the condition that China's poorest communities cannot meet their obligations, but are prohibited by the

¹⁶⁰ Li, Jinhua Said, There Are Three Problems in Central Governmental Subsidy for Local Expenditures (Xinhua Net, June, 27 2006).

budget laws from operating at a deficit. The predictable result is that under-funded local governments are inevitable, and the effects remain visible today. Towns and villages are still “cooking the books” to avoid trouble with higher levels of government.¹⁶¹

The transfer payment system in China was designed to facilitate the transition process. It is a bottom-up and top-down “double flow” system, which means that the taxes are paid and flow up the hierarchy where they are consolidated and apportioned back to the lower levels in accordance with the transfer system formulae. The transfer payments are composed of five parts,¹⁶² and it is in this formulation of the payments that conflicting priorities cause difficulties. The largest part of the payment is based on the growth of each of the provincial GDPs. This means that a large measure of the payment is earmarked for the fastest growing provinces instead of the neediest, which is similar to the pre-reform matching system that was designed to create incentives for growth. In 1999, for example, Shanghai, Guangdong, Jiangsu and Zhejiang provinces collected ¥59.5 billion, which was 28 percent of the total of transfer payments for that

¹⁶¹ Li and Zhang.

¹⁶² Transfer payments are allotted as the sum of five elements: 1) an amount equal to the revenue collected in 1993, the year before the last reform. Its importance as a factor is diminishing; 2) Revenue returned equal to an additional 30 percent of the increase in the VAT and other excise tax revenues (on top of the 25 percent specified in the tax sharing arrangement) above the previous year; 3) Special purpose subsidies and grants in hundreds of earmarked categories, such as grain procurement, price subsidies, and transfer to cover shortfalls in local pensions funds; 4) General transfers, called transfer payments in the transition period; and 5) Miscellaneous transfers

year. The twelve western provinces received a total of only ¥47.2 billion.¹⁶³

By definition, the transfer payment is intended to balance the economy by shifting funds from wealthy regions to poorer ones. The other elements of the payment mechanism were designed to effect transfers based on need, but in practice, the money is not getting where it is most needed. Much of it is used to support technology innovation in the largest state-owned companies, thus increasing the competitive strength of China's largest industries at the expense of the poorest. There is enough maneuvering room in the system to allow influential officials to build homes and office buildings for agency branches and their employees. In other words, funds that should have been earmarked to help poor regions are often being treated as some sort of political slush fund instead.¹⁶⁴

Taxes and fees flow uphill, responsibilities flow down

The problem of financing government was particularly severe at the village level. Village government has no constitutional standing as a part of government; and yet the village committees are quasi-governmental as they perform many of the functions normally performed by governments. The end product of these conditions in poor villages is that cadres inherited more tasks even while their sources of income were being pinched off. The situation became worse as higher levels of government, including Beijing, transferred the work ("cast off the burdens") to the lower levels.

¹⁶³ Song Chao and Shao Zhi. "woguo caizheng zhuan yi zhifu guimo wenti yanjiu" (The Issue of China's Transfer Payment Volume). *difang caizheng yanjiu* (Local Fiscal Research), No. 1 (2005).

¹⁶⁴ Ibid.

Some transfers were in the form of work projects or improvements, others came in the form of unfunded legislation or programs. There is no plan, law or policy governing responsibility assignments for the various levels of the governing hierarchy in China, and agencies and lower levels of government seek additional authority and less responsibility at the same time.

As an example of this process in action, pressure on state-owned companies to show a profit or close led to thousands of plant closures and massive layoffs in China's industrial belt in Liaoning Province.¹⁶⁵ Unemployed workers would normally have received retirement or unemployment pay from their companies, but when they closed, workers were left without a way to support their families and were competing for work with millions of other workers as well as rural migrants. These unemployed filed for their unemployment benefits with governments that simply didn't have the cash to pay. Central government made unemployment compensation, a social security benefit in China, a local government responsibility when the state-owned companies defaulted on their debts or closed their doors. A cash-strapped city government became the scene of continuous public demonstrations as workers agitated for help. This action occurred in an urban setting, but similar pressures in rural towns and villages increased the spiraling forces that propelled government toward illegal sources of income and toward a burdensome indebtedness.

¹⁶⁵ Bo Xilai, the current minister of Ministry of Commerce of P.R.China, and the former governor in Liaoning Province interviewed by *Xinhua wang* (XinhuaNet) in March 27, 2007, pointed out that there were 1.75 million laid-off workers covered by unemployment insurance funds by 2004, so-called "*Liaoning xianxiang*" (Liaoning phenomenon). The same information was uncovered in the provincial government annual work report to the provincial NPC in Liaoning in Feb. 2004.

In addition to delegating tasks down through the government hierarchy, Beijing also “casts off a burden” within its bureaucracies. Agencies such as agriculture stations, veterinary clinics, agricultural technology and research stations, public health clinics were required to become self-supporting by selling their services. The farmers, China’s poorest citizens, once again were left holding the bills. Since many could not afford to pay, the agencies withered. There was no official closure, but after months or years without pay, employees just abandoned their posts.¹⁶⁶ An obvious consequence of these events was the making of lower levels of government entirely dependent upon higher: a clear reinforcement of the government’s institutional hierarchy.

Grassroots democracy

Since the mid 1980s, village committee members have been elected into office, and in the late 1990s this grassroots element of democracy was extended into township government, so that elections have been institutionalized (but not universalized) through the lowest two layers of China’s hierarchy.¹⁶⁷ The logic of the Organic Law that legitimized the autonomy of villages and the election of cadres included an expectation or hope that the resulting government would be more transparent, more honest and more likely to understand and respond to local conditions. The law says: All affairs which relate to the interests of the people shall be decided by the people

¹⁶⁶ Li and Zhang.

¹⁶⁷ O'Brien and Li.

themselves.¹⁶⁸ It would be a mistake to conclude that the Organic Law has achieved all its intended purposes, however. As a result of the Organic Law there are now three centers of power in competition in villages: The village representative assembly, which is in principle the highest decision-making body; the villagers' committee, which is headed by the villagers' committee chairman; and the village party branch headed by the village party secretary. In practice, however, the locus of power rests with either the villagers' committee chairman or the party secretary. The choice seems to hinge on the economic context in which the elections take place and which of the two appears to be most effective in bringing evidence of economic benefit.¹⁶⁹

Village committees were first mentioned in Article 11 of China's 1982 Constitution. The explanation in the constitution was that village committees were organizations of "self-management" at the village level. The liberal and statist camps are still debating the full meaning and intent of that clause. The institutional map for village self-management was further defined in 1987 in the Organic Law on Villages, but the debate about the direction and distance of the measure led to the law being released on a trial basis. The debate continued, but the law was released in final form in 1998, and again the more liberal interpretation was chosen. The debate narrowed to a choice of words about whether the relationship between a village and a

¹⁶⁸ Data source comes from the article 1 of the Organic Law of the Villagers Committees of the People's Republic of China, revised and adopted by the Standing Committee of the Ninth National People's Congress of the People's Republic of China at its 5th Meeting held on November 4, 1998.

¹⁶⁹ For a good discussion of village elections, government legitimacy and the distribution of power, see Jean C. Oi and Scott Rozelle, "Elections and Power: The Locus of Decision-Making in Chinese Villages," *The China Quarterly* 162 (2000), p.515, n 10.

town was one of “being guided” or “being led” by the town government and the party branch. In a guidance relationship *zhidao guanxi* the town and the party must rely on persuasion and assistance to carry the day.¹⁷⁰

This intrusion into the power of the party was certain to cause tensions, and such has been the case. Many official documents acknowledge the role of the party as the “leadership core” in village organizations, and the Organic Law includes a reminder that self-administration was not intended to signal the end of the party’s claim to leadership in the villages. In fact in an interesting choice of words, the party’s instructions admonish party leaders to “assure the proper functioning of self-administrative organs.”¹⁷¹ In a final note in the discussion of the Tax Sharing System, a caution was included as a reminder that the autonomy seemingly granted therein was not included out of a desire to improve villager participation, but as part of a system designed to extend hierarchical control more deeply into village affairs. Similarly, the Organic Law was seen as a way to revive state authority on the path to economic development.¹⁷²

Institutional change is rarely easy, and while peasants in some villages have taken advantage of the Organic Law to do some housekeeping by dumping corrupt and non-performing cadres, party officials have resisted this intrusion into their domains. They have often manipulated the results of elections in different ways, and have insisted that

¹⁷⁰ Alpermann.

¹⁷¹ Organic Law of Village Committee of P.R.China, the 9th Chairman Order, 3 (Nov. 14th).

¹⁷² Alpermann.

elections in rural China are premature considering the naive level of political sophistication of the electorate. And because there have been “unhealthy” clan or other influences that have dominated the process, party officials have replaced bad leaders with worse ones. These “bad elements” have been given the ability to erode the ultimate power of the party and reduce its ability to achieve its goals for China’s rural society.¹⁷³

In order to defend their turf, party leaders can influence the slate of candidates in rural elections, and in fact some of the people who have been elected to their posts in the newly established election process were party-approved incumbents. When villagers attempt to wrest control of their villages from higher levels of government or from the party, the party simply continues scheduling meetings until persuasion works.¹⁷⁴ In some places more direct manipulation takes place. For example, it is known that in small group sessions, ostensibly to teach peasants how to use their ballots, cadres identify specifically which candidates are to be voted for.

Despite these and other tactics, when voting is done through secret ballots, the voters have been known to show their independence and vote for candidates other than

¹⁷³ Wang Jingyao, “*xiangcun beijing xia de zhengfu yu cunzhuang de guanxi*” (Relations between Government and Villages under Background of Township and Village Homogeneity) (*cunmin zizhi wang* (www.chinarural.org / www.chinavillage.org, 2006); among other less savory means of controlling elections, there have been instances of elected cadres or committee members being replaced shortly after taking office, by intimidation and the use of public voting, etc., White. p524

¹⁷⁴ Zhou Yingjin and Liang Jingweng, “*ershi xiangcun xingzou jilu*” (Record of Walking into 20 Villages), (Nanjing: Nanjing University, 2006).

those anointed by the party.¹⁷⁵ Other actions included the replacement of village leaders after a brief period following the elections and adding additional people to a villager-elected village committee. A powerful tool for assuring control is in the form of official supervision. Any responsibility on the part of a village cadre can be labeled as critical and subjected to critical oversight. Control over quotas and goals means the towns can greatly influence the probability of cadre success or failure. Matters of self-administration thus become official priorities subject to higher level monitoring and control. Village leaders and village party secretaries are routinely criticized and demoted through this process.¹⁷⁶

Despite this outward “official” resistance to grassroots democracy, there is evidence that the benefits of public participation and decision-making are gaining increasing attention and influence. When the peasants have shown their discontent by appealing to higher authority or by more dramatic means such as demonstrations or uprisings, officials have occasionally made good use of public hearings to allow for venting and debate and to provide opportunities for public participation in the problem-solving process. Too often, peasants who find their way to Beijing or to an office in provincial government are simply told to take their complaints to their local officials, usually the same ones who caused the problems in the first place; but

¹⁷⁵ More detailed information about village elections can be found in Kevin J. O'Brien and Lianjiang Li, "Accommodating "Democracy" in a One-Party State: Introducing Village Elections in China," *The China Quarterly* 162 (2000). And Yu Jianrong, *Yuecun zhengzhi: zhuanxingqi Zhongguo xiangcun zhengzhi jiegou de bianqian* (Politics of Yue Village: Change of Political Structure of Chinese Township and Village during the Transition Period), 1st ed., Beijing: Commercial Press, 2001).

¹⁷⁶ Alpermann.

researchers report that interventions are becoming more common in these situations, and in some locations town meetings and hearings are more frequent than they were twenty years ago, allowing for better communications and public participation. Town and village committees and even party branches have been reported to hand some problems over to representative organizations for discussion and resolution.¹⁷⁷

Government committees and academics are currently debating the state and progress of democratization in China. Most officials and many of the Chinese people themselves consider that China will continue to need a strong government, and they cite economic and social progress as evidence of what centralized government can accomplish.¹⁷⁸ Side by side with this mainstream current, however, there is no doubt that part of the environment in China's rural towns and villages includes an awakening of the possibility that some degree of democratization is less of a threat than it had been perceived, that it can lead to benefits not previously recognized, and that in many instances the process has removed unsavory characters from public office, though sometimes one "benefit" also can be found to the power holders, who see elections as opportunities to legitimize incumbents' control.

¹⁷⁷ Zhao Shuli, "*Lishixing tiaozhan: Zhongguo nongcun de chongtu yu zhili*" (Historical Challenge: Chinese Rural Conflicts and Governance), www.china.com.cn 2004.

¹⁷⁸ China's case is not the only economic success to come at the hands of powerful government influence. The tight relationship between Japan's government and the *Keiretsu* and Korea's government and the *Chaebol* are additional examples of heavy-handed government participation in economic success.

Regional Disparity

This section contains a picture of one of China's most serious and challenging problems – regional disparity. The picture includes a large and growing income gap, but also includes natural conditions, policy constraints and demographic considerations that have combined to institutionalize poverty in most of China's western regions. This disparity was a key factor in research site selection on the assumption that where the disparity is so pronounced, capacity constraints will be more readily seen and explained.

Regional differences in rural development

Until 1978, China's rural society fell into one of three roughly equivalent layers: the well-off, the middle and the poor. The "three depends" (*san yikao dui*) characterized these groups: food depends on grain sales, production depends on loans, and living depends on government relief. The more prosperous group was typically characterized as living in a benign climate, working with fertile soil and having a dependable water supply. They also clustered along the eastern seaboard or close to large population centers. Because these regions were more prosperous, they tended to attract larger populations which meant smaller land holdings but with higher productivity, and they had better developed transportation facilities.

Prosperity begets prosperity, so these regions also developed in diversified ways with cash crops, animal husbandry, and local industries and businesses. In these areas, diversity was viewed as naturally favorable to local economies. During China's

planned economy, however, these regions were squeezed to provide grains and other foods to assure a ready supply of low-cost food in the nearby urban areas, which meant that prices paid for the crops were intentionally depressed and peasant income was kept at lower levels. The resulting economy really provided no incentives for peasants to increase productivity, and neither did the system encourage the middle and poorer levels to aspire to increased prosperity. There wasn't much of an income gap dividing the more prosperous from the poorest commune teams.¹⁷⁹

Another feature of government strategy in those days came from Mao's insistence on balancing the regional economies. This really meant that the east was helping support the west. The uniform price system, for example, meant that farming supplies sold at the same price whether your farm was next door to the factory or in the remotest hillside in Sichuan province. The reforms that began in the late 1970s represented a shedding of the "golden hoop" on the eastern region – not only permitting but actually encouraging rapid unbalanced development and developing policies and assigning resources to support it.¹⁸⁰

Consequently, after 1978 the regional picture changed quickly and radically. With many types of rural reforms, including such measures as raising the prices paid for grain, huge numbers of peasants were raised above the poverty level; but the

¹⁷⁹ Du Rongsheng, "Du Rongsheng Zishu: Zhongguo Nongcun Tizhi Biange Zhongda Juece Jishi" (In Du Rongsheng's Own Words: An on-the-Spot Report of Major Issues of Chinese Rural System Reform) (Beijing: People's Publishing House, 2005).

¹⁸⁰ This refers to "the incantation of the golden hoop" in the classical Chinese novel, *Journey to the West*. In the story, the Monkey King wears a golden hoop around his head, which his master can tighten by reciting an incantation, causing his disciple insufferable pain. Dali Yang, "Patterns of China's Regional Development Strategy," *The China Quarterly* 122 (1990).

transition did not affect all geographic regions equally. Rural prosperity came quickly to the coastal area, but has yet to arrive in the remote rural west. Between 1978 and 2001, the rural poor population decreased by 220 million, mostly in the eastern provinces. Of China's 2,109 counties, 592 are officially designated as poor, roughly 28 percent of the total. Only 13 percent of eastern counties are so designated, 20 percent of the central counties and more than 40 percent of western counties. These poor counties are typically mountainous, characterized as having poor growing conditions and weak infrastructures and an endless cause-effect poverty cycle.¹⁸¹

It is worth noting that after implementing "help-poverty in development" measures (*kaifashi fupin*), peasants' income in western China has increased, and some peasants have been raised out of poverty, which stimulates the growth of population in the west, and has begun creating a market. On the other hand seven of the twelve western provinces had a higher population growth rate than the average level for the country in 1998. The population growth has worsened the fragile local environment, so the situation is viewed as a serious problem in which some peasants once lifted out of poverty are falling back into it. In Qingba mountainous area, a World Bank poverty alleviation program raised 8 percent of the peasant households out of the poverty level while at the same time 11 and a half percent were dropping

¹⁸¹ Kong Xiangzhi, ed., "*Zhongguo sannong wenti baogao*," (2005 Report of the Prospects of China's Three Dimensional Agriculture issue) (Beijing: Time Economy Press of China, 2005).

back.¹⁸²

Some researchers have categorized rural China in three regional divisions: First, China's northeast provinces including Heilongjiang, Jilin and Liaoning. Liaoning draws special attention for having long been the industrial hub of China. This uniqueness was not lost on the Japanese occupation forces or the new Communist regime in China, both of which left the region relatively intact, dominated by heavy industry and geared toward the large scale extraction of raw materials and the production of industrial goods and materials. Liaoning's development model parallels the Russian and Eastern European path and was hardest hit by the massive restructuring occasioned by China's economic reform when state-owned companies were reorganized to become more efficient during the late 1990s.

The second region includes the seven coastal provinces: Hebei, Shandong, Zhejiang, Jiangsu, Fujian, Guangdong and Hainan. Rural incomes in this region are well above the national average and have been rising since the reform. The development model most in evidence in this region includes rural industry as its centerpiece, which has become a significant factor in the region's and China's exploding economy, and thus a primary cause of the rising income gap that is now

¹⁸² Wang Guomin, "Zhongguo xibu diqu pinkun yu fan pinkun yanjiu - jiantan xibu diqu nongcun xiaokang shehui jianshe de jianjuxing" (Rural Poverty and Anti-Poverty in the Western China Study - Difficulty in Building Rural Well-Off Society), *Sichuan daxue xuebao* (Academic Journal of Sichuan University), June 2003.

creating problems for China's government.¹⁸³ The industrialization that has been so successful in this region has been observed to be often rooted in local markets, linked backwards to agriculture and forward to nearby final users in the major population centers around Hong Kong and Shanghai.¹⁸⁴ This observation does not bode well for the western region where much of agriculture is basic and where there are few traces of a real market except immediately surrounding the large population centers.

It should also be noted that the coastal region benefits from another factor, its proximity to China's major ports, which places it within reach of neighboring as well as global markets. And finally, the eastern region benefits from incoming foreign investment which was congregating near the finance centers and developing a critical mass of networked suppliers. The benefits to this region's peasantry follow several discernible patterns: rural economic knowledge diffusion, industry development, cooperatives, and participative decision-making, as well as business contributions to society. This model works equally well for small farms that can achieve commercial success in niches (e.g., chickens and fish ponds) and in using alternative sources of income in the nearby cities and factories, in their village industries or in their own businesses. When they lose interest in their lands, the lands can be successfully

¹⁸³ Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999). p.200; (OECD, 2002, p.88) TVEs created 83 million new jobs from 1984 to 1996, i.e. 7 million per year, and were a major channel for shifting labor from the agriculture to the non-agricultural sector. In 1996, TVE employment peaked at 135 million. In 2004, the number was nearly 139 million. Due mainly to the development of TVEs, the share of rural household income from non-agricultural activities has increased from just 22 per cent in 1990 to 43 per cent in 1999. See also data from the Ministry of Agriculture of the Peoples' Republic of China at www.agri.gov.cn.

¹⁸⁴ Jon. Sigurdson, *Rural Industrialization in China* (Cambridge: Harvard University Press, 1977). p.214.

merged into large-scale, mechanized farms, either by town or village enterprises or by hiring managers and work teams.¹⁸⁵

The third economic region includes six central and twelve western provinces, and it is in these provinces that poverty is more widespread and more resistant to improvement. Secondary and tertiary sectors employ between 30 and 40 percent of the population, which is good, but not enough to handle the excess rural labor that attends poor farming conditions. Investment in this region was favored during two

periods, the first four five-year plans and the Western

Development Strategy that was

launched in 1999 and continues

to this day. None of the

investments appear to have had

any significant effect on farmers'

life because the projects were not

well linked to the agriculture economy. The projects consisted mostly of enormous

infrastructure projects which created temporary jobs and improved transportation, but

although they may ultimately benefit the region, they have not yet touched the poor

villages. Rural tax reform begun in 2004 is showing early signs of making a

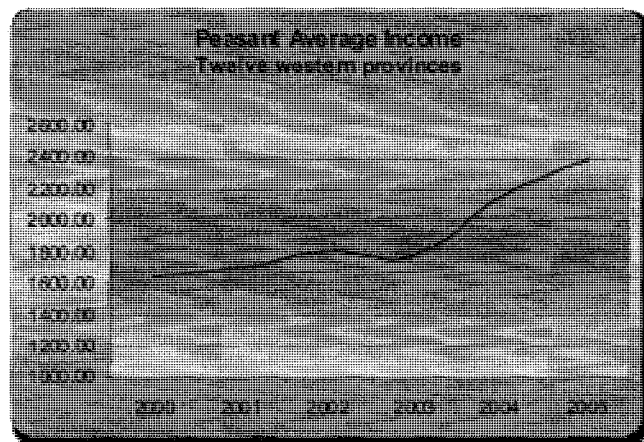


Figure 4-2 Source: 2006 Annual Yearbook, Chinese National Bureau of Standards

¹⁸⁵ "Zhejiang minqi canyu xin nongcun jianshe de liuzhong moshi," (Six Patterns Private Business in Zhejiang Participates in Building New Countryside), *shichang bao* (Market), August, 7th. 2006.

difference, assuming the gains are not lost elsewhere as earlier discussed.¹⁸⁶

There is a systematic institutionalization of poverty in the west: no investment because there is no market therefore investment in rural industry is risky, therefore the transportation network hasn't been developed, therefore . . . etc. This goes on and on to such endless "cause-effect" circles. In classical economic terms, except for very small niches, it has thus far been impossible to either discover or develop a comparative advantage in these regions. Rural western China has consequently been an inhospitable place to invest and live.¹⁸⁷ And we should keep in mind our four cases among eight came from the west, one in Sichuan (Southwest) and another in Gansu (Northwest). Although some parts of the area are rich in mineral deposits, exploration and mining are risky and expensive and transportation is expensive, so although the western region has mineral wealth, it has been out of reach of local governments or businesses and has remained a state- explored, developed and managed resource that is not substantially helping the local economies. For most of the last almost 60 years, western mines have been subject to state extraction to favor industrialization on the east coast. The poverty cycle is as pervasive and institutionalized as the prosperity cycle has become in China's coastal rural regions.

¹⁸⁶ Hui Liu, "Changing Regional Rural Inequality in China 1980-2002," *Royal Geographical Society* 38, no. 4 (2006), Mu Jia, "Why It Is Difficult to Make Western People Well-Off When the West as a Region Gets Richer - Dr. Liu Yansui in the Chinese Academy of Science Talking About the Puzzles of Western Agriculture," *Zhonghua gongshang shibao* (China Business Times) 2003.

¹⁸⁷ Mu.

Underlying causes of regional differences

One of the most frequently raised questions in regional research concerns the causal factors for regional disparities. Some scholars argue that the main characteristic of Chinese regional disparity is that it condenses regional and rural development in the same context. "By and large, poor regions are rural, while prosperous regions are more urbanized and have a high proportion of industry and service sectors."¹⁸⁸ Since the increasing development gap between east and west is now viewed as one of the Chinese government's most serious challenges, much research is in progress on various aspects of this issue, and several themes are emerging from the literature. First, many studies emphasize the role of the economic structure and policies, and especially the concentration of state-owned enterprises (SOEs) and the openness of the provinces to external trade."¹⁸⁹ Secondly, studies have correlated the obvious geographical and geophysical factors (such as distance to seaports, difficult terrain, altitude, and climate) as affecting regional development

¹⁸⁸ Gerhard K. Heilig, "Sustainable Regional and Rural Development in China: Where Do We Stand?," (Laxenburg, Austria: International Institute for Applied Systems Analysis, 2003); Li and Zhang.

¹⁸⁹ Jahangir Aziz and Christoph Duenwald, "China's Provincial Growth Dynamics," (Washington, D.C.: International Monetary Fund, 2001), Jian Chen and Belton M. Fleisher, "Regional Income Inequality and Economic Growth in China," *Journal of Comparative Economics* 22, no. 2 (1996), Belton M. Fleisher and Jian Chen, "The Coast-Noncoast Income Gap: Productivity, and Regional Economic Policy in China," *Journal of Comparative Economics* 25, no. 2 (1997), Wencong Lu, "Chinese Agriculture after the WTO Accession: Competitiveness and Policy," *Quarterly Journal of International Agriculture* 40, no. 3 (2001), Wencong Lu, "Effects of Agricultural Market Policy on Crop Production in China," *Food Policy* 27, no. 5-6 (2002).

disparities.¹⁹⁰

Many of China's rural areas are land-locked, such as the large agricultural basin of Sichuan and the agricultural areas at the upper and middle reaches of the Yellow River. They are far from potential markets. Many rural areas in China are characterized by arid or semi-arid climates or are at very high altitudes. Some argue that these natural factors can explain most of the regional development disparities in China. A third line of inquiry explores demographic and social driving factors such as the rural population structure, as well as studies of migration and migration networks. The basic idea of this line of argument is that human resources in lagging rural regions are usually not well developed and thus perpetuate underdevelopment. In the end, Gerhard Heiling condenses the disparity issue as a problem of distance, not only geographic, but cultural, social, economic and political distance.¹⁹¹

Finally, it is not possible to overlook China's development policy as a major contributor to regional development disparity. This includes policy on state investment, industrial development and distribution, and political-economic decisions regarding extraction to support urbanization and industrialization, primarily along China's east coast. There were differences in fiscal management (taxation and tax

¹⁹⁰ Shuming Bao et al., "Geographic Factors and China's Regional Development under Market Reforms, 1978-1998," *China Economic Review* 13 (2002), Sylvie Demurger et al., "Geography, Economic Policy, and Regional Development in China," (National Bureau of Economic Research, 2002), John Luke Gallup, Jeffrey D. Sachs, and Andrew Mellinger, "Geography and Economic Development," *International Regional Science Review* 22, no. 2 (1999), David S. G. Goodman and Royal Institute of International Affairs., *China's Regional Development* (London ; New York: Routledge for Royal Institute of International Affairs, London, 1989).

¹⁹¹ Heilig.

holidays), and key differences, as previously discussed in investment in social programs such as education and public health.¹⁹² Such disparities were anticipated by Deng when *kaifang zhengce* (opening-up policy) began.¹⁹³

Regional Development policy

Before the 1980s there was an egalitarian drive to limit the regional income gap, and the timing, sequence and direction of state policy was mainly focused on balancing provincial economies. After the first four five-year plans the share of central and western regional economies had grown considerably and the gap between east central and west had dropped somewhat. For example, in 1952, the per capita income in the east was 2.19 times of that in the west, but in 1978, the gap was reduced to 1.95 times.¹⁹⁴ In real income terms, the gap narrowed even further. With the onset of economic reform this strategy gave way to a goal of rapid economic growth and economic and fiscal policy shifted to favor the eastern region.¹⁹⁵ In the third five-year plan (1958-1963) the eastern region's share of investment in fixed assets was 26.9 percent of the total, but in the eighth five year plan (1990-1995), that investment had risen to 54.2 percent – the highest share of any region in any period. In the meantime, investment in fixed assets in the western region fell from 34.0 percent down to 14.7

¹⁹² OECD.

¹⁹³ "Growing out of the plan: Chinese economic reform, 1978-1993," by Barry Naughton, Cambridge: Cambridge University Press 1995.

¹⁹⁴ Li and Zhang. p.80-81.

¹⁹⁵ Nicholas R. Lardy, "State Intervention and Peasant Opportunities," in *Chinese Rural Development: The Great Transformation*, ed. William L. Parish (Armonk: M.E. Sharpe, Inc., 1985). p.33; Aziz and Duenwald.

percent, the lowest since the communist takeover.¹⁹⁶

As a draw for investment, both SOEs and non-state enterprises do significantly better along the coast than in the center or west in terms of profit to investment ratios and asset to liability ratios. These translate to higher value added in production. With other important advantages, (proximity to markets and ports and so forth), it is not surprising that the eastern economy grew quickly. An additional boost came in the form of trade zones where the east had the highest number of open cities and industrial zones. The resulting liberalization of trade and investment created opportunities for international trade and cooperation. It remains to be seen whether the economic fortunes of the different regions are path dependent, driven toward different steady states already set in concrete, or whether the patterns of development can be guided toward some degree of national convergence. However, the considerable investment in the rapidly maturing eastern economic zone continues to fatten the income gap and shows few signs of reversing itself.¹⁹⁷

In 1980, the average peasant income in the west was ¥47 below the eastern region. By 1995, the difference had grown to ¥954, and by 2005 was ¥2,713.¹⁹⁸ As an example if we look at Guizhou (W) as representing the lower income, Hubei (C) as middle level income and Shanghai (E) as the highest income, the ratio of per capita peasant income in 1985 was 1:1.46: 2.80. In 1998, it became 1:1.63: 4.05; and in

¹⁹⁶ OECD.

¹⁹⁷ Ibid. Table 21.4

¹⁹⁸ Data source comes from the yearbook of China's National Bureau of Statistics, 2005, available from <http://www.stats.gov.cn/english/>.

2005 the ratio increased still more to 1:1.65:4.39.¹⁹⁹ In February, 2007, a spokesperson from the National Development and Reform Commission announced that the gap widened again in 2006 despite government attempts to reverse the trend.²⁰⁰

The development formulas that worked in some places simply could not work in others. Some towns and villages spent heavily to attract investment and industries into areas that did not have the market to support them. In many cases the spending created massive debt burdens. These localities ended up totally dependent upon extra-budgetary revenues, which led inexorably to the illegal taxes and fees and land seizures and speculation over which the peasants increasingly expressed their anger in the streets. The staging of fiscal and market reforms were not well coordinated. At the same time as tax reforms were making life difficult in many towns and villages, state-owned companies were cut off from government support, either to become profitable or close. Thousands closed, leaving millions looking for work. The government was going ahead with marketization and “eating from one’s own kitchen,” and in rural areas this meant that central support for schools, public health and social security dwindled and ultimately dried up. It was another occasion for the towns and villages to begin charging fees to those least able to afford them.

China’s banking industry was involved in the thick of these reform problems. At

¹⁹⁹ Ibid.

²⁰⁰ Xinhua News, “*caifu chaju renzai zengzhang*,” (Wealth Gap Continues to Rise), Feb.2007, available from www.chinaview.cn.

the beginning of reform, local banks were subject to the control of the party. Bad loans were routinely made to state-owned companies that were not profitable, and also to help the poorer towns and villages meet their obligations. By the time the banking system was reorganized, the threat of collapse was very real as the system was loaded with non-performing loans.

It should be said that much of what happened during this economic reform was probably inevitable, given the circumstances. In a socialist planned economy, a factory has no profit responsibility, but it must be responsible for creating jobs and for furnishing homes, education, medical care and retirement benefits. Factory managers were responsible not to a profit-seeking board of directors but to the party, which took cradle-to-grave responsibility for all its citizens, including their gainful employment. Factories were routinely required to hire above their needs. Banks also carried not only financial but social responsibility, which meant that helping to keep factories and towns afloat was a reasonable request from a party secretary. As understandable as these conditions seemed, the end result created problems for everyone in rural areas except in those regions where rural industry and marketization delivered the money and jobs necessary to fund the beginnings of a generalized prosperity while keeping local jurisdictions afloat.

The most important contributor to the problems confronting China at the end of the 20th century was regional disparity and the unacknowledged capacity differences of towns and villages as they tried to cope with the changing political-economic

environment, though unequal development was a conscious political decision to jump-start the new economy.²⁰¹ The productivity of the land, the climate, and the market combined to create large differences in economic growth and the tax base. The development formula that worked well in some regions didn't have a chance in others. The situation was made worse because few faulted the plan or the system but instead blamed the lower levels of government or the lazy northern (western) peasants.²⁰² In a plan to push local governments to higher levels of achievement, incentives and rewards went to those who accomplished the most instead of to those who needed it the most, assuring a widening gap between the haves and have nots. Unrealistic quotas heaped insult on injury, requiring additional spending. The symptoms were appearing in poor remote rural regions and the assumption was made that the problems were being initiated there also. When the tax sharing system funneled increasing resources upstairs, the transfer system had not been developed to move money where it was needed most but was based on rewarding local revenue growth as described earlier. The cost of local incentives for prosperous communities was paid by China's poorest communities and people.

Differences in social programs

Borrowing the theme of *Cannikin Law* or *bucket effect* of American management to match with the focus of the current policy mainly on reforms, rural development capacity will not be decided by the situation in the east coast and prosperous areas

²⁰¹ Barry Naughton.

²⁰² Chinese common views - prejudice.

close to big cities but will be limited by the situation in less developed and remote areas. For such reason, we give much attention to the west region.

Although the Chinese government has paid attention to the development of human resources in the western region, where the improvement rate of indices of human resources is generally higher than that of the national average, the large disparity of human resource development before the party took control of the government, and the other social economic factors before and after the launch of economic reform, mean that there are still large differences in the social development of the western region compared to the nation as a whole. For instance, the population of the western region represents 27 percent of the national total, but it has approximately 54 percent of all illiterate.²⁰³ As previously discussed, after gains during the Mao era, this condition took a turn for the worse when local governments lost the income to fund education and public health programs. These are now in the process of being restored.

The western region is also underdeveloped in scientific and technological capabilities. The development of education, and particularly with capabilities in science and technology, enhance human resource development. Improvements in the quality of the labor force are essential elements for the development of the western region. A World Bank Report on Gansu province pointed out that "Increased labour mobility and rapid change in the structure of employment in Gansu will depend

²⁰³ Source: the yearbook of the National Bureau of Statistics.

greatly on improvements in basic education ... Most important of all, however, is the need to improve the qualification of teachers...²⁰⁴ This comment is valid not only for Gansu province, but also to other provinces and autonomous areas of the western region.

There are cultural issues that are affecting western development as well. Western peasants still place a higher value on male children because of the harsh farming conditions and weak social security support. There is a resulting gender imbalance in western regions. Peasants also equate larger families with happiness, *duozi duofu*. The large and still growing population of China is one of its most serious problems, making tensions between the people and the environment more acute in many different ways: taxing the productive capability of the land, stressing the environment, adding to water and air pollution, and taxing energy and other living resources. Eager for a share of China's prosperity, many have over-farmed, converted wetlands to farms, clear cut forests and mismanaged resources and wastes. These are not theoretical forecasts but grim reality, making life worse today in many poor areas. And finally, many peasants are still locked into their ancestral homes, ways and superstitions that prevent them from understanding or consenting to improvement measures. Many are ill-equipped for the modern business world and markets, which means that even the poverty-assistance loans become useless in their hands. Some Chinese scholars sadly conclude that perhaps many of the poor western peasants are giving about as much as they can. In terms of development theory, peasants work as hard as necessary to

²⁰⁴ World Bank, China: Growth and Development in Gansu Province (World Bank, 1988).

assure survival, but no harder because the work is difficult, the conditions harsh, and the rewards meager. These conditions drastically affect what local cadres can do and how they work.

The Changing Nature of Local Government

Overview

With the advent of the household responsibility system, town and village organizations were originally intended to just carry out administrative functions, but it did not work out that way. The leaders of the collectives became the leaders of economic life under the new system.²⁰⁵ Households did not get the freedoms they were intended to get – the collective elites became the new political elites and maintained control of grain and cotton production quotas, birth control, taxes, and state monopolies of supplies and services. They also had great influence with rural entrepreneurs in non-agricultural businesses by virtue of their connections and power over most aspects of community life.

New economic elites needed support from local cadres and therefore developed relationships to assure that support. At the same time, new cadres stayed close to wealthy farmers and private business persons. The relationships so cultivated

²⁰⁵ Jean Chun Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government* (Berkeley and Los Angeles: University of California Press, 1989). In 1989 Victor Nee launched a lively debate in the sociological literature by claiming just the opposite. He predicted that the growth of a private economy would create new elites and erode the power of the previous “redistribution” cadres whose skills were no longer needed. Victor Nee, “A Theory of Market Transition: From Redistribution to Markets in State Socialism,” *American Sociological Review* 54, no. 5 (1989). O'Brien and Li, “Selective Policy Implementation in Rural China.” P168

facilitated the work of government and improved the environment for business. Unfortunately the environment also created conflicts of interest. Many town and village cadres become managers of enterprises, and depending on the fate of the businesses, many left government to become entrepreneurs, the new economic elites. As a result of these behaviors, it is not always possible to know where cadre loyalties lie. They walk a fine line, conscientious about their duties as agents of the central government at times, as agents of the population at other times, and sometimes as aggressive guardians of their personal interests, always testing the changing directions and limits of policy. This is the rural implementation environment described for us in the 1980s.²⁰⁶

Beginning in the 1990s, more research focused on Chinese local administration and policy implementation. Among the findings are that some cadres conscientiously enforce unpopular policies while refusing to carry out other measures that villagers would welcome. Rural leaders sometimes even warp a well-liked central policy, such as economic growth, into a harmful “local” policy that justifies wasteful investment and increased extraction. The center has structured the implementation environment deftly in some respects by establishing inducements and sanctions that spur grassroots cadres to go to the wall for certain policies; but on other occasions an inability to foresee the local reaction to central plans has left street-level bureaucrats with enough

²⁰⁶ Louis Putterman, *Continuity and Change in China's Rural Development - Collective and Reform Eras in Perspective* (New York: Oxford University Press, 1993).

discretion to distort policy and bend the law.²⁰⁷

The role of the party

It would be tempting to say that during the half century since the communist party assumed control of China's government, the role of local government has been evolving. In reality that role has not so much evolved as it has frequently and with difficulty shifted in the hunt for a moving target. The one constant is the party, a ubiquitous presence that is a source of both inspiration and frustration. The party is not easily understood when it is filtered through a western paradigm, but it should be recognized not as a separate organization with its own agenda, but as an integral part of government that extends leadership, teaching, support and monitoring throughout the government's hierarchy. China's agenda is determined by the party. Many government officials are also party members, including virtually all the key leaders; and there is an internal division of labor characteristic of mature organizations. The party is not a voluntary club with more influence than it should have, but a carefully vetted membership indoctrinated for loyalty and trained for leadership. Westerners may believe that local governments will never achieve autonomy because of the ubiquitous presence of the omnipotent communist party.²⁰⁸ Chinese believe that if their local party secretary is well connected, his influence brings autonomy to the town or village in his or her stewardship.

Mao was accustomed to referring to China's population as a blank sheet of paper.

²⁰⁷ O'Brien and Li, "Selective Policy Implementation in Rural China."

²⁰⁸ Brown. p.32-34.

On that paper, the “party of the people” would write China’s destiny. One of the problems with that metaphor is the pressure it applies to party elites who must always know what to do. The early reliance on Marxist-Leninist-Maoist models of societal engineering came to a fitful end with the dissolution of the Soviet Union, though China’s early experiments with communes gave the party a glimpse of what was coming. Socialism appears to work, but it is not yet known whether communism can work.

The significance of that reality is that except for the European model of socialism, China’s communist party doesn’t have much of a roadmap; and China’s current government is consequently still engaged in a grand social experiment. Communism as a socio-economic theory today looks more like a treasure map of dubious origin than a workable plan. The party leadership has been working for almost sixty years to find the right path to communist nirvana, but the trail has often seemed to peter out; and it is local government, at the front lines of the struggle, that has found the going roughest as the party gropes for the one best way. Local cadres are always tied to the goals of the party-government on the one hand, and constrained from achieving those goals by their own socio-economic conditions on the other. The party has never disavowed its goal of creating a Marxist-Leninist-Maoist communism, but for the last three decades, the term *socialist* has more frequently been used in speaking of grand strategy in China than has *communism*.

The changing face of rural China

During the collective era, the production team was the owner of the land and all its output. The production team leader was the ultimate authority in a system that scheduled the work of team members, determined their compensation, allocated task quotas, controlled farm supplies and distributed the revenues. Jean Oi called them the “gatekeepers of opportunities and resources for the team and all its members.”²⁰⁹ The team leader was almost always a member of the Communist Party. There were sometimes elections, but there was only one candidate who was picked by the next higher levels. Their loyalty was assured because their fortunes were tied to the party and to the collectives.²¹⁰ Even though village cadres are not on the government payroll and are not government employees, they are key street-level administrators and leaders, important for the dissemination and enforcement of policy. They receive small salaries from their villages, but they are expected to perform gainful work on their farms or in other endeavors as the primary source of their family’s income.²¹¹

As the trappings of the planned economy dwindled, the need for marketing savvy increased, and it was the town and village cadres who had the organizational skills and networks to nurture the developing market system. Except in local markets there was no way for households to sell their produce into mass markets individually. It required some degree of amalgamation and sales planning. The diffusion of technology and the

²⁰⁹ Oi and Rozelle, "Elections and Power: The Locus of Decision-Making in Chinese Villages."

²¹⁰ Ibid.

²¹¹ J.C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999).

availability of mechanization also required organization and knowledge beyond the ken of the average peasant. These skills and resources were already well established among the town and village cadres.²¹²

On the other hand, as the market matured, the heavy hand of local government became less and less relevant to the economic life of rural China in some ways. County governments had been extending their organizations to grassroots levels through administrative and institutional functions such as technology bureaus, further diminishing the relevance of township government. The Organic Law of Village Committees provided additional impetus for change as many administrative functions became the responsibility of the village assembly and the village committee.²¹³

The management of lands became an important study in cadre leadership that showcased both their abilities and shortcomings during the two decades following reform. The first change arrived on the wings of the Household Responsibility Contract System (HRCS) which took root and gained momentum in the poor agricultural provinces of Anhui, Sichuan, Guizhou and Inner Mongolia. Many credit China's farmers with the creation of that approach to farming, but few recall the vital role played by local governments in the institutional change the household responsibility system represented. Cadres took significant political risks by going along with peasant initiatives in that direction, closely analogous to the black market in a socialist world where property ownership is considered a source of evil. They

²¹² Ibid.

²¹³ Xiao and Li.

began by keeping this underground movement in the shadows, then gradually began negotiating with higher levels for more maneuvering room.²¹⁴

From the cadre perspective, this was not an altruistic plan to set the peasants free, but the result of a cost-benefits analysis. In the poorer regions especially, meeting quotas was a challenge, the threat of natural calamities was always present, and the risk of famine was always just over the horizon. Cadres were desperate to find new approaches, and they came up with several. The household responsibility system boosted grain supplies by increasing the productivity of the land. Much to the credit of the central government, this was not an initiative that resulted in disgrace for the innovators, but quickly became central policy as the benefits became apparent.

As the collectives were disbanded, the original plan to dispose of the collective lands was to distribute them equitably to the members of the collectives who would then take responsibility for their productive use. The plan also called for periodic re-distribution as families grew or shrank – a requirement that soon proved unwieldy beyond reason. The changing rural economy created land management issues that continued to test the abilities of local cadres.

One of the problems that needed a solution was the issue of abandoned lands. Because of such conditions as low prices, poor soil, and bad weather, peasants in some areas had found farming increasingly unreliable as a way to support their families. Many left their fields to find work in the factories or mines. In some cases the women,

²¹⁴ Oi, Jean C. "Two Decades of Rural Reform in China: An Overview and Assessment." *The China Quarterly* 159, Special (1999): 616-28.

elders and children tried to keep the farms working. In other cases the lands were simply abandoned. The expenses and taxes associated with farming (recall the extra taxes and fees that became popular during this period) left little to support a family. Despite these conditions, cadres were still responsible for attaining town and village quotas, so they needed to keep all the arable lands in production. As an example, one solution to this problem was known as the “two field system.” A certain amount of property was designated as “grain ration” fields and the rest as “responsibility fields.” Together these fields represented all of the local arable land, but were treated differently in the administrative system. The grain ration fields were allocated to food security and farmers paid only the agriculture tax. The responsibility fields were placed into production under contract, which meant the fields could go to anyone willing to pay the fees which included all taxes and village fees. This meant that lands could be combined into large-scale farms suitable for mechanization, usually professionally managed and run with contract labor. By 1994, 43 percent of all of China’s arable lands were being managed under the two field system.²¹⁵

As with many such systems in China, there were those cadres who saw an opportunity in the system and who began to increase the percentage of land that was designated as responsibility fields. In so doing, town and village governments increased their income from fees at the expense of peasants whose land use rights were constantly diminishing. The system was eventually abolished. There were other

²¹⁵ Chen Tianbao, Xu Huiyuan, and Pang Shoulin, “*nongcu tudi zhidu biange zhong de difang zhengfu xingwei fenxi*” (Analysis for Local Governance in Transformation of Rural Land Regulation), *nongye jingji wenti* (Issues in Agriculture Economy) 25, No. 1 (2005).

such systems that rose and fell during this period, depending upon conditions in each region. The relevance of these cases lies in what they say about local cadres. Most people are aware of the illegal taxes and land seizures at the hands of town and village cadres, but few know of the initiatives, innovations and administrative skills that were part of the daily lives of local communities; and fewer ponder the relevance of the central government's willingness to investigate, negotiate and experiment with grass roots solutions.

Funding local governments: history of trouble

At the beginning of economic reform, the slate was clean in China's towns and villages. The collectives, TVEs and state-owned industries had either made money or had received subsidies. Urban and rural areas, though separately managed, were roughly equal, as were east and west. The flow of revenues was a well-developed part of the system that was the planned economy. There were many abuses of power in the form of favoritism, but the rural community was relatively free of major acts of corruption. The dissolution of the collectives shook loose most of the controls and moral webbing that had kept people largely honest during the Mao era, however; and as the new economic institutions began to take shape, the tug-of-war between central government and locals over tax revenues led to the institutionalization of new kinds of official dishonesty. Furthermore, the upward flow of taxes and the downward flow of work in the hierarchy created extremes of pressure on cadres who were required to fund their own operations, as we have seen.

The Mao era was characterized by false reporting as cadres at all levels strove to stand out and to outdo each other. This was a habit that was difficult to shed as China worked itself away from the planned economy.²¹⁶ Stressing the importance of quotas can stimulate motivation to perform. A zealous approach to unrealistic quotas, upon which are dangling incentives and bonuses, however, creates an irresistible urge to doctor the reports. This problem became an everyday reality in China and remains so to this day. In February, 2007, a rural official was asked to explain a discrepancy between locally-derived statistics about rural residency and official reports from the National Bureau of Standards. The official replied that any resemblance between the truth and their reports was coincidental.²¹⁷ Townships are not asked to report their numbers, they are told what numbers to report.

Township governments have tripled in size since the mid 1980s, even though they were initially seen as expendable. The increases have come at the hands of higher level requirements, still adding costs without generating revenues. In some townships these conditions have become sufficiently severe as to create serious motivation problems among township cadres. There is no visible solution to the poverty issue, to the large debts and to the bloated bureaucracies with which they must grapple. They

²¹⁶ Yongshun Cai, "Between State and Peasant: Local Cadres and Statistical Reporting in Rural China," *The China Quarterly* 163 (September, 2000).

²¹⁷ China's National Bureau of Standards openly acknowledges the problem with administratively reported data. They have been at work to supplement their reports with more accurate sampling statistics from qualified observers and to make use of statistical evaluation techniques to constantly improve their results. The problem is a complex one, however, and there will not be any quick remedies. Thomas G. Rawski, "What's Happening to China's GDP Statistics?" in *China Economic Review Symposium* (Department of Economics, Pittsburgh, PA, 2001).

face pressure from above and resistance from below, and many have made personal survival their highest priority. While they profess to have faith in and admiration for China's economic recovery, they see no tangible reasons for hope for themselves and for the citizens they represent.²¹⁸

With the implementation of new socialist countryside plans, local salaries and education and part of public health expenses are being picked up by higher levels. The agriculture tax has been abolished, at least for the present, as have most fees the peasants have been paying, as previously discussed. Property rights have been strengthened, and well publicized to make it more difficult for cadres to take property illegally. Subsidies to peasants to alleviate poverty are no longer distributed through the hierarchy where the funds could be diverted to other purposes, but are now going directly to peasant accounts. All these changes are making a difference, and peasant incomes took a leap in 2006. The peasants are still losing ground in the income-gap battle, though the rate of income increase has been growing.²¹⁹

The work in the towns and villages

In addition to the general responsibilities for the political economy, township cadres have three major tasks: the first is *kou zi*, being in charge of a specific area of responsibility such as agriculture, forestry, water resources, education and public

²¹⁸ Zhao.

²¹⁹ Data from the 2007 yearbook of National Statistics Bureau: for three years during 2004 to 2006, per capita peasant income has risen more than 6 percent (6.8%, 6.2% and 7.4% respectively). The rate of per capita income of urban to rural residents in 2004, 2005 and 2006 is expressed: 3.21:1, 3.22:1, and 3.28:1. The absolute income difference between urban and rural residents was ¥8,172.

health, etc. The second is in the nature of special projects, such as eliminating illiteracy, supervision of critical projects, such as institutionalizing compulsory education, periodic census, and emergency management, and the third task is related to the supervision of the town's villages (*baocun gongzuo*). Each village is assigned one or two township cadres to assist party leaders and the village committees in the overall management of each village. They help supervise and manage the "hard" tasks of the village cadres, such as the family planning quotas; and they help villagers identify and apply for special project funding. They are also active in dispute resolution. One popular saying that describes township officials' work states, "there are many departments that can make policies, but there is only one that implements all of them at the bottom" (*shang you qianqian xian, xia you yigen zhen*).²²⁰

Salaries for township cadres are low: it is not unusual for a college-graduated public servant with twenty years on the job to be earning only ¥500 per month with eligibility for another ¥100-¥200 in bonuses. Nor is it unusual for cadres to receive no pay during the last three or four months at the end of each year. Out of this meager income, cadres have mandatory "donations" that can total up to two months' pay. Typical donations include support for a laid-off worker fund, support for a party school, support for infrastructure construction and maintenance. They are often required to pay their own way to mandatory conferences or training. There is required reading in newspapers and magazines for which they are billed, and they must also cover the price of the subscriptions for the village cadres for which they have

²²⁰ Cai.

responsibility. They have also regularly been required to contribute when their organizations cannot meet their revenue quotas.²²¹

Under these circumstances it is not surprising that for many township officials, a county job or salaried position with other agencies is the most desirable career outcome. These higher level and agency jobs come with lighter and less frustrating duties, higher salaries and bonuses, and better working conditions and other job benefits. Another escape hatch is to affiliate with or turn to private business or explore new business ventures of their own. “While necessary for proper implementation, attention to basic requisites is not sufficient to ensure proper policy outcomes. An additional problem must be taken into consideration: the way the bureaucratic environment surrounding the policy process affects how officials carry out their tasks.”²²²

The village organization is the cornerstone of grassroots political power - it links upward to the government, downward to the villagers. State and party policies are carried out at the village level. The quality of the village organization directly impacts consolidation of grassroots political power and rural stability and development, and the furtherance of state goals of stability and prosperity. In the early years of economic reform, village cadres still retained control over the allocation of some key inputs, such as fertilizer, insecticides, farm services and land. But as input and service markets have gradually matured in China, this control has waned in influence. The

²²¹ Xiao and Li. p.56.

²²² John P. Burke, *Bureaucratic Responsibility* (The Johns Hopkins University Press, 1986). p.83.

major exception is land, as previously discussed.²²³

Eighty percent of the daily work of village leaders is taken up in tasks assigned by the township. The balance of cadre work is taken up in production management, conflict resolution, and offering technical advice and services to the villagers. Some rural villages have reached higher levels of autonomy than others, and the difference appears to lie in the degree of local industrialization. Local governments that are sustained mostly on agricultural output have largely remained poor. Those villages that are better funded have attained that status because of the tax revenues and other benefits of local industries. The industries consequently have bargaining power, as do the villages in which they work. The difference has affected the condition of the infrastructure, including roads, schools, mechanization, irrigation and other public goods as well as public services such as social welfare (public health and education et.).²²⁴ Town and village cadres are rarely credited with the sweeping changes that have propelled China into the ranks of the superpowers, but are usually blamed for the shortcomings and missteps that have attended China's economic transformation. Policies regularly fail in China, and it is local governments that are faulted, though very little attention is paid to the fact that unrealistic quotas, unfunded projects and programs, insufficient time and the absence of capable personnel were the real culprits.²²⁵

²²³ Oi and Rozelle, "Elections and Power: The Locus of Decision-Making in Chinese Villages." p.525.

²²⁴ Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform*. p.191; Brown.

²²⁵ Burke. p.82-83.

Because of harsh penalties associated with complaints from villagers to higher levels of government, cadres are afraid to offend anyone, and it is clear that the higher levels take no responsibility for the conflicting priorities and demands that caused the hard feelings and mistrust in the first place. Local cadres are summoned to training classes and must pay their own expenses. When higher level officials arrive for inspection visits, cadres must entertain them. If the peasants are suspicious and not inclined to try new seeds, fertilizers or different crops, it is the cadres who must take the gamble on their own plots. As is true with township cadres, most village cadres and party heads are financially involved in making up shortages or funding different projects, despite the fact they often are denied part of their salaries. In a survey of village heads, many were found to have covered expenses totaling more than ten thousand yuan, some much more.²²⁶ And finally, village cadres report they spend much time researching and preparing many different kinds of reports and evaluations as well as publicizing the latest propaganda by putting up posters or slogans. The work is considered menial and meaningless, but it seems to fit with the low pay and the thankless conditions under which they work.²²⁷

Under such conditions, one may wonder why anyone would want to be a village cadre. The answer lies in their *guan benwei*, or “bureaucracy standard.” There is prestige in the position, social status and the opportunity to meet with higher level officials and business persons who may be in a position to help them advance socially,

²²⁶ Xiao and Li.

²²⁷ Ibid.

politically and financially. They are apparently permitted to reduce their family taxes by the amounts they are owed, so they expect to eventually recoup their contributions. There is no doubt some newly-elected cadres arrive in their positions ignorant of the problems and frustrations and led by ambition. Much is also made of the attraction of special bonuses attached to the achievement of higher levels of assigned tasks and quotas. However, the village cadre position no longer holds much allure for the young in the villages. Those who succeed in developing marketable skills or talents are eager to migrate to the cities in search of work or to open their own businesses. It has accordingly become more difficult to attract quality talent, and there is a correspondingly higher reliance on township guidance.²²⁸

The meaning of grass roots democracy

Village cadres and party heads run the day-to-day activities of the village organization. During recent decades, the reforms have made it necessary for village cadres to exercise their power in more indirect and subtle ways. Some villages remain almost exclusively agricultural while others are primarily industrial. The tasks of village cadres in these different environments vary widely. The variation and change in the work and resulting power of village cadres stem from the three institutional reforms: decollectivization; the rise of markets and opportunities to move out of agriculture and beyond the village boundaries; and the emergence of elections and other village participatory bodies. Each of these has had an effect on the bases of

²²⁸ Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government*; Zhao.

power in China's village.

The village organization includes the village party branch and the village committee. The latest version of the Organic Law of Village Committees, revised in 1998, describes the village committee as an autonomous grassroots organization in which villagers are given the right to self-management, self-education and self-service. Scholars have debated how much autonomy really exists in the villages, arguing that the rules governing everyday life are still written by the township governments, which handle village finances, cadre wages and bonuses, work achievement evaluations, and expense accounts.²²⁹

Because the pay is low, and because village cadres often take office as the result of higher level appointments, the cadres live in continuous tension between their duty and their loyalty to their superiors. But because of the elections, village cadres are no longer always the docile servants of their township masters and have become increasingly independent stewards of their communities. Village party secretaries have even begun to complain that village cadres have become a threat to the supremacy of the Chinese Communist Party, while cadres view party heads as attempting to subvert the Organic Law of Village Elections. Once again, organizational structure affects the motivations of those involved. Village cadres are not government officials, are not on government payrolls, and are not eligible for

²²⁹ Oi and Rozelle, "Elections and Power: The Locus of Decision-Making in Chinese Villages.", Xiao and Li.; So-called "*cuncai xianguan*", village finance is managed by township government to raise efficiency and avoid corruption of village cadres.

promotion. Sometimes village cadres are not paid even their meager salaries, and financial difficulties have made it difficult to gain their small bonuses, further tarnishing any sense of loyalty they may have felt toward the town governments. There is no doubt this slate of factors has been leading village cadres to increasingly cast their lot with their citizens' interests when they clash with the township governments.²³⁰

Judging the capacity of leadership in the towns and villages.

While the picture of village leadership painted in this section is a bleak one, there is no doubt that some cadres are able to effect real change and to make a significant contribution to their villages. By virtue of their family, clan, or political connections, some are able to arrange for grants or subsidies for favored projects. Success in small ventures leads to influence and connections with more powerful sponsors and support agencies, and villagers are quick to note and appreciate cadres who show those kinds of talents, connections and political instincts.²³¹

The end product of all the reported forces at work on township and village cadres is a frustrating challenge for anyone acceding to public office. The best qualified and educated young people in rural villages are much more likely to seek careers in private enterprise or higher levels of government, while those who do end up in positions of public responsibility are much more likely to be too close to private enterprises for the

²³⁰ Zhao. Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government*. p.215.

²³¹ Ibid, Oi, p.216; Xiao and Li.

public good. In their instinctive drive to improve their own lot, they are not likely to become responsible and capable agents of the central government.²³²

Under the conditions described in this chapter, it is clear that local governments can be a source of inspiration and drive, a drain of valuable resources or a neutral presence that takes little but produces nothing. Impacted by their higher levels of government through direction and policy and from below through meetings and complaints, capable cadres in target-rich environments have demonstrated the ability to drive rural development while some have demonstrated only that they have learned how to live high on public money. O'Brien and Li put it well when they reported that "Many Chinese officials . . . both work very hard and shirk very ably."²³³ In some cases Beijing has implemented systems of incentives and controls that achieve desired goals, even unpopular ones. For those who argue that successful development requires the wholehearted engagement of the population, however, top-down policy has proven mostly ineffective and capacity building will likely begin with changes in the cadre systems or people.

²³² Brown. p.42.

²³³ O'Brien and Li, "Selective Policy Implementation in Rural China." p.181.

Chapter Five

Rural Life

The principal actor in the endless saga of rural China is not the government with all its resources and influence. The leading role is played by the Chinese peasant. The purpose of this chapter is to present a composite picture of China's peasantry through the eyes of sociologists, economists and political science scholars. It is necessary to clearly define and characterize our use of the term "peasant" because different perspectives reveal different aspects of this segment of China's population.²³⁴

Economic peasant

The economics perspective reveals a group of smallholder farm families that work within factor (e.g., land, credit and labor) and product markets that are not fully

²³⁴ Marcus J. Kurtz, "Understanding Peasant Revolution: From Concept to Theory and Case," *Theory and Society* 29, no. 1 (2000). p. 119

developed. This economic environment has important implications both for the peasants' limitations as agricultural producers and also for the kinds of economic choices they make. This definition also distinguishes peasants both from capitalist farm enterprises (that hire wage labor) and from commercial family farmers operating in the context of fully formed factor and output markets. The economic definition also contributes a strategic dimension to agricultural policies that are formulated with the objective of raising peasant livelihoods from subsistence levels or worse to commercially viable family farms. The definition suggests that policy needs to address the factors that influence agricultural markets, to include inputs (land, labor, equipment, machinery and supplies), and markets for agricultural output. Commercial agriculture also needs education (agriculture, animal husbandry, agri-business); it functions well when farmers are organized (cooperatives, marketing), and rural policy should therefore attend to rural social services that affect those conditions.²³⁵

The economics perspective is further characterized along several different frameworks that purport to explain and predict peasant behavior. Among these we find Alexander Chayanov's "Survival Peasant,"²³⁶ Marx's "Exploited Peasant,"²³⁷

²³⁵ Frank Ellis, *Peasant Economics: Farm Households and Agrarian Development*, 2nd ed. (New York: Cambridge University Press, 1993). p.277.

²³⁶ Alexander Chayanov was a Russian economist who argued that "normal" economics did not apply to the world of small peasant farms. In his theory, peasants make a subjective decision about how much land and how intensively to farm based on what was needed for survival and what little extra for savings or sale to support the family consumption of other goods. The goal was not maximization of profit but a balancing of need against the drudgery of farming. Since his theory ran counter to the mass agricultural collectives that were being framed in Stalin's Russia, he was imprisoned and executed for his views. Alexander Chayanov, *nongmin jingji zuzhi* (Peasant Economic Organizations) (Beijing: Zhongyang bianyi chubanshe (Central Compilation & Translation Press), 1996), p.29.

Schultz's "Rational Peasant,"²³⁸ and Huang Zongzhi's "Commodity Peasant."²³⁹ Xu and Deng describe what adds up to a fifth category of peasant, "the Socialized Peasant," and argue this version better explains the current situation in rural China. In a 2005 article, these authors observed that China's peasants have become more fully assimilated into Chinese society than has been characteristic of their past isolation. As a group, they are also closer and more openly involved in local and international markets than in the past. As a result of these changes, the traditional characterizations no longer apply, and the time is right to build a new theoretical model of farming in China. This evolving peasant is still characterized by smallholder farming, but marketization is creating farm communities that participate together in specialized niches. There are, for example, entire communities dedicated to poultry and eggs, others that specialize in garlic, and still others that make shoes (in township industry). Lifestyles and consumption patterns are changing to reflect these changes, leading peasants to become part of the larger market. A critical factor for rural China remains employment, because of the size of the population and the changes in labor conditions. Xu and Deng also predict that current conditions are not evolving naturally to some commercialized farming end condition, but are restricted by land allocations and

²³⁷ Instead of being thrown together as are factory workers, peasants work in isolation and cannot become a class. According to Marx, peasants were not able to represent their own interests, but sit like a "sack of potatoes" relying on others. They are not revolutionary but conservative. Karl Marx, "The Eighteenth Brumaire of Louis Napoleon," *Die Revolution*, 1851-52.

²³⁸ Schultz observed peasants responding to new opportunities with mixed strategies for diversifying their crops and income sources and in other ways increasing their earnings, and concluded that the peasant is not uninformed and passive, but rational. Theodore W. Schultz, *Transforming Traditional Agriculture* (New Haven, CN: Yale University Press, 1964), p.23.

²³⁹ Huang Zongzhi, *Huabei xiaonong jingji yu shehui bianqian* (Small Farming Economy and Social Transformation in Huabei) (*Beijing: Zhonghua shuju* (Chung Hwa Book Co.), 1986), p.7.

therefore are likely to remain small in scale.²⁴⁰ As a result of these factors, other aspects of Chinese farming are not likely to change. The farms are too small to afford a high degree of mechanization, for example, except as may be gained through cooperatives, provided the terrain is suitable. It should also be noted that these conditions are not uniform throughout China, but it is arguable that as rural China evolves, this picture described by Xu and Deng is a convincing end state.

Keister and Nee extended our understanding of rural China and its people by describing the evolution that accompanied the collapse of the collectives. For the first time in decades farmers could make their own decisions about labor, and the result was the rapid collapse of the household registration (*hukou*) system and the mass movement of rural labor into non-farm work. Labor turned to non-farm, commercial agrarian employment, private business, and industry, near farmers' homes when possible, but often in China's rapidly developing urban areas.²⁴¹ This evolution wasn't initiated or even sanctioned by the government, but was driven by both desperation and opportunity, and was unstoppable by the government.

The anthropological view of the peasant

Anthropologists refer to a rural-urban continuum and consider the peasant to be near the rural end of this continuum. Peasant society and the broader rural society

²⁴⁰ Xu Yong and Deng Dacai, "zaishi nonghu" yu shehuihua xiaonong de jiangou ("Re-Judging Peasant Household" and Structuring Socialized Peasant), *Zhongguo nongcun yanjiu wang* (Rural China Study - <http://www.ccrs.org.cn>, 2005).

²⁴¹ Lisa A. Keister and Victor Nee, "The Rational Peasant in China: Flexible Adaptation, Risk Diversification, and Opportunity," *Rationality and Society* 13, no. 1 (2001).

extend through the spectrum to get very close to the urban end of the continuum.²⁴² This definition comes closest to the traditional “dictionary” meaning of peasant that evokes the image of a person or family that owns or rents a small plot of land on which they farm or keep animals and who typically have a low income and a low social position. The second meaning has a derogatory context, referring to a person of low education and crude behavior. Some scholars use “ruralites” to replace “peasant” or “peasantry” to avoid the negative tone. There are two reasons for this: the first is that the term “peasantry” or “peasant” (*nongmin*) has derogatory connotations in China. The second is that migrant workers from rural areas are no longer peasants. For the same reason, it is not appropriate to use the term “rural residents” with migrant workers of rural background who do not reside in the countryside and therefore do not fit the common definitions. Thus, “ruralites” refers to all those who do not have urban resident status, regardless of what they do and where they work.²⁴³

One way to achieve consistency for this analysis is to stay with the categories “agricultural” and “non-agricultural” as defined in the Chinese household registration system (HRS) which categorizes Chinese geographically, occupationally and to some

²⁴² Frederick C. Gamst, *Peasants in Complex Society* (New York: Holt, Rinehart and Winston, Inc., 1974). p.3.

²⁴³ Mobo Gao, "The Great Wall That Divides Two Chinas and the Rural/Urban Disparity Challenge," in *China's Challenges in the Twenty-First Century*, ed. Joseph Y.S. Cheng (Hong Kong: City University of Hong Kong Press, 2003). p.534.

extent politically, based on their place of birth.²⁴⁴ The Chinese peasant population contains two variables: based on *hukou* statistics, China has a rural population of 940 million; but when actual residence is used as the basis for counting, the rural population is only 750 million.²⁴⁵ Because *peasant* is so commonly used in much of the research and literature, it will be used in this report, but clearly with no derogatory intent. It will be helpful to consider all the definitions as describing the end product of policy implementation and the market on peasant society, but especially the term “socialized peasant” which aligns itself very well with both the descriptive literature and the observed conditions and practices reported herein.

Role of peasants in Chinese history

In all of Chinese history, agriculture has been the bedrock of the state. Peasants' taxes fund government and wars, their vast numbers populate armies, and they feed the nation. Yet peasants have always been marginalized in political culture in terms of power centralization and unification. Although contemporary China bears a surface resemblance to other modern developing states, its governance structure has remained locked in a traditional model. There are two extremes existing in parallel in China: one is the vertical hierarchy in which political power has been highly centralized

²⁴⁴ Introduced in the 1950s, a main purpose of household registration was to stop peasants from flooding into cities to share limited resources with urban citizens and guarantee supplies for the whole nation and population by leaving the peasants to pursue their own better life. The system largely achieved this aim until the 1990s, when economic reforms encouraged social mobility and generated a vast floating population. Even then, a citizen's status and permanent address could only be changed with difficulty and often at great cost. The political, economic and social status of peasants is highly influenced by this system still.

²⁴⁵ Source: National Bureau of Statistics in 2006: www.stats.gov.cn.

(*zhongyang*); the second is China's social structure in which power has been highly decentralized through all the village communities. Limited by economic and technical conditions, the central government has not been able to extend much influence over the countryside, except during the totalitarian era of Marxist-Leninist-Maoist collectives. A governance system has evolved to separate the state's centralized, hierarchical power from rural autonomy, the two now existing rather comfortably in parallel. This condition is not new. Traditionally, central power did not extend to the level of the county (*huangquan bu xia xian*). This means that the formal power of the state system did not extend to the villages, long before 1949. The countryside was dependent upon the rural gentry, clan elders, warlords, and tribal chiefs for leadership. The peasants furnished resources to the state in the form of taxes or grains and corvée labor, and received very little in return.²⁴⁶

To the Chinese, even if one dislikes a regime, it has usually been expedient to yield than to resist since in yielding the chance of change is preserved. Lao-tze teaches that the soft is stronger than the hard, that yielding is better than resisting. In the past, even barbarous nomadic rulers have been absorbed by the Chinese culture. This line of thought persists in contemporary Chinese daily life. Little opposition is offered to the rulers; acceptance is customary. The traditional lack of interest in politics is expressed as follows:

I begin to work on the farm at sunrise; I rest at sunset. Heaven is high, the Emperor is far

²⁴⁶ Xu Yong, "*Xiandai Guojia De Jiagou Yu Cunmin Zizhi De Chengzhang* (the Structure of a Modern Country and the Growth of Village Autonomy)," *Xuexi yu tansuo (Study & Discovery)*, No. 6 (2006).

away, I drill my own well to get my drink; I plow my field to get my food. What has the Emperor's power to do with me?²⁴⁷

Leon Stover tells us that one of the principal tasks of high culture is to rationalize the gap between elite and non-elite status. Intellectuals achieve that purpose by pointing to the division of labor as a natural boundary between parts of society. For Stover, the Sacred Edict was taken as a logical approach: "The upper and lower classes form one body." (XIV: 6). This body consists of four parts: At the top are scholars. Next are the farmers and others in the "primary" occupations. The third layer consists of artisans, and the fourth layer consists of merchants.²⁴⁸ The scholars speak for the ruling class, and thus sit astride the boundary between the upper and lower classes that are headed by the peasants, the fundamental producers in a harmonious society.²⁴⁹ In reality, farmers are treated with no less contempt than any other members of the lower classes, all of whom are regarded as so much "meat and fish" who exist to meet the needs of the governing class.²⁵⁰

The following proverb is a garbled version, filtered down to the peasantry from high culture, of the thoughts of Mencius:

²⁴⁷ Hsieh Chiao-min, *China: Ageless Land and Countless People* (Princeton: D. Van Nostrand Company, Inc., 1967), p.115.

²⁴⁸ Leon E. Stover, *The Cultural Ecology of Chinese Civilization: Peasants and Elites in the Last of the Agrarian States* (New York: PICA Press, 1974). p.112-113.

²⁴⁹ See the research about peasants and taxation in historical China has been done by Bernstein etc. Thomas P. Bernstein and Xiaobo Lu, *Taxation without Representation in Contemporary Rural China* (New York: Cambridge University Press, 2003). p.20.

²⁵⁰ Stover makes a point of presenting the division of labor argument from the literati. "The governing class actually includes wealthy and powerful merchants, but they are classified with lowly artisans and petty merchants by the literati as a method of demonstrating that only the academics among the ruling class have the right to decide who is who. The men who do the rationalizing of high culture take themselves as its superior product, and they are able to make everybody else believe this." Stover, p.114.

Inequalities are in the nature of things. There is the business of superior men and there is the business of little men. Hence there is a saying, "Some work with their head; they govern others. Some work with their hands; they are the governed. Those who are governed feed the others; those who govern are the fed." This is a just arrangement. [Meng Tzu, III: i: 4]²⁵¹

Peasant power is recognized as the fundamental force that prodded Chinese history from one dynasty to the next through their rebellions – "Oppressive government drives the people toward rebellion, people have to rebel" (*guanbi minfan; min bude bufan*). As Mao put it in 1939, "The ruthless economic exploitation and political oppression of the Chinese peasants forced them into ... hundreds of uprisings, great and small, all of them peasant revolts or peasant revolutionary wars."²⁵² It is therefore no small matter that there were majority of 87,000 uprisings reported in 2005²⁵³, adding urgency to the important goals of rural reform.

Looking back to the Kuomintang's rule in the "Nanjing Decade" (1927-1937), the government attempted to wrest control of local governments (below the county level) using movements they called "self government" and "democracy." Resource-

²⁵¹ Meng Tzu is a Chinese Confucian philosopher. Central to the philosophy of Mencius was the belief that man is by nature good. The Book of Mencius, which is one of the Shih Shu [four books]. Not until the late 11th cent. A.D. was Mencius regarded with veneration. Since then his image has been placed in temples dedicated to Confucius, and his work is considered second only to that of Confucius. Excerpts were translated by Arthur Waley in *Three Ways of Thought in Ancient China* (1939). Meng-Tzu, *Shandong, V. 371-7, V. 288 Av. J.C.*, trans. James (1861) Legge, et al., *Shih Shu* (Four Books) (1939).

²⁵² Mao Zedong, *The Chinese Revolution and the Chinese Communist Party* (Marxists.org, 1939; available from <http://www.marxists.org/reference/archive/mao/selected-works/volume-2/index.htm>).

²⁵³ GOV.cn, January 19, 2006, China's Public Security Ministry declared that there were 87,000 cases of "public order disturbance" — including protests, demonstrations, picketing, and group petitioning — in 2005 compared to 74,000 reported cases in 2004 and most of them are rural unrests; Richard Spencer, "China Fears Meltdown over Social Instability," *National Post* (Canada), August 23, 2005. One source suggests that these statistics refer to demonstrations involving over 100 people, while another states that "massive rallies" are rare. Francesco Sisci, "Is China Headed for a Social "Red Alert?" *AsiaTimes Online* [<http://www.atimes.com>], October 20, 2005; Eric Ng, "Cooling Sentiment to Hurt Funding Needs," *South China Morning Post*, September 7, 2005.

starved local governments yielded to a limited and uneasy alliance. In practice, power among local elites came as a result of access to education and because of their wealth. Many also had access to local militias. Wealth came from rents, usury and commerce, as well as “fees” they pulled from the local population along with taxes and other government revenues. This was not a benevolent elite. Known as “evil gentry” and bullies, they had a lock on local bureaucracies including the holding of many key government positions.²⁵⁴ In all of Chinese history, the Chinese peasantry was not included in the national political system until the founding of the Chinese Communist Party.²⁵⁵

The bottom-up communist revolution changed China’s ruling structure in fundamental ways. The peasants were the most significant source of power for the CCP, and the promise of land reform was the key to harnessing peasant power for the CCP regime. This power was deployed to cleanse a broad spectrum of old forces and anti-revolution thinking from rural Chinese society. “The peasants earn the land and the party earns the peasants.”²⁵⁶ Because of its links to the peasantry, the CCP became a formidable presence during the anti-Japanese war in the years leading up to and including WWII. The well-developed and well-led peasantry that emerged from

²⁵⁴ See John P. Burns, *Political Participation in Rural China* (Berkeley: University of California Press, 1988). See also Guy S. Alitto, “Rural Elites in Transition,” in Susan Mann Jones and National Endowment for the Humanities, *Proceedings of the New Modern China Project, 1977-78: Political Leadership and Social Change at the Local Level in China from 1850 to the Present* (Chicago: University of Chicago, 1979).

²⁵⁵ Xu, “*xiandai guojia de jiangou*”

²⁵⁶ Du Rongsheng, *Du Rongsheng Zishu: Zhongguo Nongcun Tizhi Biange Zhongda Juece Jishi* (An Account in Du Rongsheng's Own Words: An on-the-Spot Report of Major Issues of Chinese Rural System Reform) (Beijing: renmin chubanshe (People's Publishing House), 2005). p.17.

WWII was well positioned to win the civil war and found a new China. It was proclaimed as the arrival of the dictatorship of the proletariat.²⁵⁷ In the early days of the CCP regime, peasants were categorized as to ideological purity, and only the poor peasants qualified as the highest, most loyal and most dependable of China's citizens. Land reform created a new poor and lower-middle class peasant economy and society, giving most peasants a means of making a living. These early moves cemented peasant loyalty to Mao and the new government. The future was clouded, however, because as it turned out, peasants had been liberated from the chains of local landlords, merchants and money-lenders but increased their dependence upon local political elites, China's newly formed party power structure.²⁵⁸

There were debates over agricultural policy right from the beginning, debates which continue to this day. Taking land from the landlords and turning it over to the peasants was a logical move for the grateful party, but was later determined to violate a basic tenet of communist ideology which holds that land ownership is a main cause of oppression. Mao's agenda followed naturally from his belief that ideological appeal accompanied by controlled and manipulated grass roots organizations would allow the party to move Chinese society to an egalitarian and collectivist rural society.²⁵⁹

In the decades that led up to Mao's death in 1976, peasant society was

²⁵⁷ In the Article 1 of the first constitution the People's Republic of China adopted on September 20, 1954, the nature of the state is defined as a "democratic republic led by the working class and based on a worker-peasant alliance." See Tao-Tai Hsia, "The Constitution of Red China," *the American Journal of Comparative Law* 4, no. 3 (1955).

²⁵⁸ Burns, p.172.

²⁵⁹ Mao Zedong, Speech at the First Chengchow Conference (Marxists.org, 1958.)

characterized by both significant successes and dramatic excesses, most catastrophic of which were the well-known Great Leap Forward, and the ill-fated Cultural Revolution. One author characterized what was going on in China this way: “As the state became more adept at harnessing and steering peasant proclivities, peasants became the objects rather than the subjects of rural transformation.”²⁶⁰

“Peasants reap the grain and pile it on the village threshing floor. It is up to the state to wrest the harvest from the peasants. The state needs the farm product to feed the cities, to earn foreign exchange, to accumulate capital, and to supply industry with raw materials.”²⁶¹

With zeal and the trust of the peasantry, the CCP and paramount leader Mao pushed a military style of management that was honed in Yanan during the anti-Japanese effort. The prime initiative was collectivization, development of rural communes. Mao convinced China’s leadership that with a few years of hard work and with mass movements like the Great Leap forward, China would propel itself to the leading ranks among world states, politically, socially and economically. The peasants worked assiduously on infrastructure projects like irrigation works, many of which are still in use today. At the same time, the peasants were subjected to high pressure politico-ideological movements including anti-rightist indoctrination. The peasants were the recipients of new education opportunities which were also raising young people thoroughly oriented to the advantages of the collectives. The propaganda and indoctrination programs were made a prime responsibility of local cadres who were

²⁶⁰ Daniel Roy Kelliher, *Peasant Power in China: The Era of Rural Reform, 1979-1989*, Yale Agrarian Studies (New Haven: Yale University Press, 1992), p.24.

²⁶¹ Ibid, p.26.

under constant surveillance by zealous party members. Du called the resulting society a case of peasants having made a choice of powerlessness, the flock of sheep following the lead sheep (*lingtou yang*). The movement turned into a new form of exploitation, but this time with a national purpose in the form of extraction to support industrialization. Most peasants accepted their fate passively, but many also resisted by shirking their duties or by dedicating themselves to their small family plots instead of their primary responsibilities. As conditions worsened for remote peasant communities, many struggled for their very survival. By the early 1960s all manner of private endeavors were developing and spreading throughout the country.²⁶²

Between 1954 and 1978, the state extracted more than ¥600 billion of capital from agriculture while investing only ¥157 billion during the same period. On average agriculture contributed ¥15.5 billion annually toward industrialization.²⁶³ At the same time, the state mobilized 20-30 percent of the rural labor to build reservoirs, dams and irrigation networks. The full force of China's agricultural capacity did not reach fruition until the collectives gave way to individual farms under the household responsibility system.²⁶⁴ During the nearly three decades of the collectives the peasants were not able to get one jin of grain per day, and during 1958 to 1978 the average annual income growth was ¥1. That was the scene at the beginning of China's

²⁶² Du, p.95.

²⁶³ Liu Bing, Zhang Zhaogang, and Huo Gong, *zhongguo sannong wenti Baogao* (Report of China's Three Dimensional Agricultural Issue), Beijing: China Development Press, 2005. p.228.

²⁶⁴ *Ibid.* p.186.

economic reform that began at the end of the 1970s.²⁶⁵

There is a plentiful literature covering the first decade of China's economic reform and particularly the role of the peasants leading up to the government's recognition and acceptance of the family farm concept embodied in the household responsibility system.²⁶⁶ Some see this as an exhibition of peasant power – wielding the influence that comes with sheer numbers as well as a grip on the state's food resources, coupled with a weary desperation over the harsh life of subsistence farming.²⁶⁷ This view undoubtedly carries elements of truth, but the most apt description came from authors like Kelliher and Zweig who noted a natural evolution of millions of households seeking ways to reduce their burden and improve their lives by finding ways to cut corners here and defy policy there, gradually developing an ability to alter rural policy in fundamental ways.²⁶⁸

Under Deng Xiaoping, peasants found a sympathetic leadership and continued to exercise their influence to alter Chinese life in ways that China's leadership had not previously considered. Although they existed at the lowest levels of official influence and were not directly represented in the government, peasants managed to manipulate the state's reform package, shifting benefits from the state and back to those who work the land. The procurement and marketing systems are vivid examples of their abilities,

²⁶⁵ Du. p.126.

²⁶⁶ See Burns, Kelliher.

²⁶⁷ Kate Xiao Zhou, *How the Farmers Changed China: Power of the People* (Boulder, Colorado: Westview Press, Inc., a division of HarperCollins Publishers, Inc., 1996).

²⁶⁸ See David Zweig, "Review: Rural People, the Politicians, and Power," *The China Journal* 38 (1997). The reviewed books is Kate Xiao Zhou, *How the Farmers Changed China*.

as rigid production controls and sales channels gave way to farmer choices about crops and methods and the beginnings of a market. The hukou system fell into disuse as hundreds of millions of farm laborers moved out of the countryside and into job markets previously barred to them. These and similar policies were stretched and pulled much further than they were intended to go, forcing officials at all levels of government to re-organize, re-think and re-write policy to accommodate the evolution of rural reform. The changes were evident first in the demise of the collectives and reorganization of the rural labor, and later in the reform of land use policy and credit markets.²⁶⁹ An interesting issue for future research is the way these forces developed in parallel all over rural China. Was it a natural or logical progression that could be predicted by sociologists, or were the local governments or peasants themselves so well connected through their networks that diffusion effects could account for the rapid spread of new approaches to the factors of agricultural production? It is apparent that China's central government coordinated many rural policies while the government was in Deng's hands. The farmers had a powerful advocate in Deng, who single-mindedly pursued economic gain and did not shy away from policy that rattled collectivist hard-liners because of its semblance to capitalist methods.

The financial problems of local governments created new crises for China's peasants beginning in the mid-1990s. While some communities prospered because of fortuitous climate, topography or geography, poorer communities became hotbeds of corruption and abuse in a spiral of descending services and ever more aggressive

²⁶⁹ Kelliher, Zweig.

plundering. Peasants in those communities were once again plunged into poverty and desperation. As we have seen in previous chapters, it was the peasants who paid the price for government missteps – losing their lands to illegal seizures, paying rapacious levels of ad hoc fees and taxes, enduring brutal collection methods, and gradually losing all social services.²⁷⁰ On combination, these outrages would transform desperation and passivity to a rising level of public protests.²⁷¹

Under these circumstances in many developing states, the legitimacy of government could be called into question, but China's government and ruling party have shown little concern. Bernstein and Lu argue that "A true challenge to the regime's existence from below . . . can only arise if there is a political opening from above which would provide for cross-societal mobilization."²⁷² The party and government appear secure in their positions of power, and in fact the peasantry has not blamed Beijing for their lot, but instead has blamed local governments, which is where the symptoms of fiscal problems were at their worst. In the meantime, Beijing has never stopped looking for ways to improve rural conditions, though the end results were sometimes disastrous. One example is the Organic Law of Village Committees which was issued as a draft in 1987 and revised in 1998. It was intended to expand grass-roots level political power, and improve the deployment of mass organization and transparency in village affairs. Peasants earn "the right to vote, the right to know

²⁷⁰ See the relative contents in chapter 4.

²⁷¹ Bernstein and Lu. p.116, 126-127.

²⁷² Ibid. p.165.

the facts of a case, the right to participate, and the right to supervise.”²⁷³ Many at all levels of government, but particularly in local governments, treat this new grassroots democracy as largely a paper exercise, but the peasants themselves are learning about their rights and pushing their way into higher levels of influence with increasing confidence.²⁷⁴

Peasants have worked their influence into economic victories as well. A 2,600 year old agriculture tax has been erased from the books. “Shadow” taxes (*sanluan fei*) have been banned, and the peasants are well-enough informed about the law to resist attempts to impose illegal taxes. In addition to tangible increases in influence with both the government and the party, peasants have discovered self-organization in many areas, creating cooperatives and self-organized collective enterprises that can help with marketing, technology development and diffusion and with access to policy-makers. It cannot be ignored that this increasing influence is meeting stiffening resistance in some places, has not developed uniformly or in all areas, and in many places hasn’t yet made much progress; but there is undeniable progress in peasant life and in the impact upon government, and China’s central government has been

²⁷³ Zeng Qinghong, “A Programmatic Document for Strengthening the Party’s Ability to Govern: Study and Implement the Spirit of the Fourth Plenum of the 16th Party Committee, Strengthen the Party’s Ability to Govern,” *China Report* 41 (2005). Zeng is the current vice chairman of the People’s Republic of China.

²⁷⁴ Yu Jianrong, “*dangdai Zhongguo nongmin weiquan zuzhi de fayu yu chengzhang* (Development and Growth of Peasants’ Rights Organizations in Contemporary China),” *Zhongguo nongcun guancha* (Observation of Rural China) 2 (2005). This paper is a part of Ford Foundation program, “Political participation, institutional construction and social stability in rural China.”

increasingly supportive.²⁷⁵ What remain as significant obstacles includes limits imposed by China's political culture and socio-economic realities.

Beyond equity and equality

Chapter Two traced the history of state rural policy during the last almost sixty years. The agrarian economy was transformed from household farming to a collective economy during the first half of that period, and back to household farming during the last three decades. There have been notable successes and failures under both systems. Initially concerned with building an egalitarian society, early CCP activity included caring for the peasants in their land reforms. Though the land was quickly turned back over to the state and the collectives, the communes and other official actions, such as the uniform pricing policy was still attempting to work toward an egalitarian society with balanced regional development. Later, China's leaders began to realize that approach was making painfully slow progress and was becoming increasingly difficult to sustain, and they therefore opted for changes that could be expected to stimulate the economy and increase the pace of economic recovery. Extraction was intended to support industrialization and urbanization. It was a deliberate move to "let some get rich first" along the east coast and in the cities and factories. The two thirds of its population that lived and worked in rural China were sacrificing for the national interest. It was not the first time, but it was certainly one of the most trying, leaving

²⁷⁵ Wang Xiaoyi, "jiafeng zhong de biaoda" (Expression between the Cracks), *shehuixue wang* (<http://www.sociology.cass.cn>, 2005).

many without land and with no way to feed their families. The peasants did not live much like the “dictators” of Chinese society.

The World Bank 2006 Equity and Development Report defines equity in terms of two basic principles: equal opportunity, and avoidance of absolute deprivation. Equal opportunity means that the outcome of a person’s life, in its many dimensions, should reflect mostly his or her efforts and talents, not his or her social background.

Predetermined circumstances – gender, race, place of birth, family origins – and the social groups into which a person is born should not determine whether people succeed economically, socially, and politically. The second principle suggests that societies may decide to intervene to protect the livelihoods of its neediest members (who exist below some absolute threshold of need) even if the equal opportunity principle has been upheld. The path from opportunity to end result can be tortuous. Outcomes may be poor because of bad luck, or even because of a person’s own failings. Societies may decide, for insurance or for compassion, that members will not be allowed to starve, even if they enjoyed their fair share of the opportunity pie, because things somehow turned out badly for them.²⁷⁶

In China’s 2005 Human Development Report to the United Nations, inequity is viewed as the inequality of basic rights and opportunities. It surfaces as the nexus of selective disenfranchisement that includes institutionalized differences between regions, areas, groups in terms of income, property ownership, employment

²⁷⁶ The World Bank, "Equity and Development," (2006). p.18-19.

opportunities and wages, education, health care, social security, and government fiscal expenditure.²⁷⁷ There are two enabling objectives on the road to equity in China's vision: the first is equality in fundamental human rights and opportunities. These include political rights such as the right to participate in public affairs, and to vote; and social and economic rights. The second objective is the universal ability of people to improve their capabilities. This assumes every citizen is guaranteed a basic standard of income, medical care, and access to education.²⁷⁸

Inequality is determined by many factors which can combine and interact in different ways. Institutions, economic policy and government carry the most weight in determining whether a society's systems are fair. Development progress generally has several consequences that affect inequality: government tends to become more open and important, the rule of law achieves a foothold, and social norms become less important as they fade into a middle class background. These factors combine to reduce the effects of inequality and the maldistribution of wealth. The claimed dichotomy between fairness and economic growth is argued by Tanzi to be nonexistent. Opportunity and economic growth are determined in parallel and by the same policy direction. What matters, according to Tanzi, is the "overall package and the fairness of the underlying [policy] process"²⁷⁹

²⁷⁷ The report is the first Chinese authors have produced. "China Human Development Report 2005," (Beijing: DRF (China Development Research Foundation), 2005). See Foreword p.3.

²⁷⁸ Ibid. See Abstract p.1.

²⁷⁹ Vito Tanzi, *Policies, Institutions and the Dark Side of Economics* (Cheltenham, UK, E. Elgar, 2000). p.49.

The peasants were the immediate beneficiaries of the household responsibility system at the onset of reform. Rising peasant fortunes helped to reinforce equity and at the same time drove entrepreneurial fervor and agricultural productivity. China's economy has grown nearly 10 percent each year for the last three decades, and the number of peasants living in absolute poverty has dropped from 250 million to 26 million. The share of agriculture of GDP dropped from 33 percent in 1982 to 12.6 percent in 2005.²⁸⁰ "Let some get rich first" policies had positive outcomes.

More recently, however, income growth for the peasants has stagnated. Excluding price as a factor, there was an annual growth rate of 15.2 percent between 1978 and 1985. Between 1986 and 1991, income growth dropped to 2.7 percent annually, rose to 5.6 percent until 1996, then leveled off slightly lower at 4.6 percent until 2005. This peasant income, while representing a pattern of continued growth, was 4.3 percent lower than the growth of GDP and 3.5 percent lower than the income of urban citizens.²⁸¹

The most serious issue, however, is the share of peasant income from agriculture. In the 1980s, the peasants' share was 70 percent. It dropped to 50 percent in the 1990s, and to 33 percent after 2000. The peasants whose life depends purely on agriculture have become the low income group in the countryside. As in much of the rest of the world, an increasing share of agrarian profits is being siphoned off by the expanding

²⁸⁰ Source: Yearbook of National Statistics Bureau, P.R.China.

²⁸¹ Data on this page comes from national bureau of statistics and National Development and Reform Commission Issues "2006 Annual Report of Income Distribution of the Chinese Citizens" (zhongxinwang (www.chinanews.com), Feb. 1st 2007).

array of farm-related services: transportation, wholesalers, processors, distributors, exporters and retailers. There is also a pronounced regional component to this effect, leaving farmers in the west at only 29.3 percent compared to 51.2 percent in the east where markets are more fully developed, transportation costs are lower, and exports are becoming more important.²⁸² This regional effect contributes to the regional disparity reported in Chapter three.

Significantly, the gap between peasants and urban citizens has been growing and shows no signs of slowing. In 1978, the ratio of urban to peasant income was 2.6:1. By 2005, the gap had increased to 3.22:1. The gap is also growing within the peasantry. The wealth of the highest 10 percent of the peasants reached 7.3 times the wealth of the poorest 10 percent. Farm labor that has migrated to the cities and factories has fared no better. For performing similar jobs, immigrant workers in China earn much less than their local counterparts.²⁸³ The expanding human development gap between rural and urban areas, especially since 1997 has been caused by the growing income inequality between these areas. The World Bank estimates that China's national Gini coefficient for income distribution rose from .30 in 1982 to 0.45 in 2002. It represents a 50 percent increase in two reporting periods which is an exceptional rate of change and considered to represent a serious and growing problem. The rural poor, rural migrants in cities, and land-deprived farmers, as well as the urban poor are categorized together as the group most vulnerable to the inequities of

²⁸² "China Human Development Report 2005."

²⁸³ Jonathan Unger, *The Transformation of Rural China* (Armonk: M. E. Sharpe, Inc., 2002).

contemporary China.²⁸⁴

The roots of social inequity

The Hukou system

Beginning fifty years ago, Chinese peasants rushed to the cities in a migration that was common among developing states. In terms of numbers, however, it was unmatched in contemporary world history, involving as it did hundreds of millions of people in search of steady work and higher incomes. The movement represented the only remaining solution for peasants desperate to feed their families. At the same time, it created significant problems for the government. Urban resources, including the demand for energy, food, water and housing were strained. Migrant workers were competing for jobs with urban poor. The crowding and harsh conditions made a rising crime rate inevitable. Migrant workers had no access to the unemployment subsistence assistance that was available to urban residents, nor to medical care, and schooling was not available for children who accompanied their parents to the cities. The government worried over food security as peasant lands lay fallow, no longer generating sufficient income for the basic needs of families.

The government response was embedded in the household registration system (HRS) which formalized the difference between the people who lived and worked in the cities and were responsible for nonagricultural production and the peasants who

²⁸⁴ "China Human Development Report 2005."

lived in the countryside and had primary responsibility for China's vital food supply. The peasants all over China were forbidden by law to leave the land. The household registration documents were required as the bureaucratic basis for finding work and for access to all social services, and were harsh and effective control measures that bound the peasant and the land together.²⁸⁵ Potter and Potter described the overall impact of the policy as a "system of birth-ascribed stratification which, considered as a whole, displays caste-like features."²⁸⁶ The power "grid" which interlocked the HRS with the collectives and the unified purchase system exerted tremendous control over the daily lives of peasants. Under Mao and the collectives, everyone was under continuous surveillance, legally bound to their homes. Had they attempted to find work, or even buy food or basic necessities away from their homes, they were subject to arrest. Even food basics required ration coupons. The residents of overcrowded communities in areas with depleted soils were trapped on their farms, unable to make a living, and unable to leave.²⁸⁷ These conditions opened a gap in living standards between poor and better-off rural districts, despite Mao's continuous quest for egalitarianism.²⁸⁸

Because the income distribution mechanism in the people's communes differs

²⁸⁵ More detail about HRS can be seen in chapter 3.

²⁸⁶ See Sulamith Heins Potter and Jack M. Potter, *China's Peasants: The Anthropology of a Revolution* (Cambridge [England] ; New York: Cambridge University Press, 1990). p.296.

²⁸⁷ Unger. p.120.

²⁸⁸ On the widening income gap during the Maoist period, see Nicholas R. Lardy, *Agriculture in China's Modern Economic Development* (Cambridge [Cambridgeshire]; New York: Cambridge University Press, 1983). And Peter Nolan and Gordon White, "The Distribution Implications of China's New Agricultural Policies," in *China's New Development Strategy*, ed. Jack Gray and Gordon White (London ; New York: Academic Press, 1982).

from the income distribution in urban areas, it had the capacity and could guarantee only a limited attempt at equality with villages and communes. In its pursuit of rapid industrialization, the government invested substantial funds in urban areas and treated rural areas as already-developed sources of funds, resources and the grain supply. The prices of grain and other farm products were deliberately suppressed to keep prices for food in the cities low and to accumulate additional funds for industrialization. This differentiated circulation of money created jobs, consumer markets and other benefits in the cities, but increased gaps in income and living standards between urban and rural areas. In 1978, urban per capita income was 2.6 times rural per capita income. Egalitarianism figured prominently in income distribution planning in cities, but this did not affect rural conditions. This meant China's reform and transition did not begin from an egalitarian pattern of distribution; rather, today's widening income inequality is rooted in past income distribution policy decisions.²⁸⁹

On October 1, 2001, the Chinese central government officially eliminated the *hukou* system below county levels, and some provincial cities, e.g., Shijiazhuang (capital city of Hebei Province), opened their doors to peasant migrant workers. By 2004, the number of rural migrants reached 140 million, representing the largest population movement in China's history. After moving into the cities, migrant workers faced many forms of "official" discrimination. Even though rural migrant workers have the same employment opportunities as urban employees, they do not get the same wages and welfare benefits. Over the past decade, in areas such as

²⁸⁹ "China Human Development Report 2005." p.23.

Guangdong and Fujian, where migrants were plentiful, the nominal wages of rural migrant workers have risen by a small margin while real wages remained constant or declined. Migrant workers also face a harsher working environment.²⁹⁰

Pricing system

Between 1979 and the early 1990s, the “production responsibility system” linking remuneration with output was introduced for agricultural production. A “dual-track” pricing system was adopted for industrial and agricultural products, though it also induced rent-seeking activities. Farmers and private firms that took the lead in assuming market risks saw their income rise significantly. Although gains varied from person to person, and income gaps widened within rural areas, within urban areas and nationwide, the level of inequality was an acceptable price for most Chinese who glimpsed the benefits of prosperity for the first time in generations.

Beginning in the mid-1990s, prices of most products, including grain and coal, were determined by the market as the “dual track” system was dismantled. In 1994-1995, the government substantially raised the price of agricultural produce, resulting in rapid income growth in rural China. From 1997 onwards, however, a steady decline in grain prices slowed income growth for rural households. It seems that government intervention in the grain market doesn’t always work to the benefit of farm income.

²⁹⁰ Dorothy J. Solinger, *Contesting Citizenship in Urban China: Peasant Migrants, the State, and the Logic of the Market* (Berkeley: University of California Press, 1999). Also see “*nongmingong shenghuo zhiliang diaocha zhier: shenghuo yu jiaoyu*” (The Second Investigation of Living Quality of Peasant Migrant Workers: Living and Education) (*Zhongguo tongji xinxi wang* (China Statistical Information Net), 2006).

The grain issue has been handled as a policy and political issue instead of a market. As a result of that, grain yields doubled but the distributed income stagnated, as did the net production team income during the same period.²⁹¹ The widening urban-rural income gap emerged as the leading factor contributing to China's growing inequality.²⁹²

Social services -- education

The status of education and medical care are the primary indicators to measure social equity. According to the fifth census, rural laborers in 2002 had 7.3 years of schooling on average, 2.9 years fewer than laborers in urban areas. In the countryside, only 8.5 percent were educated beyond high school, 35 percentage points lower than in the cities. By 2002, 15 percent of counties had failed to achieve universal nine-year compulsory education. This failure affected 108 million people in poor and remote rural areas, roughly 9 percent of the total population.²⁹³ Problems with financing rural education were fully described in earlier chapters, but it should be noted that even with recent changes, spending on education remains much higher in the cities and in the east than in central and western China.²⁹⁴

²⁹¹ Jean Chun Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government* (Berkeley and Los Angeles: University of California Press, 1989). p.49-55; also see D. Gal Johnson, *The Issues of Agriculture, Countryside and Peasants in Economic Development (Beijing: shangwu yinshuguan* (The Commercial Press, 2004). p.90-98; and Wen Tiejun, *Zhongguo nongcun de shiji fansi* (Rural China's Century's Reflection (Beijing: Sanlian book store, 2005). p.199-208.

²⁹² "China Human Development Report 2005," p.25.

²⁹³ *Ibid.* p.47.

²⁹⁴ *Ibid.* See Box 31. The Evolution of the Responsibility System for China's Elementary Education, p.53-54. More about regional differences in education equity, also see Unger.

Rural-urban gaps are further reflected in the quality of teachers. In urban primary schools, 57 percent of the teachers have been educated to above junior college level, while in the rural areas, the proportion is only 25 percent. In urban junior high schools, 43 percent of teachers have at least a college education, while in the countryside the proportion is only 11 percent. Rural primary schools rely on a large number of substitute and part-time teachers and a lower proportion of students proceed into higher level studies.²⁹⁵

Access to Health Care

People in rural areas also are less likely to get access to medical services. According to the third national health care survey in 2003, 82 percent of the residents of urban areas could reach the nearest medical institution in ten minutes or less. In rural areas, only 67 percent can make that claim. Seven percent of rural citizens are more than thirty minutes away from adequate medical care. Rural people also have fewer doctors to look after them: in the cities there are 5.2 medical personnel per 1,000 residents, whereas in the countryside there are only 2.4. Roughly half of all rural clinics are run by one person, and some villages have no clinic at all. The basic system of rural medical care built during the Mao era has collapsed since reform, mostly because rural communities had to be self supporting and could no longer afford their systems. Most health resources are concentrated in large and medium-sized cities because the bulk of the available funds are used for hospitals. Of China's total

²⁹⁵ Ibid. p.18.

health expenditures in 2002, 67.7 percent went to hospitals, 50.5 percent went to urban hospitals, and just 7.3 percent to rural health centers.²⁹⁶

There are also significant disparities between regions, and again, the western region fares the worst. Some poor and mountainous areas have no medical clinics, so farmers must go to hospitals in townships or county sites. Social research done by Nanjing University Professor Zhang Yulin and his team in May 2006 in “Nanjie Village and Sanzhu Village” of Henan province (Central China) reveal that the former, a so-called “small community of communism” began to give its villagers public medical care in 1996 and the villagers can be reimbursed for treatment and medicines based on their standard village rating system. For medical problems beyond the means of village clinics, villagers are moved to county, city, provincial or Beijing hospitals. In nearby Sanzhu Village, the medical clinic has poor facilities and equipment and very limited capabilities. Villagers requiring more extensive treatment must pay for the services themselves.²⁹⁷

Medical insurance is the core of adequate medical care. Coverage in the cities dropped from 56.6 percent in 1993 to 34.2 percent in 2003, but still remains higher

²⁹⁶ Ibid. p.58.

²⁹⁷ Li Songtao, “*Zhongguo nongcun fenhua wei “sange shijie”, renjun nian shouru xiangcha 12 bei* (Rural China Is Divided into “Three Worlds”, the Difference of Per Capita Income Is 12 Times),” *Zhongguo qingnianbao* (China Youth), July 31st 2006.

than in rural areas.²⁹⁸ Because of their lower incomes, the proportion of medical expenses to total income is much higher for rural residents. Additionally, migrants from rural areas lack access to medical insurance in the cities. In 2002, the State Council introduced rural cooperative medical care and higher insurance coverage for serious illnesses. There is nevertheless a significant gap between access to medical services for peasants compared with urban residents for whom insurance and facilities are within reach of all workers.²⁹⁹

Social security

Inequity in China's social security system is rooted in older policies. Medical care, unemployment insurance and retirement pay in rural areas was formerly administered through the collectives; similar services in urban areas were administered through work units, whether state-owned factories or government organizations. Social security expenditures and services in urban areas have been constantly expanding, while farmers and employees of rural township enterprises have been virtually excluded from any system of social security since the dismantling of the collectives. There was no attempt to replace the coverage that was lost with the collectives. The average government per capita expenditure for social services in

²⁹⁸ Source online yearbook of China's National Statistics Bureau and also can be confirmed by the bulletin series of the 3A group of the World Bank about China's rural sanitation situation in 2004. In the research report sponsored by the WB, Chen Wen, Liao Guoeng et al reveals that in 1993, there were less than ten percent of rural population in China had medical insurance while the ratio was more than ninety percent during 1970s under commune system. By 2003, there were still eighty percent of the rural Chinese, about 640 million populations, were not covered by any kinds of medical insurance.

²⁹⁹ See "China Human Development Report 2005." p.66. And also see Box 4.1, p.67-70.

cities is ten times that of rural areas. The Ministry of Civil Affairs began piloting a rural social security system that included a minimum living standard program in some areas in 1994. That coverage, however, was tied to local economic development and fiscal capacity, which assured that the poorest communities would get the least assistance. Only a few well developed regions have implemented the universal minimum standard for both rural and urban areas. Zhejiang Province, for example, has created a rural social security system for peasants that is intended to provide equal access to all citizens, but funding problems have prevented universal coverage.³⁰⁰

Visible and invisible hands

In China, government controls were implemented as fast as the infrastructure could be developed, and it took many forms: persuasion, military intervention, surveillance, manipulation, indoctrination and propaganda. Power was deployed for social, economic and political purposes. Power became habitual and has been a difficult habit to break, particularly since many in leadership positions have disagreed on how much control is sufficient. Routine controls consisted of reports and inspections by local cadres, and more forceful measures have often included inspection by outside teams and direct intervention. Administrative reports represent the first line of defense against shirking and waste, and are originated at the team level then collated and moved up through the hierarchy for careful scrutiny by staffs and their managers. Despite this formidable array of supervisory tools, however, Jean Oi

³⁰⁰ Wen. p.234.

argued that peasants and cadres quickly learned how to manipulate the reports so they could cheat the state and pursue their own interests, both organizational and personal.³⁰¹

From tax struggle to protecting land rights

After fifty years of research in a village in Zhejiang Province, Zhang Zhaoshu chronicled the means by which peasants used their “weapons of powerlessness” to expand their living space. Government was forced to reduce or eliminate sanctions, acquiesce to *fais accompli*, and even to regularly make concessions in their political and economic practices. The state hierarchy exerts a powerful influence at all levels, but there is no doubt that the peasants have been successful at increasing their influence through indirect means while always giving an impression of passivity and helplessness.³⁰² This section demonstrates the interaction between the government and the market and the impact of this interaction on peasant life.

In addition to the social services gap between rural and urban areas of China, there is also a great discrepancy in other public services. The discrepancy is due to causes related to government revenues, already explored in Chapter three. The differences in revenues led to differences in government expenditures, and in the amount and quality of public services. Before rural tax reforms that were initiated in 2000, farmers bore a disproportionate share of the tax burden. The rural taxes were

³⁰¹ Oi, p.85.

³⁰² Zhaoshu Zhang, “*xiangcun wushi nian: richang jingji shijian zhong de guojia yu nongmin*” (Village 50 Years: State and Peasants in Routine Economic Practice), *kaifang shidai* (Opening Time), no. 4 (2004).

known as the “four agricultural taxes,” which included an agricultural tax, agricultural specialty duties, animal slaughter tax, and a deed tax. Rural residents were also required to contribute to five types of township pooling funds and three types of village levies (*santi wutong*), as well as many unofficial fees and assessments (*sanluan*).³⁰³

As stipulated by the central government, the contribution to township pooling funds and village levies was not to exceed 5 percent of local farmers’ net income in the previous year. A number of surveys revealed, however, that the restrictions were not taken seriously by local governments, and many such fees actually resulted from higher levels of government, though it was a common practice for lower levels to add their own “markup” to taxes and fees imposed from above.³⁰⁴ In 1985, farmers in Songhuajiang prefecture in Heilongjiang Province paid ninety five different fees: fifty-eight to provincial units, ten to the prefecture, and twenty-seven to county and township departments. In Hebei in the mid 1990s, 18 provincial-level agencies issued fifty-six documents authorizing eighty-three different fees. The nineteen counties of Shijiazhuang city issued 125 such documents on the basis of which 852 fees or fines could be charged, assessments imposed or fund drives initiated. Projects launched by central government agencies often entailed the setting of targets (*dabiao*) which cascaded down to local authorities, setting off competition and leading to an endless

³⁰³ *Sanluan* means *luan shoufei* (collect illegal fees), *luan jizi* (collect money illegally), *luan fakuan* (collect fines illegally). On Sept. 16, 1990, Chinese State Council issued “Decision on firmly stopping collecting illegal fees, fines and all kinds of assessments.” It was the first time that the agrarian “*sanluan*” was officially acknowledged.

³⁰⁴ Bernstein and Lu, p.54-55.

demand for goods, cash or labor from the peasants. Research into fiscal practices in three agrarian counties by the State Council's Development Research Center revealed that the per-capita fee and tax burden was twelve percent, with one county showing a twenty-eight percent rate in 1997.³⁰⁵

Between August, 2003 and June 2004, the Institute of Rural Development at the Chinese Academy of Social Sciences (CASS) conducted a study of the dynamics of Chinese rural society. Among other revelations, the study showed that the focus on the struggle for peasant rights had shifted. The study relied on many sources, but the primary source was the Chinese media. Researchers discovered that out of 60,000 articles during the period of the study, the "three dimensions of rural issues" (*sannong wenti*) was the number-one topic, and land disputes were the most common problem. This revealed a marked departure from previous beliefs about peasant taxes, which accounted for only 1.9 percent of the stories.³⁰⁶ Most of the land disputes arose from illegal seizures by local governments or similarly from seizures otherwise legal, but for which peasants argued for higher compensation. After studying 130 reported rural disturbances, eighty-seven (two thirds) were rooted in land disputes.³⁰⁷ The research team leader Yu Jianrong pointed out that in 2002 land disputes had already risen to

³⁰⁵ "China Human Development Report 2005," p.72.

³⁰⁶ It may be significant that this figure represents the output of a government-controlled media.

³⁰⁷ Ling Zhao, Significant Shift in Focus of Peasants' Rights Activism - an Interview with Rural Development Researcher Yu Jianrong of the Chinese Academy of Social Sciences (*nanfang zhoumo* (Southern Weekend), Sept. 16 2004).

become the most serious problems for peasants' rights.³⁰⁸

With respect to land disputes, some additional information provides important background. Villager and peasant interests usually coincide, and the defendants in disputes that reach the courts are usually from city and country governments. Disparities are concentrated near urban and coastal areas, where land conversions can generate significant wealth for developers, real estate companies, development zone organizations, local governments, and for individuals as well. Since the east's economy is more developed, its land is more valuable than land in the center. Eastern land can be sold immediately, and this makes it particularly desirable to local governments.³⁰⁹ As a result of the land disputes, villagers, village groups and village political organizations have become the important leaders of land reform movements in which men and women, young and old have become involved.³¹⁰

Peasant tax activism had the unambiguous support of the central government, so the rallying cry was "Carry out the central government's policy, lighten the burden on the peasants." Land issues have been equally troublesome and even more directly related to peasant welfare, and the catch phrase for that movement is "Without land, how can we exist?" There has also been an increase in exogenous activity and pressure. Peasants who have lost their fields or suffered other damages have become

³⁰⁸ Zweig. p.165.

³⁰⁹ By way of contrast, defendants in tax disputes usually spring from villages and townships and are heaviest in central China.

³¹⁰ See Minzi Su, "The Role of Foreign Investment in China's Land-Use Policy," *Asian Perspective* 29, no. 2 (2005).

quite adept at finding sympathetic channels to publicize and support their cause. Despite an oft-heard complaint about the undeveloped status of the rule of law in China, that situation is changing and legal experts have been a small but growing part of peasant land activism. Out of 837 written appeals to authorities on land problems, lawyers were involved in forty-nine.³¹¹

There is a trend in peasant troubles. Beginning in the mid 1980s, it was tax problems that created the most trouble for the peasants. After 2001, tax and fee reforms began to take effect, and the tax burden lightened. For many, however, land problems became more devastating even while tax reforms were under consideration. With an overall economic growth and increasing urbanization, combined with several rounds of tax reforms that depleted local treasuries, lands became the main source of operating funds for local governments. This was a lucrative source of funds near well developed areas in coastal regions and close to large population centers. Seized lands were converted to non-agricultural use, and since industry and development required a great deal of land, and since peasant farms were small, seizures took many peasants off their farms. Between 1990 and 2002, non-agricultural construction claimed 471.3 million mu of arable lands. Since the average farm size was .7 mu of land per person, each mu transferred to non-agricultural use resulted in 1.4 people becoming landless. It is estimated that in 13 years, 66.3 million farmers were dispossessed of their

³¹¹ Zhao.

primary means of making a living.³¹²

Many believe that the “three dimensions of the agriculture issues” can only be solved through industrialization and urbanization, reducing the total number of people who are dependent upon farming. This is a conventional approach often seen in developing states. But China’s urbanization has been constructed upon the ambiguous status of urban and rural rights and mobility and under the black cloud of uncertain land rights and vague laws that were enforceable only for the convenience of political and economic elites. Current Chinese law states that rural lands belong to peasant collectives – a term that is now without meaning. The law permits the taking of lands for the public good and with just compensation, but none of the terms is defined, and in practice China’s governments have defined “public good” and “just compensation” to suit themselves. Peasants lack the power to decide whether, when and to whom their land use rights may be sold, much less to negotiate prices.³¹³

In January, 2003, Chinese Premier Wen Jiabao spoke in a work meeting of agriculture agency officials about land confiscation and warned: “this endangers rural stability and even the stability of the whole country.”³¹⁴ This was peasant advocacy at

³¹² Ibid. Also see Samuel P.S. Ho and George C.S. Lin, "Converting Land to Nonagricultural Use in China's Coastal Provinces," *Modern China* 30, no. 1 (2004).

³¹³ P.S.S. Ho and George C. S. Lin, "Converting Land to Nonagricultural Use in China's Coastal Provinces: Evidence from Jiangsu," *Modern China* 30, no. 1 (2004).

³¹⁴ Wen Jiabao, “*renzhen guanचे shiliuda jingshen wei tuijin nongcun xiaokang jianshe er fendou*” (Carry out the Spirit of “the 16th Central Committee of the Party” Conscientiously and Strive after Promoting the Construction of Rural “Xiaokang” Life), from *dangwu fuwu zhongxin* (Service Center of Party Affairs), Jan. 7th 2003).

the highest levels of China's leadership.³¹⁵ The policies of the new generation top leaders have excited rights activists and earned the trust of the peasantry. Rights movements³¹⁶, such as, in January 2006, hundreds or thousands of protesters clashed with police over inadequate compensation for farmland taken for industrial use in Panlong village, Sanjiao township, Guangdong province; in December 2005, a dispute over the construction of an electricity generating plant and related property seizures culminated in a violent clash in Dongzhou village near Shanwei city, Guangdong province, etc., in turn, have influenced the government, helping it to understand the full measure of peasant problems as well as the chain of conditions and effects which have led to trouble. The government's position with respect to peasant tax burdens evolved from a "complication to be eliminated," to "a political problem," to a "very pressing political responsibility," and finally to "the most important issue facing China's government." As of today, China's peasants have obtained political experience through their efforts to protect their legal rights, and have broadened their political appeal.

³¹⁵ A series of official documents had been issued by the central Party Committee and State Council to reduce peasants' burden during those years. The relative contents can be seen in Zhang Jingsong, "jianqing nongmin fudan de gonggong zhengce fenxi" (Public Policy Analysis on Reducing Peasants' Burden) (*Zhongguo nongcun yanjiu wang* (China Rural Studies: www.ccrs.org.cn), March 30th 2005).

³¹⁶ Violent clashes between demonstrators and police have erupted in not only poor regions in China's interior, but also rich coastal areas, where development pressures are heavy. See more details from: Yu Jianrong. "Dangdai zhongguo nongmin weiquan zuzhi de fayu yu chengzhang" (Development and Growth of Peasants' Rights Organizations in Contemporary China)." *zhongguo nongcun guancha* (Rural China Observation) 2 (2005). O'Brien, Kevin J. and Lianjiang Li. "Popular Contention and Its Impact in Rural China." *Comparative Political Studies* 38, no. 3 (2005): 235-59.

Market challenges and peasants' cooperatives

Collectives, state-owned enterprises and a “planned” economy left several generations of Chinese without marketing skills. Throughout recorded Chinese history, merchants were not respected in Chinese culture. “Red hat merchants” (*hongding shangren*) means that money must be linked to politics to create usable power. In the first three decades of the new China, peasants were universally assigned to communes that carried on agriculture, forestry, animal husbandry, side occupations and fisheries, and also merged industrial workers, traders, culture, the education system and military into one egalitarian presence.³¹⁷ There was no individual commercial activity. Agricultural output was traded under a unified purchase and sales system at set prices and assigned deliveries. Land and Labor were assigned and controlled. By the 1960s, there were limited sales of consumer goods, but tightly controlled, and rural trade fairs and markets were permitted before 1978, but were also controlled.³¹⁸ These conditions created an entire nation of people with little or no marketing experience or knowledge.

A free-market economy and decollectivization gave a new generation of farmers an unprecedented opportunity to look for sales opportunities and to bargain for supplies and equipment. The first tentative steps revealed to the peasants' surprise that the market was to become a constant presence in their lives. “Socialized peasant”

³¹⁷ “*Renmin Ribao* (People's Daily) Editorial - Hold High the Red Flag of People's Communes and March On,” in *People's Communes in China*, ed. Renmin Ribao (People's Daily) and the *Hongqi* (Red Flag) Magazine (Beijing: Foreign Languages Press, 1958). p.18.

³¹⁸ Dwight Perkins, “Completing China's Move to the Market,” *The Journal of Economic Perspectives* 8, no. 2 (1994). p.26.

means that the current peasants are not only rural producers but also consumers.³¹⁹

Before planting, farmers must choose crops and supplies and negotiate prices that will allow them to survive in an uncertain market. After the harvest, farmers found themselves negotiating with buyers with a new presence in the wings – competitors.

Farmers soon discovered that there were opportunists who were not very particular about the quality of the materials they were selling to the farmers. There has been a continuous problem, not yet completely controlled, with bogus and tainted materials as suppliers eagerly sought ways to cut costs and increase profits. In a report from the General Administration of Quality Supervision, Inspection and Quarantine, there were approximately 25,000 cases of fake agricultural materials, valued at ¥300 million in 2004. Out of 21,902 fertilizer samples taken from producers and sales outlets, 29 percent were determined to be fake. With increased inspection over a wider area and using larger samples, 30,000 cases were discovered in 2005.³²⁰

Another significant issue for China's farmers is agriculture education. Crop management requires not only experience but enough education and training to understand farm technology. With their limited education, many of China's peasants lacked the ability to grasp new technology, materials and methods for soil replenishment, insect and disease control, crop rotation practices and other critical information. The predictable result was low productivity, poor quality output, higher

³¹⁹ Xu and Deng, "zaishi nonghu" yu shehuihua xiaonong de jiangou ("Re-Judging Peasant Households" and Structuring Socialized Peasants).

³²⁰ See Zhu Hui, "The Value of Fake Quality Agricultural Materials Reached 300 Million Yuan in 2004," *China Economic Times*, Jan. 6 2005; and Liu Changzhong, *The Value of Fake Quality Agricultural Materials Reached 300 Million Yuan in 2005* (www.chinanews.com, Jan. 10th 2006).

costs and greater risks – a poor competitive posture.³²¹

Today the peasants' fate is determined almost completely by the market for their goods. They tend to plant the same crops which hit the market at the same time, and therefore draw low prices and face transportation and storage problems, often losing profits to spoilage. Lacking market information at planting time, they guess about crops, based on previous experience. Lacking information at harvest time, they are unable to connect with buyers as they get lost in the rush to sell. What was needed in order to help peasants create a sustainable farm living was market information, technology diffusion, available credit, reliable sources of reasonably priced materials and supplies, and the availability of labor on an irregular basis.

Partial answers, at least, seemed to arrive on the wings of new institutions, self-organized cooperatives and collectives, and timely assistance from the government. Group actions have increased the efficiency of farming operations, such as plowing, planting, the application of fertilizers and insecticides and harvesting. These associations differ from the old collectives by being genuinely voluntary. They pool their resources, exchange critical information, and maintain networks that can help with marketing knowledge and technology adaptation. Thus organized they are finding new markets, such as institutional buyers (e.g., companies, factories) that can buy in bulk. They have negotiated advance payments in some cases, alleviating cash

³²¹ Liu, Zhang, and Huo, *Zhongguo sannong wenti Baogao* (Report of China's Three Dimensional Agriculture Issue). p.347.

flow problems and providing for quality input materials and higher quality output.³²²

Although the greatest progress has been visible along coastal China, research is revealing that peasant organization is becoming more pervasive throughout the nation, wherever conditions are favorable. The benefits of peasant organizations are said to spring from “five unifications:” goods, production plans, purchases, sales, and technology. Thus it is evident that China’s peasants are becoming increasingly comfortable being assimilated into their markets and into society as a whole. The results are increased output, higher quality, lower risks and improved efficiencies.³²³ For example, in a village in Yushu City, Jilin Province, villagers organized an agricultural tools cooperative that negotiated for and purchased farm equipment and tools and made them available to cooperative members. From a marginal farming existence, this village reached ¥110 million in revenues in 2003 for ¥860,000 net collective accumulation. In recent years, this community has increased its abilities and reached prosperous levels of profitability. According to the Rural Economic Committee in Liaoning Province, there are currently 1,880 peasant cooperative organizations that number more than 200,000 member households that are involved in farming, aquaculture, breeding, processing and handling industries.³²⁴

An episode in southern coastal China demonstrated that the value of peasant

³²² Gregory Veeck and Shaohua Wang, "Challenge to Family Farming in China," *Geographical Review* 90, no. 1 (2000).

³²³ Han Jie, “Rang nongcun jinghe zuzhi xing qilai” (Let Rural Economic Cooperative Organization Rise) (*Zhongguo nongchanpin jiagong wang* (www.csh.gov.cn), 2006).

³²⁴ Wang Xiaoming, “yi hezuo zuzhi wei zaiti dongbei nongmin zoushang zhifu lu” (Cooperative Organizations as Carriers, Peasants in Northeast of China Marching on the Road of Being Rich) (*Xinhuanet*, 2006); available from http://chinaneast.xinhuanet.com/2006-06/27/content_7358556.htm.

organizations was not restricted to marketing and technology. In August 2006, a powerful typhoon came ashore in rural southern Zhejiang Province. 2100 mu of aquatic product breeding facilities were ravaged with direct losses estimated at ¥5.2 million. In previous incidents of this type, peasants were completely dependent upon government and military resources for a recovery that would take at least three months; but thanks to their cooperative, the facility re-opened and resumed production in only seven days.³²⁵

The government reports that there are more than 150,000 peasant economic cooperatives in China representing 23.6 million peasant households, which is 9.8 percent of the total peasant population. It is likely that the actual participation in cooperatives is under-reported because there was no law requiring these organizations to be registered, and because many of them are small, informal organizations formed as part of families, clans or similar ties. The Peasant Professional Cooperation (PPC) Law, which was released in October 2006 by the National People's Congress and became law on July 1, 2007, gives peasant economic cooperatives their legitimacy. Although work remains to fully recognize and make use of peasant economic organizations, this law has provided a legal platform upon which to continue the improvement of peasant society.³²⁶

³²⁵ Qiu Junhui, "*nongmin baotuan chuang shijie hezuo youle dingxinwan*" (Peasant Cooperation Is Reassured), *People's Daily*, Nov. 13rd 2006.

³²⁶ Ji Tan, "*chutai nongmin xinyong hezuoshe zhengce weishi shangzao*" (It is Still Too Early to Issue Peasant Credit Cooperation Policy), *diyi caijing ribao* (No. 1 Financial and Economic Daily), Nov. 14th 2006.

WTO and problems without easy solutions

China's accession to the World Trade Organization helped accelerate China's marketization by creating a foundation for increased international trade. At the same time, however, some of the policy changes required as part of the WTO qualification process would adversely impact China's peasants. Imports and exports of agricultural products have an important effect on the prices that can be obtained for domestic agricultural products. It is also impacting China's grain and food security, and is impinging on government measures intended to raise the living standards for its hundreds of millions of peasants.³²⁷ China has scarce land resources. Due to industrialization, urbanization, and population growth, the natural degradation of the soil dropped per capita arable land from 1.59 to 1.40 in just ten years. That is 40 percent of the world average.³²⁸ China has a serious water shortage and uneven distribution of available water supplies. In northern China, per capita arable land is 20.2 percent higher than the national average, but available water is only 23.6 percent of the state average.³²⁹ As a result of these conditions, China does not have a comparative advantage in land-intensive agricultural products like grain and cotton. Both are resource dependent and operate at high risk levels, susceptible to variable

³²⁷ Zhang Yixuan, "Zhongguo nongye yingdui WTO he yi biao xian busu?" (How Could China's Agriculture React WTO Well?) (www.people.com.cn, Jan. 5th 2007).

³²⁸ Source is from the investigation result of land changes of Ministry of Land and Resources published in April 2006. See www.mlr.gov.cn.

³²⁹ See "land resource management" of Ministry of Land and Resources from www.mlr.gov.cn.

supply markets, the climate, and other conditions beyond peasant control.³³⁰

After years of forcing and controlling production, state control over grain production has gradually been replaced by new markets. As soon as the state discontinued its quotas, grain production dropped immediately.

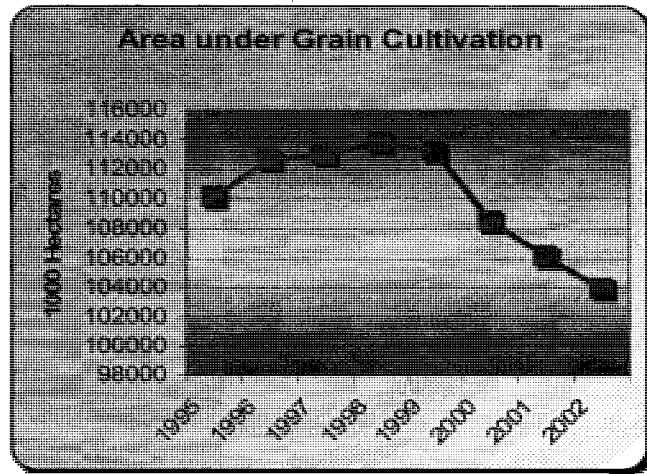


Figure 5-1 Source, China Yearbook 2004

Thanks to improvements in their

diets and the previously mentioned imports, grain use is limited and prices are unlikely to increase. The government continues to provide farm assistance in the form of seeds, research, chemistry and infrastructure development, but the net result of market conditions has reduced farmer enthusiasm for the production of grains and they have increasingly turned to the cash crops: vegetables, fruits, dairy, poultry, fish and other higher margin products.³³¹ An old well-known aphorism “big grain-producing county = small industrial county = poor financial county” has led experts to conclude that amelioration of the peasant lot is not likely to succeed on the basis of grain farming.

³³⁰ *liangshi zhiliang jianguan shishi banfa (shixing)* (Implementation Measures of Quality Supervision of Grains (Experiment), (Jan. 1st, 2005).

³³¹ See Veeck and Wang.

The area dedicated to the production of grains has been steadily dropping, and was down to less than 100 million hectares by 2003.³³²

Total grain flows for the fourteen years between 1990 and 2003 netted a net import balance. In 2004, the government encouraged peasants to produce more grains, and production reached 470 million tons, an increase of 38.8 million tons over the previous year. The cost was high, however. Direct subsidies for grain farmers and bonuses for adopting improved strains of seed stocks cost ¥15 billion. The end result is that costs for the additional 38.8 tons rose by ¥400 per ton, unacceptably high marginal costs.³³³ The selling price of grain products is relatively inelastic, meaning that if the price of grains goes down, people do not suddenly begin eating more bread. Official grain policy runs a gauntlet between high costs, WTO restrictions, poor farmers, food security and reasonably priced food products for its vast population.³³⁴

Another factor that compounds the complexity of Chinese agricultural production is the significant presence of international firms in China. Cargill, ADM, Bunge and Louis Dreyfus have built sixty-four wholly-owned or joint venture companies for the production of edible oils. These companies own and control about two thirds of oil producing companies and 85 percent of the market in China. This presence represents a significant force in the market for supplies and raw materials. In addition to

³³² Zhu Xigang, "Zhongguo liangshi gongxu pingheng fenxi" (Analysis of China's Grains Supply-Demand Balance) *jingji cankao* (Economic Reference), March 31st 2005. The data of the chart comes from the yearbook of China's National Statistics Bureau website: <http://www.stats.gov.cn/>

³³³ Ibid.

³³⁴ Veeck and Wang.

controlling the markets, each time one of these organizations merges with a Chinese company, the Chinese presence disappears. Not only is a Chinese firm taken out of production, but peasant interests are harmed at the same time – “one shot, two holes.”³³⁵

Preferential policy for foreign investment was a significant part of China’s economic recovery, but has caused significant harm to domestic firms. The policy is changing. In March 2007, the Fifth Conference of the Tenth National Party Congress passed a new tax law that standardizes taxes between domestic and international companies. The law takes effect on January 1, 2008. Chinese companies currently pay an income tax at a nominal rate of 33 percent, while their foreign competitors pay an average of 15 percent. When the new law takes effect, both will pay a tax rate of 25 percent. Other incentives such as pre-tax deductions, refunds for re-investment and special date preferential treatments will also be standardized between domestic and foreign firms.³³⁶

Heilongjiang province is China’s main bean-grown region, and is thousands miles from its market. Farmers have been discontinuing beans in favor of other crops or other land use for years. Imported beans, high material costs, and high transportation and storage costs are having a severe impact on bean farming. The cost per ton of beans in Hebei is ¥200 higher than imported beans. Farmers are hoping for financial

³³⁵ Zhang Guiying, “*Heilongjiang dadou shou rushi chongji, zhengfu jie tiaokong zuoqiang chanye yoush*” (Bean in Heilongjiang Attacked by Entering into WTO and Government Supports the Industry Strength by Macro-Control) (*Zhongguo nongcun faxian* (Rural China Discovery), Feb. 15th 2007).

³³⁶ Corporate Income Taxation Bill, (Jan. 1st, 2008).

support to help with costs and for policy support to give preferential treatment for domestic bean producers and processors.³³⁷

In addition to the non-competitive beans, the prices of other staple crops such as wheat, corn and cotton are higher than those in the world market too, which means more and more foreign products are finding their way into China, and there doesn't seem to be any acceptable way to reverse that trend. At the same time, excess supplies have created a buyers' market. This effect becomes more pronounced the farther a rural village is from its markets. The most serious problems and the most expensive and elusive solutions are all in central and western rural China.

Non-grain agricultural production (e.g., vegetables, fruit, fish, and animal breeding) can make full use of the comparative advantage of rural China's labor; however, while it increases productivity and efficiency for the peasants, it is accompanied by higher market risks due to pricing fluctuations in local markets and because of all kinds of institutional limitations for individual peasant households facing a market with incomplete information.³³⁸ At present, there are three distinct market segments in China for peasant's fruit and vegetables: (1) traditional markets, which still constitute over 90 percent of the volume of production, (2) emerging modern domestic urban markets, and (3) high-standard export markets (See Table 5-1).

³³⁷ Zhang, Ibid.

³³⁸ Veeck and Wang, p70

Table 5-1 Characteristics of three production and market segments ³³⁹

	Traditional local	Modern urban	Export
Food safety awareness, compliance	Low	Emerging	High
Supply-chain organization	Scattered, supply driven	Efforts to control by processor, retailer	Demand driven, control by exporter
Price, value added, standardization	Low	Increasing	High
Participation of small-scale producers	No constraint	Constrained by still underdeveloped producer organization	Almost excluded; need for producer organizations
Competitiveness depends on:	Low cost	Sufficient quantity, consistency	Quality, volume, flexibility, innovation
Trust between buyers and sellers	Not so important	Emerging role	Crucial factor

Since China's access into WTO, agricultural exports have seen an average annual growth of 14 percent, and China now is the fifth largest exporter of agricultural products. The labor-intensive agricultural product (non-grain) exports have accounted for more than 70 percent of the total. During 2001-2006, China's tariff of agricultural products has reduced from 23.2 percent to 15.23 percent. It is only 1/4 of the world average level of 62 percent, and far lower than that in the United State, Japan and EU. China's agricultural imports have increased by 25 percent annually, and China has become a net importer of agricultural products, largely in lower-priced grains and

³³⁹ "China's Compliance with Food Safety Requirements for Fruits and Vegetables," (World Bank, 2006).

feedstocks from countries where conditions are better suited to large-scale mechanized farming.³⁴⁰

International economics and trade conditions also affect China's farmers. Technological trade barriers exert powerful dampening forces on China's agricultural exports. European markets have long been suspicious about the quality of imported agricultural products, while North American and Japanese farming, among others, have long been protected. These countries increase quarantines and raise inspection standards, and Chinese exports have been found with problems often enough to provide support for those who have kept tariffs high and quarantines in place.³⁴¹ Whether the sanctions are legitimate and reasonable or an unwarranted form of protectionism is a matter of conjecture and debate, but in either case, the international agricultural trade system is a complex and formidable one for China's farmers and in international trade negotiations is frequently accused of political overtones, not-too-hidden agendas, and violations of international trade treaties and institutions.

³⁴⁰ Zhang Yixuan, "Zhongguo nongye yingdui WTO he yi biaoxian busu?" (How Could China's Agriculture React WTO Well?) (www.people.com.cn, Jan. 5th 2007). The data can be found in the yearbook of China's National Statistic Bureau website: <http://www.stats.gov.cn>.

³⁴¹ In a recent incident, it was discovered that at least two Chinese firms had bypassed Chinese food inspection procedures for products that contained melamine and that ended up in pet foods in US markets. David Barboza, "Chinese Firm Dodged Inspection of Pet Food, U.S. Says," *International Herald Tribune*, May 2, 2007; Yu Weijun, "Zhongguo nongchanpin chukou zaoyu jishuxing maoyi bilei?" (China's Agricultural Product Export Is Blocked by Technological Trade Barrier), *Zhongguo maoyi bao* (China Trade), Sept. 9th 2005. Similarly, pharmaceutical products all over the world have been manufactured with low cost Chinese raw materials in which ethylene glycol, a highly toxic substance that is the primary component of automotive anti-freeze. Deaths have been reported world wide in large numbers. Walt Bogdanich and Jane Hooker, "From China to Panama, a Trail of Poisoned Medicine," *New York Times*, May 6, 2007.

Summary

In contemporary China's decentralized agrarian economy, it is an accepted reality that quality, technology and information management systems are undeveloped at best; and it is apparent that peasants in those areas lack the contacts, organization and knowledge to be active in those international trade negotiations. On the other hand, the increasing volume of agriculture product imports keeps inventories high and depresses prices – the very forces that lead other developed nations to adopt protectionist measures, but which have been denied to China since its accession to the World Trade Organization. State policy needs to coordinate and integrate domestic and international political and economic forces at a macro level, while peasant farms remain one of the few significant “buffers” that must constantly adjust to international markets.

The picture is further complicated by regional issues. Farmers along the east coast, thanks to their access to international and large domestic markets, have had significant opportunities to improve technology, production methods, crop and productivity improvements, and to organize themselves to capitalize on these opportunities and to develop their management and marketing skills. Every advantage that is visible along China's developed east is matched by a corresponding limitation in the central and western regions. Since these conditions are not likely to change spontaneously, it has become evident that government intervention in the form of policies and investments will be required to alter the situation. Although opportunities

may be limited by trade agreements, some key development factors can be influenced in important ways. Remoteness can be alleviated with infrastructure, productivity can be enhanced with improved soil treatments and seeds, with technology and in some cases with mechanization; and irrigation and conservation projects can make arid lands productive. However, the utmost part would be what the role Chinese peasants like to play and can play in the dramatic changing world.

Chapter Six

China's New Rural Development Strategies

Three decades of reform have changed the economic landscape and development trajectory in China. Agricultural productivity has increased; many farmers have shifted into higher valued crops, making crop and breeding decisions increasingly on market-oriented principles; and the nation has by the far the most sophisticated agricultural biotechnology program in the developing world. Many of its scientific breakthroughs are of global importance. Rising food exports demonstrate that China's farmers are now able to compete on international markets, though infrequent but serious incidents have triggered international and domestic concern and legal and quality assurance activity. More than 40 percent of rural residents have found employment off the farm; and more than 100 million of them have moved to urban

areas for employment. Rural incomes have risen significantly and hundreds of millions of people have escaped poverty during this time. Growth in agriculture, non-farm employment and rural industry, and the transformation of domestic and international markets have changed the face of rural China and are playing key roles in the nation's modernization. There are concerns, however, within China's government about air and water pollution, erosion, deforestation, and strained water and energy resources, among other problems. On the rural policy side, dramatic changes have taken place over the last ten years. China has entered the World Trade Organization (WTO); shifted its policy orientation from pure growth to overall well-being (a *xiaokang* society in a "new socialist countryside"); and made a switch from net taxation of agriculture to net subsidization.³⁴²

Rural development policy was updated as a key element of the government's economic strategy with its 10th Five-Year Plan covering the period from 2001 to 2005. Where previous planning called for increases in farm income and grain production, this new plan aimed at *xiaokang*, an overall prosperous rural society and comfortable lifestyle. The new language of *sustainability* found its way into the plan, and the old ideal of growth at any price was replaced with a strategy that made use of modern science. Environmental sustainability and modern technology were the cornerstones of a plan to raise productivity and the quality of life at the same time. The plan raised to the level of a nationwide objective the reduction of China's large economic,

³⁴² "The World Bank's Rural Sector Strategy for China" (New York: World Bank - East Asia and Pacific Region Rural Development and Natural Resources Sector Unit, 2006).

political and social gaps. Common to every part of the strategy was an emphasis on an urgent need to address rural economic conditions in the west and to revitalize the sagging economy in the northeast where traditional heavy industries had been struggling with outdated equipment and technology.

The strategy acknowledged great challenges within the rural economy. Arable land was limited and had been shrinking against the forces of urbanization, industrialization and commercial land development. Farms were smaller than ever. The unrest on the part of the peasants had increasingly boiled over into the streets during the 1990s, threatening stability. Progress, it was recognized, would need to include transformations of major proportions: from rural to urban and from agriculture to industry. Modernization was to be a comprehensive, long-term project, but there was an urgent need to reverse the trends in inequality. This meant that farm income and well-being would remain as urgent, high-priority needs. At the same time, it was clear that a robust rural economy that provided work and food security would continue to represent a vital part of China's economy during a development project that would take decades.

China's 11th Five-Year Plan

Part of the 10th Five Year Plan was taken up in research and planning for the next five year plan. China's 11th Five-Year Plan (2006-2010) separates itself from previous ones both in form and content that largely focused on growth as the key objective. The new plan proceeded along two strategic lines, a scientific concept of

development and the goal of building a harmonious society. The goals include economic projects, and other objectives concerning people's lives, social development, and environment. As a strategic guidance, the concept of building a new socialist countryside differs from the previous two area-specific documents which addressed particular issues, such as grain production, farmers' income, and agricultural production capability, by prescribing a multi-faceted solution incorporating rural construction, social undertakings and democracy.

Goals and principles for building a new socialist countryside

Building a new socialist countryside is a long term task and a huge project. According to CCP planning documents, a new socialist countryside is described with 20 Chinese characters -- *shengchan fazhan, shenghuo fuyu, xiangfen wenming, cunrong zhengjie, guanli minzhu* -- which means enhanced production, higher living standards, a healthy and stable lifestyle, neat and clean villages and democratic town and village management.³⁴³

“Enhanced production” – material base of a new countryside

The most important task in building a new socialist countryside is enhanced rural productivity. In addition to its contribution to food security and as a source of jobs in a state with a huge population and frequent natural calamities, a stable and productive

³⁴³ “Zhonggong zhongyang Guowuyuan Guanyu Tuijin Shehuizhuyi Xinnongcun Jianshe De Ruogan Yijian” (Opinions on Promoting Construction of Socialist New Countryside by the Central Committee of the CCP and State Council), *Xinhuaawang* (Xinhuanet), Feb. 21st 2005); available from http://news.xinhuanet.com/politics/2006-02/21/content_4207811.htm

agriculture is still obviously the keystone of the rural economy. Moreover, although agriculture's contribution to exports has become smaller, it is still a significant part of China's trade picture. Agriculture is also the base for rural industry.

Enhanced production first means agricultural modernization and enhancement of productive output centered on grain production. During the 11th Five Year Plan period, the plan is to streamline and modernize both industry and the agriculture sectors. China's push for technology advances is clearly not restricted to space, computers and biotechnology, but is also intended to fortify and enhance agriculture. Neither industry nor agriculture are proceeding along independent lines, but are progressing together.

Significant fixed asset investment is planned to alleviate water shortages in chronically dry regions of China. Where water has not been a major problem, existing supplies may still be strained by increasing population and industrialization. This aspect of rural development is noteworthy because it includes not only the movement of large quantities of water from one area to another, but also because it places equal emphasis on water conservation in every aspect of treatment and use.

Another aspect of farm productivity is tied to *wotu gongchen* which is scientifically engineered soil treatments making full use of both natural organic fertilizers and chemical treatment as required. Soils will be analyzed and treatments will no longer be applied using a generic formulation, but used after testing makes it possible to prescribe specific treatment conditions and requirements.

The productivity improvement plan also includes such “green” considerations as returning farmland to forest and returning grazing lands to grass. New plans also include consideration of topics not previously covered, such as mountainous terrain. Industrial planning now includes local considerations like land, infrastructure, and labor and is no longer left as a product of tax deals between municipalities and businesses. Pollution sources such as pesticides, fertilizers, and plastic mulch film will be regulated in their use and controlled in their effects on the environment. Breeding sites will be carefully controlled with respect to such issues as sanitation, air and water pollution, use of antibiotics and hormones, and disease prevention.

The major focus of infrastructure development in both state and local budgets will continue to be directed toward agriculture and the countryside. Investment, banking and fiscal policy will be better coordinated to assure capital flows where it is intended and where it can have the most favorable impact on agriculture. Rural households and small and medium enterprises will have improved access to collateralized loans. Micro-banking and other small loan credit will be developed and encouraged in support of development goals. A successful pilot project for policy-based agricultural insurance will be expanded to help farmers recover from natural disasters.

In China’s emerging rural market economy, smallholder farms are competitively very weak because of their dispersion and lack of timely and accurate market information. For this reason, professional farm cooperatives, once banned by the

communist party, are now encouraged and even supported and often led by local party members. The cooperatives give the farmers the benefit of a more influential voice, a source of accurate and timely market information, the ability to purchase equipment and supplies in large quantities and thus negotiate for price advantage, and an opportunity to improve their knowledge of crop and technology advances. Other organizations are beginning to take root, specifically to identify and capitalize upon opportunities related to rural industry. With these new networks, farmers can create opportunities for manufacturing, commerce and even trade where none previously existed. They benefit not only from the farming knowledge they gain, but with official support, they are kept aware of policy changes, regulatory activity, public health issues and financing opportunities.

The new plan recognizes and has been developed to encourage and work with the market for agricultural goods. The market stimulates thinking about upgrading the quality and broadening the variety of farm output. *Wancun qianxiang shichang gongcheng* (the thousands of villages and towns market project) is to be developed to energize the rapid transport along the “green channel” of clean and fresh products to the consumers, free of intra-provincial restrictions and tolls.

With subsistence levels of farming, markets dawdle and there is insufficient capital or material available to support rural industry. As farm productivity increases, agriculture-related rural industry, and eventually non-agricultural industry can develop, lengthening the supply chain from urban and industrial markets into the countryside.

This is not new, “rural diversification and industrialization is an enduring theme in Mao’s economic thought.”³⁴⁴ This is a cycle in which increased income translates into increased spending and increased demand for consumer goods and services. An economy with a better balance between rural and urban income also continues to absorb rural labor, continuing a cycle of prosperity, not only for a favored and bolder few, but for all those willing to work.

Much of this development plan rests on the ability of the state to develop and enforce the rule of law. There are myriad varieties of fake and unhealthy or dangerous products in circulation in China, and because they are counterfeit, they are cheap to produce, and because the peasantry cannot afford higher quality goods and have been unaware of the extent to which many of the products they buy are not fit for use, the market remains brisk. Because the products are cheaply made, the profits are high, and the taxes and jobs created in their production means the producers have long been protected by the very people whose job it is to detect and put a stop to their illegal activities.

The development plan recognizes human capital as the engine that will drive productivity increases in the countryside. After years of official neglect, education

³⁴⁴ Selden, Mark. "Jack Gray, Mao Zedong and the Political Economy of Chinese Development." *The China Quarterly* 187 (2006): 680-85. Also see Mao's work during 1950s-70s , such as, *Socialist Upsurge in China's Countryside* (1955), *The Ten Major Relationships* (1956), and *The Critique of Soviet Economies* (1960-61), etc.

and health services are key to the improvement of China's rural human capital. All of the planning and investment comes to nothing if farmers are not capable of understanding their training or the communications from their cooperatives. The generations of peasants that had little or no education opportunities will receive training and closer support until the next generation of farmers masters the technology and principles of modern farming and agriculture as a business. Along the way, it is hoped that the negative image of farming as a mind-numbing drudgery punctuated by frequent natural disasters and very harsh conditions that drive young people away can be replaced by a healthy and profitable lifestyle, outdoors and away from the pollution and noise of the cities. China needs its farmers, lots of them.

Well-off living standards

The core objective of the new socialist countryside plans is nothing short of significant improvements in lifestyle. The solutions are complex and require careful coordination of goals and plans and wholehearted cooperation of every branch at every level of China's government. At the macro level of analysis, officials work with macro-economics and sweeping regulatory and fiscal policy design. They recognize that with hundreds of millions of peasants in the population, an increase of peasant income can unleash a consumption potential of enormous proportions, stirring demand that can dramatically stimulate the national economy.

There are two ways to increase rural income, both of which have been developing

with significant success.³⁴⁵ The first is to raise the productivity of the farms while promoting the quality of the delivered goods. It is no mystery that capitalizing on local strengths and identifying key market niches have led to the most gratifying success stories, (e.g., garlic in Gansu, silk worms in Jiangsu and eggs in Liaoning in my case studies). While competition between farms and villages tends to depress prices, cooperation can lead to specialization and the kind of promotion that can lead to brand recognition, increased demand and higher prices. The second approach to increasing income is to encourage the movement of rural labor. Those left behind will find themselves with larger plots that can be farmed more efficiently, and those who leave can find higher-paying work they can bring back to the farms. Supporting labor migration means encouragement and support for TVEs through an industrialization policy that intentionally reaches into the countryside. New labor laws that take effect in January 2008 creates better working conditions and higher wages for migrant labor. Taken in combination, there have been plenty of setbacks to rural migration and TVEs.

Current policy seems to be working with the market instead of demonstrating heavy-handed attempts to control it. The market takes longer to reach a state of equilibrium, but the new policy recognizes the end result is expected to lead to reasonable prices and a flow of goods that balances well with a reasonably stable demand. The central dictum to “give more, take less, and stop interfering” is resulting

³⁴⁵ Yin Chengjie, the standing deputy minister of Ministry of Agriculture introduced farmer’s net income had increased for three subsequent years over 6 percent, and mainly because of the growth rate of multiple sources of earnings due to household operations, labor work, and property revenue, etc. in the Press conference provided by State Council of P.R.China on Sept. 13th, 2007.

in reduced taxes, increased subsidies to encourage growth in certain directions, and a gradual shift of conditions inside China to stop penalizing people who choose to stay on their farms and in some cases even offering incentives³⁴⁶ to do so.

New development policies recognize the need to adjust social security programs. Rural citizens account today for about 60 percent of China's population but 20 percent of the medical care resources. In addition to the previously discussed changes in education financing, China's new development policy includes provisions for cooperative medical care, rural pensions, and social relief programs such as unemployment insurance. Budgets for social programs are forecast to increase dramatically as a result of the new socialist countryside initiative, and the bulk of the increases are planned for rural development.

³⁴⁶ Gale, Fred, Lohamar Bryan, and Tuan Francis. *China's New Farm Subsidies* United States Department of Agriculture, 2005. Available from www.ers.usda.gov, "China introduced direct subsidies to farmers, began to phase out its centuries-old agricultural tax, subsidized seed and machinery purchases, and increased spending on rural infrastructure." In fact, there are many detailed spending information on this since 2004 can be found on the China's official media, e.g. People's Daily and XinhuaNet, etc.

Social infrastructure construction plan

Rural compulsory education - Students included in the rural compulsory education system in western areas is exempted from tuition. Those born in poor families get free textbooks and lodging allowance. Beginning in 2007, the policy is extended to all rural areas across the country. Starting in 2009 lodging will be free for all rural students attending boarding schools. Funding is shared between central and local government, and other resources, such as university intellectual support, teacher development and distance education are the responsibility of the providing organizations.

Rural health care and sanitation - Governments at all levels take responsibility for keeping increasing input into the rural public health infrastructure which consists of clinics in towns and villages, and into the system of basic health care service and aid. Five year expenditures of ¥21.6 billion are planned to create an integrated medical care network of facilities linking counties, towns and villages. Rural medical staffs receive training and urban facilities no longer are permitted to turn away rural patients. Rural family planning medical support as well as “*shaosheng kuai fu*” lower birth rate incentives are extended.

Rural social security system – a system will be developed to provide a safety net for rural residents similar to that now available in urban areas. These include a guaranteed subsistence allowance, special subsidies for the poor and relief and recovery aid for the victims of natural disasters.

Healthy and civilized lifestyle

This dimension of the new socialist countryside aims at tending such areas as Chinese rural culture, norms and public security. While many farmers enjoy a simple life, too much simplicity can become tedious. A community without a strong and healthy cultural framework can easily give root to unhealthy social trends such as gangs, modern counterparts of the warlords of a previous era.

Among the unhealthy manifestations of a negative culture are cited above such things as an unhealthy preoccupation with competing with neighbors in the appearance of homes and even in the beauty of tombs and monuments for those still living. There is a widespread perception among China’s youth that urban life offers wealth without

effort, and that the values and traditions of respect for the elderly are barriers to a better life. The proliferation of Mahjong parlors attests to the existence of a segment of the rural population that relies heavily on luck for their futures. While such issues are left as a matter for individual responsibility, morality and choice in western nations, these “unhealthy” cultural manifestations are fair game for those who write culture policy for China’s government.

An idea that was floated and became part of rural development policy came in the form of an “Opinion on further strengthening rural cultural development” from the Central Committee of the CCP and the State Council. It includes plans for culture centers in every rural village by 2010, facilities where social activities and facilities, exercise opportunities, and books and information centers where grassroots programs can be launched and nurtured. The work and information of these centers is to be closely coordinated with the elementary and middle schools, with the education network, with distance education, and with televised cultural programs.³⁴⁷

Between 2006 and 2008, the central government has been investing ¥20 million each year to send five million books to the libraries in poor counties and to the township culture centers. Beginning in 2006, the government budgeted ¥50 million to purchase, equip and staff “cultural trucks” in a project to serve rural communities – sort of a “culture on wheels” program. The project began in twelve provinces and autonomous regions in 2005. Cultural workers are being instructed to get to the most

³⁴⁷ No. 27 document of the Offices of the Central Communist Party Committee and State Council, Nov. 7, 2005 http://www.gov.cn/gongbao/content/2006/content_161057.htm .

remote villages in China's countryside to attend to their needs. They provide for cultural programs and activities, nutrition, exercise and financial guidance and encourage the formation of grass roots activities from within the villages. The program attempts to replace medical and nutritional myths with knowledge and to develop a foundation of basic life skills among those whose isolation has left them lacking this basic knowledge. One of key work rural township government has been focusing on is to eliminating illiteracy rate, especially rural women's during decades. The current improvement of rural education system (Box 1) certainly can help with this too.

Neat and clean villages

This objective aims at transforming dirty, run-down and inadequate houses, streets and farms into desirable homes and places in which to live and work. Many rural villages still make use of open-pit toilets, muddy streets with unsanitary runoff, dirty wells and springs, and with large numbers of ducks and chickens roaming the yards and streets. There has never been any form of village planning, so there is no logical separation between industries and homes, no logic to the layout of streets and roads, and large amounts of wasted land. Trash collection is nonexistent and is generally dropped where it is created or along the roads or trails or behind the houses. Where there is rural industry there is predictable air, water and noise pollution.

Correcting these conditions will be expensive and slow and made more complicated because they will involve resources from every corner of society and

government, will require corvée labor³⁴⁸, and will at the same time require sensitivity to cultural issues, religious facilities, antiquities, ethnic uniqueness, and archeological valuables. Clearly these transformations cannot take place without the willing involvement of the residents themselves.

At present, more than half the villages in China have no running water. About 100 million people's lives are supposed to be improved with the addition of running water during the four years between 2006 and 2010.

About 40,000 villages do not have any roads, while another 300,000 have roads and streets but they are unpaved.³⁴⁹ The eleventh Five Year Plan provides for ¥100 billion for road construction. By 2010, all of the towns and all the villages in eastern and central China are supposed to have paved roads and streets. Roads are planned for all villages in the west, though paving will come later.

The plan calls for new energy sources to supply the needs of rural China. Methane generation, straw gasification, small hydroelectric generators, solar energy and wind farms will become the options of choice for these new projects. Rural

³⁴⁸ As a part of former tax system, simply a village committee can assign a farmer 20 days unpaid work per year to work on rural public affairs, such as construction on rural schools, building roads, field infrastructure, rural residents & animals drinking water projects and small-patterned rural irrigation projects. Now, the central policy requires local governments to convert farmers' wages into such work, but often in reality, due to such unpaid work benefits local farmers, there have not been many disputes. See more from "yigong daizhen zhengce ruhe yu guoji jiegui" (How the Chinese Work Relief Policy Merges into International Standard) *Zhongguo gaige bao* (China Reform), May 31st 2006.

³⁴⁹ Without additional statement, the data source all came from interviewing Chen Xiwen, the deputy director of the Office of the Leading Group of Rural Work of the Central Committee of the CCP. See Cheng Gang, *guanazhu: "shiyiwu" guojia dasuan hua duoshao qian jianshe xin nongcun*" (Attention: How Much Will Be Spent in Building a New Socialist Countryside during the 11th Five-Year Plan Period?), *Renmin wang* (www.people.com.cn), March 1st 2006.

methane projects began in earnest in 2006 and will accelerate in importance during the next couple of years. Methane generation involves the construction of methane pools which can drive the improvement of animal pens, toilet facilities and reduce waste and generate clean and useable household energy in the process.

The plan calls for virtually complete rural electrification with the completion of power distribution grids by 2015. In the same timeframe, telephone and postal services are supposed to be reaching virtually all rural households. The plan acknowledges that the expenses associated with all these projects are formidable and essentially out of reach without the willing participation of rural residents.

Policy, regulations and training have begun to stress the importance and technology of village planning, including land management, zoning, home siting, infrastructure provisions, and other projects and systems that reflect a “people first” orientation. Efficient and “green” designs for housing and other buildings can be made available to all at no charge with efforts. Basic health and sanitation principles, such as maintaining a healthy distance between the people and the farm animals can be gradually taught. Plans, techniques and facilities are supposed to be developed to properly treat raw sewage and to dispose of solid waste in a sanitary and non-polluting way. A common practice of the illegal dumping of urban waste in sparsely populated rural areas has been made illegal and enforcement measures have been implemented.

Democratic management

China’s government has been experimenting with elections since the 1980s and

the results have been sufficiently positive that more democracy is planned for the future of towns and villages. As reported earlier, however, there have been problems in addition to successes, so the new development plan calls for more detailed rules, a continuing effort to inform and educate both the voters and the administrators, and additional monitoring to assure acceptable processes and fair results. These measures are seen as key to holding township governments responsible for creating conditions for local economic development and for delivering public goods and managing the social and cultural environment for the good of the population. The clearest path to this condition is an engaged and knowledgeable citizenry.

In the spring of 2007, government estimates revealed that if the government were to fund only the basic projects for creating roads, making suitable drinking water available to everyone, electrification, and basic household needs the cost would approach ¥5 trillion.³⁵⁰ The cost of labor and materials is prohibitive, and the length of time it would take to manage the effort at the state level is unacceptable. Corvée (donated or conscripted) labor is seen as the answer, and considering the number of people available, this approach seems reasonable and is part of the plan. At the same time, it is recognized that a hostile labor force is the least desirable approach to a long list of massive construction projects. This is the reason that the rural culture, the integrity of local government, the quality of the leadership and the focus on genuine

³⁵⁰ Chen Fang, “*Quanmian lijie shehui zhuyi xin nongcun jianshe de ershi zi fangzhen - fang zhongyang nongcun gongzuo lingdao xiaozu banggongshi fuzeren*” (Fully Understanding the 20 Characters of Building New Socialist Countryside - Interviewing the Head of the Office of Rural Work Leading Group of the Central Committee of the CCP) *Xinhua wang* (Xinhua Net), Feb.14th 2006); available from http://news.xinhuanet.com/politics/2006-02/14/content_4179516.htm .

peasant needs and participation have become such important parts of the new socialist countryside plan.

Characteristics of the new policy approach

First – the plan contains both short and long-term goals

The government's current approach to rural development is characterized by three key differences from previous attempts: First, the impatience to show quick results has been replaced by a plan that shows both ongoing measures that can bring immediate relief, and long term goals, plans and actions that recognize that transforming the lives of 800 million people is a large and expensive undertaking with final results still distant, and still part hope. At present, agriculture and rural development are still in their infancy in many parts of China. The agricultural infrastructure is weak, social development lags urban progress, and tensions over the intensifying urban-rural gaps have become an urgent matter.

The first (short-term) measures have been taken: agriculture taxes have been eliminated and the tab for social services including education and public health services has been picked up by the government; investment in agriculture and agricultural subsidies are increasing farm income; financial pressure on the lowest levels of government that caused so much mischief has been eased; and public services are being delivered in the form of tighter financial control, infrastructure development, training, guidance and expertise. These short-term actions have brought

quick relief, and the evidence indicates positive results that are becoming more significant. In 2004, reductions in taxes and fees alone translated into direct benefits for farmers of ¥45.1 billion. In 2005, the benefits had increased to ¥70.2 billion, and in 2006, to ¥125 billion.³⁵¹ In 2006 the total reached ¥125 billion.³⁵²

The second (long-term) part of the plan acknowledges that agricultural and rural development in China is still facing an uphill climb. This part of the plan includes such measures to ease *sannong wenti* as production development, infrastructure construction, improvement of public services, training and education for farmers and their families, grassroots political and cultural development, and environmental sustainability, all of which take longer to accomplish and longer yet to show a return.³⁵³

Second – The plan contains top-down leadership and incremental change

The second characteristic of current development plans is that it is an undertaking that is still dependent upon top-down leadership and resources. Despite global level criticism of top-down, imposed development and a call for bottom-up, locally-inspired and led programs, the truth in China is that peasants are neither naïve people to be led through every step, nor sophisticated and capable decision makers who will

³⁵¹ Chen Xiwen, “*Tuijin Shehuizhuyi Xinnongcun Jianshe*” (Promote Building Socialist New Countryside) *Xinhua wang* (<http://www.xinhuaawz.com>), 2006).

³⁵² Chen Erhou, Yao Rongfeng, and Dong Jun, “*Xinnongcun jianshe kaiju zhinian: jiuyi nongmin shouhuo chendiandian de shehui*” (In the Beginning Year of Building a New Socialist Countryside: 900 Million Peasants Harvest Heavy Benefits) (Xinhuanet, Dec.21st 2006).

³⁵³ Chen Yuchuan and Zheng Xing, “*Qicao zhe jiedu yihao wenjian: fazhan xiandai nongye zhengdangshi*” (A Drafter of No.1 Document Interpreting It's Just Time Develop Modern Agriculture) *Renmin wang* (www.people.com.cn), 2007).

accomplish great things if they are only left alone. The more recent approach in China was to “take less, give more and don’t interfere”³⁵⁴ which worked in the most favorable locations along the east coast and near cities and industrialized areas, but leaving them alone won’t work in more isolated regions where generations of peasants have been neglected in their education, bypassed in infrastructure development, subjected to corrosive corruption and illegal land and property seizures, victims of a massive migration that took their strength and youth and leadership and then left to their subsistence farming with no capacity for change. Without top-down leadership, guidance, education and training, resources and technology, capacity for progress will never develop.

Third – flexibility and local empowerment

The third welcome change in current development planning is a visible flexibility and local empowerment. Gone are the mass movements with which the party attempted to transform China overnight through mass programs like the Great Leap Forward. Capacity has been recognized as made up of different levels of a variety of human, natural and man-made assets in an infinite set of combinations. Given this fundamental fact, progress planning requires a customized approach in which central resources are combined with local knowledge to create capacity where there is none. The new plan incorporates local discretion and flexibility, local elections, and the fiscal and policy reforms previously discussed.

³⁵⁴ No. 1 central document in 2004 pointed out such principle to guide local government to increase income of rural population.

Flexibility does not extend in all directions, however. There are five “insists”³⁵⁵

in the new plan that local governments are not permitted to ignore:

- 1) Development of the rural economy is the core requirement. This is to be accomplished by developing rural productivity, promoting stable development of grain production, and continually increasing farmers’ income
- 2) The basic rural administration system must conform to the Chinese constitution. This means respecting farmers as the main target of rural development and continually improving the rural administration program
- 3) The highest priority of this plan is the resolution of the most significant problems China’s farmers are experiencing.
- 4) Success will require plans and actions that are fitted to local circumstances and guiding farmers with full recognition of these local circumstances.
- 5) Recognition that the enthusiastic involvement and hard work of everyone in Chinese society, the farmers, the state and society as a whole will be required for real progress – this program must represent the common will and basis for action of the CCP and the entire society.

Considering the variety of conditions in different regions, policy initiatives were set up with different start and completion schedules, and with different goals for the extent and quality of objectives. As an example, the main grain producing areas were required to expand direct subsidies to more than 50 percent of their risk funds, while in other areas, increases are dependent upon local conditions³⁵⁶ In another example, the policy goal with respect to road construction was to create paved roads in all rural

³⁵⁵ Chen Xiwen, the deputy director of the Office of the Leading Group of Rural Work of the Central Committee of the CCP, “*Tuijin Shehuizhuyi Xinnongcun Jianshe*” (Promote Building Socialist New Countryside) *Xinhua wang* (<http://www.xinhuaawz.com>), 2006).

³⁵⁶ The grain risk fund is a specialized fund to help the government maintain macro-level control of the grain market. The account is funded by shared contributions from central and provincial governments. Provinces, autonomous regions and municipalities use the funds under the supervision of the State Council. See the official document, “Regulations on improving management of grain risk fund” issued by Ministry of Finance and Agricultural Development Bank of China, May 11, 1998.

towns and in all eastern and central villages by the end of the 11th Five-Year Plan. Western villages, meanwhile, are all to have roads, but the materials of construction are left open for the time being. With respect to education, all students in the western regions were given free tuition, and those from poor families received free textbooks and lodging subsidies beginning in 2006, while the rest of the country receive the full benefit of those programs a year later. And finally, the social security program contains a great deal of flexibility, requiring local governments to assess the scope and standards for their programs based on local economic conditions; but the central government pledged to provide extra subsidies for those communities with poor financial conditions.

Why a new socialist countryside, and why now?

Although the concept of a *new countryside* dates back to the early days of the communist revolution in the 1930s, the idea has proven difficult to put into practice, and the truth of the matter is that at the turn of the new millennium, many of China's farmers were living in conditions nearly as bad as at any time in China's long history. Still, previous attempts to revitalize rural China have not been entirely in vain. They have provided the many lessons learned that are now finding their way into practice; and it is with those lessons in mind that China's leadership has developed both a long-term vision and plan and a menu of many urgent goals and immediate tasks. From a historical perspective, the time is right for a national shifting of the gears of China's economy. The nation is economically much stronger, and its leadership is

significantly better informed, politically more competent and on much more solid economic footing than at any time in the last two hundred years. The activism of the peasantry and their sheer numbers have jolted the leadership from its single-purpose drive toward economic vitality and reminded it that egalitarianism is a goal and a promise of long standing in Chinese society. For Wen Jiabao, Chinese Premier, the issue was a simple one – that adjustments were required that would push Chinese development in a new—“the right”—direction.³⁵⁷

The choice to rely on extraction from the vast rural economy to drive modernization was also a conventional one, justified neatly as simply a decision to allow some Chinese to get rich first. The peasants would need to be patient. The peasantry has been patient. The decisions made during the reform period assured that there would be a serious and growing income gap between the peasants who were paying the bills for progress and the industries and urban residents who were the anointed ones who would get rich first. What had not been decided ahead of time was *how rich the rich ones should be* before a change of course would be appropriate. Socially, economically and politically, the gap between China’s rich and poor was likely to reach unhealthy levels at some point, and errors about the turning point could easily lead to either insufficient resources to extend prosperity in a new direction, or to a gap of such proportions that social stability and the very legitimacy of government

³⁵⁷ *China Sets Goals for Building New Socialist Countryside* (Xinhuanet, Dec. 29 2005), available from www.chinaview.cn. A central work meeting on rural development attended by Chinese Premier Wen Jiabao and Vice Premier Huang Ju, the participants reached a common ground on the development of agriculture and rural areas in the next five years, as well as on how to stabilize grain production and promote the sustained increase of farmers’ income.

was threatened. It is widely known that this turning point issue has led to the failure of many international development projects, as wealth was funneled only to a fortunate few among the wealthy, the military, and the political elites. Those who benefited most from China's rapid economic rise have also been gaining influence and it is not unthinkable that they would be reluctant to part with the advantages they have accrued over the good years.

Fortunately, China's leadership was prepared for this eventuality, and the peasantry was not forgotten. Today, representation for China's 800 million peasants appears to be seated at the highest levels of the party and the government. Such representation is an integrated concept, which means the state can speak and act for rural society in all political, economic and social aspects, though it is still too early to see. In light of all these considerations, the following five reasons have driven China's party and government once again to the goal of building a new socialist countryside.³⁵⁸

First, agriculture is not a sufficiently solid foundation for meeting the requirements (food products and food security, employment, social and political development) of a robust and growing rural economy and thus the needs of China's huge population. China's agrarian economy is an engine that requires investment in the form of new technology, research, land management and education that can improve productivity and production conditions.

³⁵⁸ Cheng Gang, "*Chen Xiwen chanshi zhongyang tichu 'jianshe xin Nongcun' wu fangmian yuanyin*" (Chen Xiwen Explains the Five Reasons for the Central Government to Put Forward to "Construction of Socialist New Countryside"), www.china.com.cn, Feb. 22nd 2006); available from <http://www.china.com.cn/chinese/kuaixun/1131327.htm>.

Second, the widening gap between urban and rural areas is no longer just an economic issue, but has become a politically-charged matter as well. While it is recognized that the size of the rural population will make balancing the economy a lengthy process, the condition has continued to accelerate in the wrong direction, and arresting it has become an urgent matter affecting the credibility of China's leadership. In 2005, urban income was 3.2 times higher than rural, on average, and at the extremes (richest vs. poorest), much more aggravated, and the gap grows faster (3.28 in 2006).³⁵⁹ An even more serious gap is evident in infrastructure and social development. The difference in lifestyles is no longer a political inconvenience but has become a national embarrassment. In a state with some of the most beautiful and modern homes, offices, factories and highways, that so many of its citizens still live in poor shacks with dirt floors, no electricity and no running water is a condition that cannot continue, particularly in China, where the leadership still makes such wide use of the word *socialist* in so many of its policies, slogans and directives.

Third, the conditions are now present for urban and industrial support for agriculture. China's GDP has risen from ¥8.95 trillion to 18.2 trillion between 2000 and 2005. Fiscal revenues climbed from ¥1.08 trillion to 2.25 trillion at the same time, and fixed asset investment rose from ¥3.3 trillion to ¥8.86 trillion. These indicators of fiscal health all more than doubled between 2000 and 2005.³⁶⁰

Fourth, a new socialist countryside is an essential requirement for expanding

³⁵⁹ Data source *Yearbook* of National Statistics Bureau of P.R.China.

³⁶⁰ Data source: National Bureau of Statistics yearbook.

domestic demand. A low rural purchasing power has adversely affected consumption and therefore China's markets for many different kinds of goods and services, adding to the forces that make unemployment an issue. Although rural China has 60 percent of the population, rural consumer spending accounted for only 33 percent of the total retail sales in 2005.³⁶¹

Fifth, as alluded to earlier, a government that professes to want a harmonious socialist society must achieve social justice and social fairness, making it possible for all its people to share the fruits of the hard work that have brought China to its present advanced state of economic development.

What is currently in play?

Although many pieces of the new development strategy have been experimented with and in some cases widely deployed for months or in some cases years, the full spectrum of plan policies and actions has only been in effect for just two years. While it is still early to begin counting chickens, an early progress report may be worthwhile. After all, the strategy may be long term, but there are short-term goals and needs that both the government and scholars will be watching for signs of progress or problems. Certainly China's past history of implementation trouble in rural administration makes it prudent to keep a watchful eye on key indicators so that course changes can be made before problems become institutionalized.

We can see a three-pronged direction to the early efforts. First, in addition to

³⁶¹ Ibid.

exemptions from taxes, there have been increases in direct subsidies. Further, mechanisms, indoctrination and monitoring have been employed to assure that the spirit of this program is not being defeated anywhere along the administrative chain. In the past, new taxes and fees sprouted quickly in local governments to replace prohibited ones, and increases were employed to offset reductions in other areas. Further, local governments have a history of grabbing parts of entire subsidies as they worked their way down from higher levels, resulting in funds that never reached their intended destinations. These behaviors had to be arrested. Secondly, the central government has exerted more effort in the form of training to improve rural human capital. The intent is to increase living, farming and business skills among those who were left behind when the education system collapsed during the 80s and 90s. And third, financial controls are being employed all over China to ensure an appropriate use of public money and to verify and supplement if necessary the funds required to extend support for rural compulsory education and other social programs.

Financial support -- In line with the “three highest priorities”³⁶² addressed in the Rural Work Conference of the Central Committee of the CPC in 2005, ¥339.7 billion was spent in the countryside, a ¥44.2 billion increase over 2005. It represented 21.4 percent of total state fiscal spending in 2006. In the ¥53 billion spent on rural construction, ¥31.4 billion was used directly for rural productivity and living

³⁶² “The three highest priorities” 1) Fiscal spending on rural development should rise by a larger margin than the previous year. 2) A higher proportion of treasury bonds and budgetary funds should go to the rural development. 3) In particular, place a high priority on investing in improvements of the production and living conditions in rural areas through sound fiscal management.

conditions, another significant increase over the previous year. In addition to state spending, provincial and local government spending on the countryside also rose by an average of 20 percent over the previous year.³⁶³ At the same time, the central government increased its support for local governments by ¥78.2 billion in order to assure the payment of salaries and the funding of mandated social programs.

That same year, grain subsidies were ¥14.2 billion, and additional subsidies to encourage the use of new varieties of seeds and to support the use of new machines and tools added up to ¥5.3 billion.³⁶⁴ In addition to these subsidies, farmers received direct subsidies to offset the rising costs of materials such as diesel fuel, fertilizers and pesticides. Those subsidies added another ¥12.5 billion to the national budget, and unlike past years when farmers received vouchers or saw long delays in receiving their grants, all had received their subsidies by mid-year. The most important change is that such direct subsidies for farmers are distributed to each province at one time and then through the “*zhibu wang*” (direct subsidies website), such direct subsidies go straightly to farmers’ bank accounts or bank card, called “*yika tong*” (one-card through).³⁶⁵

Again in 2006, the central government spent about ¥10.2 billion for mandatory education, and local spending also increased by ¥3.8 billion. Rural cooperative

³⁶³ Yao Chen and Dong, “*xinnongcun jianshe kaiju zhinian: jiuyi nongmin shouhuo chendiandian de shihui*” (In the Beginning Year of Building a New Socialist Countryside: 900 Million Peasants Harvest Heavy Benefits).

³⁶⁴ Zhang Shuying, “2006: Nongye Yu Nongcun Jingji Fazhan Yinrenzhumu” (2006: Agricultural and Rural Economic Development Are Visible), *Zhongguo xinxi bao* (China Information), March 2, 2007.

³⁶⁵ “*Caizhengbu Youguan Fuzeren Jiu 2008 nian dui zhongliang nongmin nongzi zonghe zhibu zhengce da jizhe wen*” (Top Leader in Ministry of Finance Responding to the Press in Regard to the Central Comprehensive Direct Subsidy Policy for Farmers’ Agricultural Materials), *Xinhua wang* (Xinhua Net), Feb. 25th, 2008. Available from *Zhongguo nongye xinxi wang* (<http://ac.agri.gov.cn>).

medical care was extended to 40 percent of China's counties at a cost of ¥4.7 billion. Central treasury bonds in the amount of ¥30 billion were sold to improve rural conditions, and this fund was supplemented by an additional ¥10.5 billion from the central government. There are additional revealing statistics that show progress:³⁶⁶

- A ¥4 billion bond sale led to safe drinking water for 20 million rural residents.
- The sale of ¥2.5 billion in treasury bonds funded rural methane projects creating clean energy for two and a half million people.
- Central spending of ¥17.5 billion on infrastructure projects means that work has begun on planned road construction in many towns and villages.
- The state spent ¥1.2 billion and is at work on expanding the power grid in central and western areas as part of its rural electrification program.
- Expenditures have begun of ¥8.97 billion earmarked for rural compulsory education in western China in 2007.
- Funded by ¥4.73 billion from the central government, 50 percent of China's counties had established cooperative medical care facilities, and 406 million peasants had joined the program. The program will soon expand to cover 80 percent of all Chinese counties in the near future.

³⁶⁶ Zhang Shuying, "2006: Nongye Yu Nongcun Jingji Fazhan Yinrenzhumu" (2006: Agricultural and Rural Economic Development Are Visible), *Zhongguo xinxi bao* (China Information), March 2, 2007.

Overall training – It is believed that when China’s counties can be brought under complete control, the world will be safe for rural Chinese. Between April 2006 and January 2007, the Chinese central government conducted 50 training courses for 5,474 county party secretaries, government heads throughout China, and political commissars and regimental commanders from Xinjiang Production and Construction Corps in the country’s major political training centers. The goal was a leadership core with a clear set of priorities, a stronger calling to the important service they provide, and a strong sense of responsibility for the important work to be done. In contrast to the unified policies and principles in play at the state level, local officials were primed to understand and work with a wide variety of conditions and needs and an understanding that although a new socialist countryside is the goal, there are many ways to get there. As minimum, such training can unify mind of policy implementers to understand better what the central policy directs them to focus on than they sit in their office to read the “red-heading files,” and also can help the participants from different regions to exchange mind, diffuse knowledge and experiences.

Liaoning Province trained 34,745 officials and cadres in 515 different courses in 2006.³⁶⁷ Twenty public officials from Dalian were sent to South Korea to learn about the neighbor’s approaches to rural development, and an additional 70 township and village officials went to Japan for the same purpose. These trips were expensive, and there were fears that the boondoggle habit was once again rearing its ugly head in city

³⁶⁷ “*Liaoning sheng shehuizhuyi xin nongcun jianshe qude chubu chengxiao*” (Liaoning Province Has Had Primary Achievement in Building a New Socialist Countryside), *Xinhua wang* (Xinhuanet), Dec. 22nd 2006.

and county politics.³⁶⁸

Jiangsu province used its own resources to train 1,000 township level party secretaries and 18,000 village party secretaries in various aspects of the rural countryside development project. The training was centered on two models, a close look at the experience of 100 model towns and 1000 model villages, and how to support 100 poor towns and 1000 weak villages in the province. Using this approach, it is expected that party secretaries will have gained a flexible approach and valuable tools, techniques and principles that can be applied to the development task.³⁶⁹ Cultural development aiming to improve local culture is not being ignored in this process. The Jiangsu provincial Party Propaganda Department and the Cultural Department have provided training for 1,104 heads of the culture centers and began in 2007 to art and literary activity directors from 106 county centers.³⁷⁰

In Gansu Province, 200,000 villager leaders are being trained each year by the grass roots party cadre training project. All elementary and junior high school teachers under the age of forty five are receiving training that will lead to their certification within five years. Public health workers are receiving training aimed at

³⁶⁸ Xu Guiyuan, "jian xinnongcun xiangzhen ganbu yeyao jingwai peixun"? (To Build a New Countryside, Do Township Level Cadres Also Need to Go Abroad to Have Training?), *Dalian Daily*, May 21, 2006.

³⁶⁹ "shuangxue" zheng chengwei wosheng tuijin xinnongcun jianshe de qiangda de dongli" ("Double Studies" Are Becoming Strong Force to Push the Construction of a New Countryside in Our Province), *Jiangsu shengwei zuzhibu* (The Organization Department of Jiangsu Provincial Party Committee, www.jszsb.gov.cn), Feb.2nd 2007).

³⁷⁰ "sheng jiang yong sannian shijian lunxun quansheng xiangzhen wenhua zhanzhang (Provincial Departments Will Spend Three Years to Train the Heads of Township Cultural Stations in Rotation)," *Jiangsu wenhua zhouxun*(Jiangsu Week Cultural Information, www.jslib.org.cn), July 18th, 2007.

qualifying more than 60 percent of them as assistant doctors or higher by 2010.³⁷¹

These kinds of training projects started later in the western provinces than in the east, so many are still in the planning stages.

In addition to the extensive training programs for administrators and support organizations and people, the government is also experimenting with many kinds of direct training for the farmers themselves. In 2006, ¥600 million was spent to train 3.5 million migrant workers in an effort to qualify them for better and higher paying jobs. This may not be a cure in general but certainly can help local migrant workers to be more competitive than others. It is estimated that at the beginning of 2007 there were roughly 150 million surplus laborers, and it is planned to train about six million more each year. The program reports that a trained laborer earns about ¥800 per month on average, while untrained migrant workers earn less than ¥600.³⁷²

Gansu has a program to teach practical rural skills, and actually certifies those who have completed this training. The plan is to train 1.6 million peasants in practical technology, and by 2010, about 6 percent of the rural population should have received this qualification. Every peasant household is expected to have developed one or two of these practical skills and every woman who can do so is required to qualify in at least one. The basic skills involved include such things as rural sanitation, irrigation,

³⁷¹ “*Gansu xinnongcun jianshe rencai gongchen qidong meinian peixun ershi wan cun ganbu*”(Gansu Operating Rural Talented Person Construction Project to Train 200,000 Village Cadres Each Year), *Zhongguo nongcun rencai wang* (Rural talented person net of China, www.agrihr.gov.cn), April 9th 2007.

³⁷² Ren Fang, “*jinnian zhongyang zhengfu jiang touzi liuyiyuan peixun nongmingong*” (This Year the Central Government Will Spend 600 Million Yuan on Training Migrant Workers), *Xinhua wang* (Xinhuanet), April 29th 2006).

crop rotation, food preservation, equipment maintenance and similar very practical skills.³⁷³

Sichuan province is one of China's major rural labor export centers and began training workers in 2004 to help them qualify for better jobs and decent wages. Sichuan has already trained ten million farm workers and has an ambitious plan to train ten million more. In 800 villages, 300,000 farmers will receive training that includes the ability to train others and thus multiply the value of the training by extending it to 100 million people before the project is complete.³⁷⁴

Comprehensive rural reform – From the foregoing, it must be apparent that China's leadership is regarding comprehensive rural reform as the institutional guarantee for the establishment of a new socialist countryside and a harmonious society. Without reform, all the government spending cannot, and indeed has already demonstrated that it will not, benefit farmers at all. It is tempting to call this the third wave in a series of reforms intended to achieve a balanced development in China, but the first two waves can also be argued to have represented incompletely thought out and administered programs that didn't have much chance of success. The first wave came with the household responsibility system in which crop planning was de-

³⁷³ "Gansu xinnongcun jianshe rencai gongchen qidong meinian peixun ershi wan cun ganbu" (Gansu Operating Rural Talented Person Construction Project to Train 200,000 Village Cadres Each Year), *Zhongguo nongcun rencai wang* (Rural talented person net of China, www.agrihr.gov.cn), April 9th 2007.

³⁷⁴ Li Jianying and Zeng Li, "Nongmingong peixun gongchen qidong, nongmin shouxunren dedao liu qianwan butie" (Peasant Migrant Worker Training Project Works and Peasant Trainees Get 60 Million Subsidies), *Sichuan ribao* (Sichuan Daily), June 15th 2004, "Shiyiwu qijian Sichuan huinong zhengce gangyao" (Outline of Beneficial Arrangements for Peasants in Sichuan During the Eleventh Five-Year Plan), *Sichuan xinwen* (Sichuan News), Feb. 25th 2007), available from www.sc.gov.cn.

collectivized. This approach was unable to gain any headway because of continued market intervention, a continued heavy extraction policy, and desperately weak infrastructures. The only communities that benefited from this change in direction were those where capacity was high due to a generous basket of endowments. The second wave consisted of tax reforms intended to ease the farm burden, but accompanying fiscal policy change decimated local budgets and led to widespread abuses in the form of illegal taxes and illegal farmland seizures and conversion to industrial or development use. An accompanying phenomenon that threatened to overwhelm China's development efforts during the first two "waves" was widespread corruption in which political elites and the new business elites treated state and public assets as their own. The conditions that accompanied the first and second waves of rural development reform needed to be corrected if the third wave is to succeed, and it is for this reason that this five-year strategy and plan is constructed upon a *comprehensive* platform of economic, social, cultural and political principles. The problems that engulfed the previous attempts at improving conditions in rural China are so serious and so pervasive that they can lead to the failure of this new project, but current conditions no longer allow for the flexibility of failure. Fortunately, current conditions are also more favorable in terms of resources, leadership, approaches and attitudes than in the previous attempts.

In recognition of the importance of local government to the previous development problems and to the probability of success of present development plans, township governments are the target of intensive repair projects. Program controls are

being tightened; and financial controls are being assumed by higher levels of government (*xiangcai xianguan*, township budget managed by county level; and *cuncai xianguan*, village organization expenditures are managed at the township level). The objectives of these moves are to strengthen the management of township-level personnel, standardize financial management, downsize township staffs, and prevent the creation of new debts while beginning to clean up the existing debt. This is viewed as critical to change, since existing systems look from Beijing as infinitely deep holes just waiting to be filled with money from the central government. The policy is rather flexible, in that some prosperous towns are permitted to manage their own finances, but in reality, county oversight will still be present. Wealthy towns in the east have been resisting this policy while the poorer local governments especially in places like Gansu, welcome the opportunity to receive upper-level help so they can finally get paid.³⁷⁵

These county and township financial management reforms may make it possible to restore a balance between rural and urban social programs. Every Chinese child may have the opportunity to attend school for the first time since the days of Mao, and rural teachers may be as well qualified as urban. Every Chinese may have access to better medical care. Every Chinese man and woman may be provided a “safety net” minimum wage to assure no family can be abandoned to starve because of unemployment. These are wonderful goals; but the costs and political obstacles need to be mentioned again

³⁷⁵ Information from interviews.

The new programs and controls accompanied by better trained leaders and in the presence of additional oversight are intended to deliver a much needed boost to morale and to raise the energy level and volunteer spirit that has worked for China before, and that will be needed to complete the transformation from a developing to a developed country. Local response to this national strategy is still expected to vary, and sometimes in inappropriate ways. To better understand how historical experiences were tied to the new initiatives and drove the field research, Figure 5-1 (next page) connects the themes of those relevant chapters. What's missing (bottom flow diagram) leads to a call for "local development capacity."

The next chapter in this thesis is intended to probe widely separated towns and villages and to glean from government research and the work of other authors in an attempt to assess the progress and local reaction to China's new paradigm.

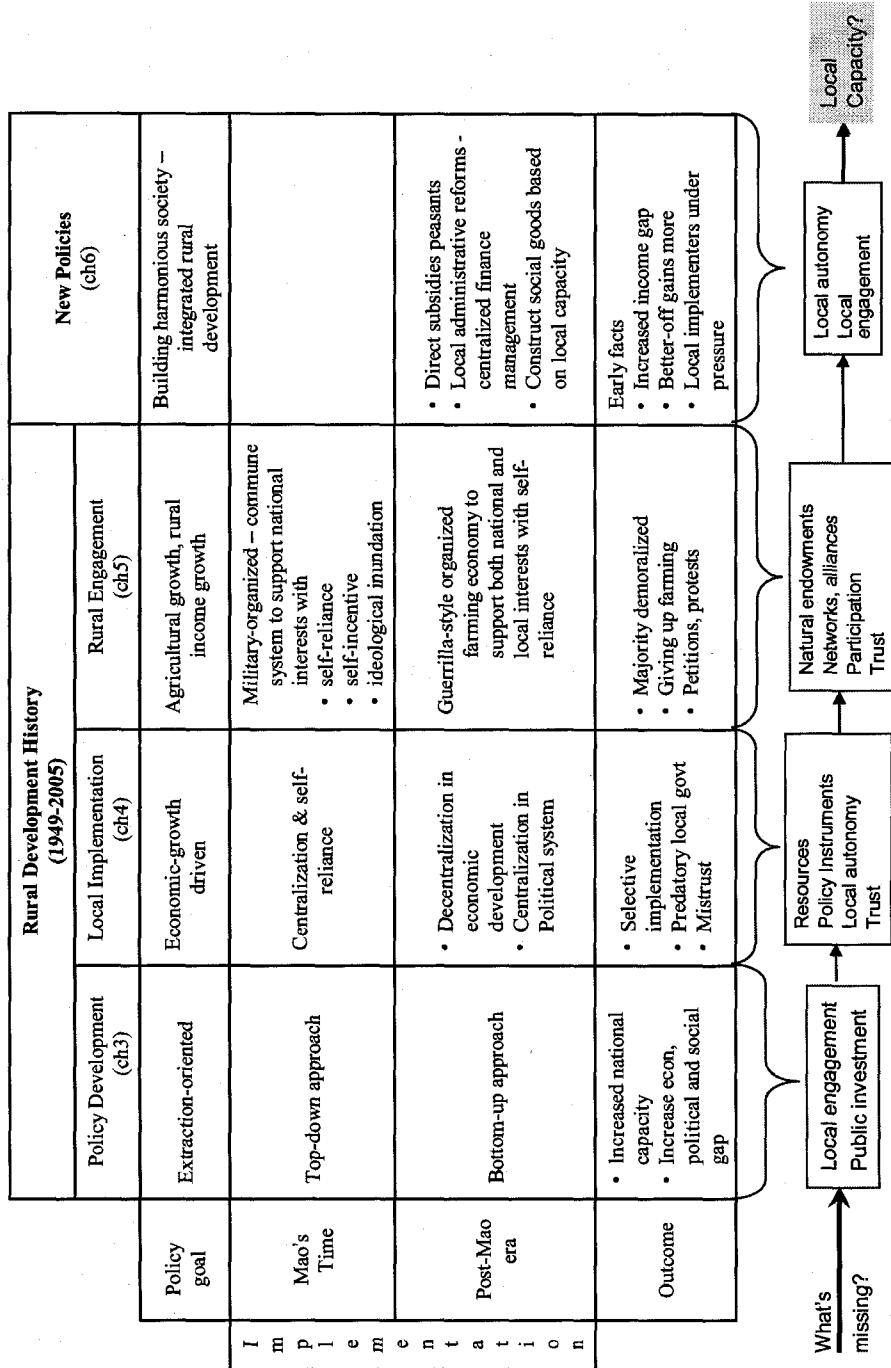


Figure 6-1 Linking China's history to the research

Chapter Seven

Case Studies

In previous chapters, the China rural development literature was summarized with respect to those factors that have been claimed to affect the capacity of rural Chinese villages to participate in China's accelerating prosperity. In the last chapter, the most recent CCP and government development plans have been examined as they have been revealed as of Spring 2007. This chapter takes the next step by detailing the results of field research in four Chinese provinces conducted specifically to observe current conditions. Capacity factors run the gamut from the very obvious, such as land productivity and proximity to markets, to the very ethereal, like trust and integrity.³⁷⁶ As has been previously argued, there are many places in China where rural development was not much of a challenge – not because there was not a great

³⁷⁶ This chapter uses the case studies to identify development capacity factors.

deal of effort involved, but rather because local capacity yielded real results and made success more likely. The real-life difficulty with this (and most problems) is that there is no algorithm that guarantees success (or failure); what matters is propensity. A brief geographical introduction is included in each of the sections of this chapter.

Liaoning Province

Liaoning is in the northeast, China's industrial base of long standing. The research visit site is in central Liaoning. The western part of the area consists mostly of plains, while the eastern part is characterized by hills and mountains.



Fig 7-1 Liaoning Province Map
Source: Wikipedia

Much of industrial Liaoning

was occupied by the Japanese prior to World War II, and they built an extensive transportation system to facilitate the plundering of goods, produce and natural resources. The transportation system remains as a key resource for much of the province. Almost every town in this region is characterized by mineral deposits (e.g., iron, oil, coal or limestone) and farmlands. Research for this project was conducted in one county in central Liaoning and two of its towns (one on the west plain and the

second in the eastern hills). The visit included research in two villages in each of the two towns. Interviews were held in February and August, 2006.

Since 2003, a series of beneficial policies have been implemented in the area. The agricultural tax was eliminated in 2005. Farmers now are subsidized for growing certain specified crops such as rice, wheat, corn, cotton and beans, and subsidies are also available for the purchase of tools. The Fertile Soil Project (*wotu gongcheng*) was launched to upgrade soil quality. One result was that about 18,000 mu (about 3,000 acres)³⁷⁷ of marginal lands became available for farm use in the county. In 2005 the government began extending its policies to encourage “green” development. The state helped finance a ¥1 million testing station so that soil replenishment can be matched to the condition of the soil and the demands of the planned crop rotations. In 2006 the provincial government invested ¥3.6 billion for a biohazard warning system for the county’s atmosphere and waterways.³⁷⁸

An agricultural technology promotion system had been developed in this area during the collectives era to link various levels of government experts and experimental stations to the communes. When the communes began to disappear in favor of household and commercial farming, some private companies (joint-ventures) created their own experimental farms to assure continuing research and the advance of technology. Peasant associations and cooperatives also promoted technology advances and served other purposes such as timely reports about market conditions.

³⁷⁷ 1 mu is approximately equal to .165 acres.

³⁷⁸ Source: Interview with an executive in the agricultural department in a local city.

The associations and cooperatives, though they began quite informally and in a small way represented a key factor in community capacity, and one that required local initiative, local leadership and a relaxation of old party rules against non-party organization. In fact the party and government provided leadership and resources to help and guide these organizations in their process of institutionalization.

The state-sponsored agricultural technology organizations, *qisuo bazhan*, fell into disuse when they lost in competition for funding.³⁷⁹ The employees tried for a while to keep them active, but their expenses, such as visiting the farms to do their work, were no longer budgeted, so they were required to try charging fees for their services. The peasants were unwilling or unable to pay. As their funding declined, so did the quality of their work, and the peasants lost confidence in the centers as a source of sound advice. Employees' salaries were left unpaid for months at a time. Gradually the experimental fields were sold off and the technology centers became little more than outlets for some supplies such as seeds and pesticides, and even those were substandard in quality and over-priced. Gradually the employees wandered away to pursue their own interests. The embarrassing condition of the once robust and productive system was described by those local professionals as "The chain is severed, the net is broken and peoples' hearts have dispersed" (*xianduan, wangpo*,

³⁷⁹ Township-level organizations (excluding education and public health) include seven departments and eight stations: Finance, judicial, police, transportation, agricultural technology, agricultural machinery, seed technology, water conservancy, aquatic products, veterinary clinics, forestry, culture, broadcasting, operations, family planning, land management, housing administration, and labor. While this was typical of township organization shortly after the dissolution of the communes, diminished revenues caused reductions and consolidations in many towns that exist to this day.

renxinsan).³⁸⁰ In 2005, an attempt was launched to resuscitate the system, and the county became one of twelve that was targeted by the Ministry of Agriculture for development. A number of the previous technology stations were combined into regional centers. Salaries were paid by the government and the project continues to this day. Because current financial conditions are still tight, it is expected that restoring the centers to their former status and value will take more time.³⁸¹

Liaoning Province – Town L

Setting

Town L is located on the delta plain formed by two major rivers. It has a semi-humid warm temperate climate because of its location on the west plain. It is hot in the summer and cold in winter. The average annual rainfall (600-800 mm.), is concentrated in the crop producing season between May and October. The average annual temperature is 8°–9° C. The frost-free season lasts 160–180 days. Under these natural conditions it is possible to produce only one grain crop each year. The main crops are rice, wheat, corn and sorghum.

The town is close to cities that have heavy industry (formed steel products such as rolled steel plate, sheet, bar, tubing and billets) and a strong synthetic fiber industry. The town currently has a population of more than 90,000 people including 50,000 farmers and 20,000 migrant workers. In area, the town boundaries contain 119.6 km²

³⁸⁰ Source: Interview with a leader of the agricultural investigation team of the local Statistics Bureau.

³⁸¹ Source: Interview with a director of the local Rural Work Committee.

and 126,000 mu arable land (approximately 84 km²). The town has twenty-two villages. The highway approaches to Town L are jammed with every manner of truck, car and pushcart almost around the clock. Drivers stop their cars and trucks in the streets to buy produce or goods from roadside vendors, and the restaurants and businesses along the streets compete for attention – the overall impression is that the town is busy, noisy and in apparent disarray, but ordered by a concentration of commerce of all kinds. These factors, even including the entrepreneurial impulse to hawk goods to passersby, all lend credibility to an image of development *readiness* of the townspeople, and the number of established businesses enhances that image.

History

Although the area was historically sparsely populated, about 300 years ago it was peopled by a migration from “*guanli*,” which means literally from the already settled area of China “inside the Great Wall.” We can tell from the names of the villages, like “Henan, Hebai, and Shandong,” where the incoming migrants were from. In addition to their farming tradition, they arrived with important skills in handcrafted goods and light industries, such as the making of shoes and clothing. The people regard themselves as diligent, smart and open to new ideas. They have an entrepreneurial tradition that was subdued during the collectivization that followed the communist takeover of China in 1949, so this area was 100-percent dedicated to agriculture, as the Chinese desperately worked to become self-sufficient in their food supply.

In 1978, the average peasant annual income was about ¥100, supplemented by in-

kind payment of meals, produce, living quarters and some goods for their work in the collectives. They also received medical care and social security in the form of unemployment insurance and retirement pay, all administered by the collectives. In the 1980s, as the collectives were replaced with family farms under the “household responsibility system,” the peasants were able to make their own decisions about what to produce, as long as they met their government-specified grain quotas. By the end of the 1980s, private businesses began to appear, taking advantage of local manufacturing traditions and know-how. Their development was aided by the town’s close proximity to large state-owned industries for which they became suppliers and contractors. The growth of these small production enterprises became known as rural industries, and in Town L, this kind of business proved to be a key factor in the increasing prosperity of the community, adding to the general tax revenues and creating badly needed jobs.

In 1992, Town L was approved as a provincial level special economic zone (SEZ), which meant it was supported in industrialization and privatization by official government policy and assistance. Capital accumulation and a surplus of rural labor supported its growing economy. The area produced garments, textiles, and shoes, and developed breeding farms and agriculture that increased its exports. Beginning in 1996, however, the government adjusted its national industrial policy and inaugurated deep fiscal and bank reforms, which led to unpleasant consequences in this area. Facing a more competitive market, it became increasingly difficult for some TVEs and small private manufacturing firms to survive. Some of them were able to move their

accumulated capital to larger cities to create new businesses, but many of them simply closed. All the villages and the town itself had to fall back on agriculture and traditional handcraft businesses. For an extended period of adjustment, finances in town L were exceedingly difficult, including tax revenues. Local officials received no salaries, sometimes for years. Officials continued to work without pay, living off a spouse's salary, or sometimes supplemented by small sidelines such as driving taxis after work hours. They continued to work because they expected at least some of the back pay due them, and they wanted to keep their jobs for when times were better.

As the economy began to recover, the local government resumed its investment in agricultural infrastructure and technology. As productivity increased, their goods made it to the open markets and soon brought about an increase in living income, labor salaries and a growing number of support industries. Some people farmed, some worked in handcraft industries, and many did both, depending on the seasons and availability of and demand for labor.

Beginning in the late 1990s, many of the largest state-owned industries were required to vacate their urban facilities in a strategic program to curb pollution and improve control over energy distribution. Consequently, large plots of land that had been set aside for industrial development in the provincial economic zone began to be occupied. Town L also benefited from a central government plan to revitalize its "Old Northeast Industrial Base." Private industries worked their way back into the landscape and Town L became more prosperous than ever. It continues its dynamic

pattern of growth today.

Town Government

Town L had tax revenues of approximately ¥ 65 million (US\$ 8 million) in 2005. This placed it third highest among the eighteen towns in the county. The county revenues are about average for Liaoning province (which is about thirty percent lower than China's southern coastal provinces but about twice the average in China's far west). The annual revenue available to the town government is about ten percent of its total tax revenues – a percentage that town officials complain is too low. The balance is forwarded to and controlled by higher levels of government. The portion that the towns receive from their higher levels of government is called “returned revenues.” Since the central government tightened its controls over fiscal policy and spending in 1994 and 1996, total expenditures have been regulated from above. There are three fixed budget expenditures out of the returned revenues. First, about ¥1.26 million were allocated in 2005 to the payment of village leaders in compensation for time spent on village duties. (Village leaders are not considered government employees and are therefore not salaried, but are reimbursed by the township for time spent in their cadre duties). Second, about ¥ 1.3 million are allocated for civic welfare, which includes such expenses as subsidies for retired soldiers, benefits for disabled, orphaned, and widowed people. Third, about ¥ 2.1 million go to the salaries of town officials. The remainder, about 28 percent of the total, is all that is available for public affairs.

As state fiscal policy was evolving to assure that the central government had the

ability to govern, town and village budgets were constantly shrinking, and Town L was no exception. In some villages, cadres began charging fees for education, which led directly to a reduction in school attendance and then to worsening conditions in the schools as the facilities fell into disrepair. Teachers were lucky to be paid with grain, vegetables or chickens. In 2004, however, the county began rebounding and assumed responsibility for teachers' salaries. There was resentment about the pace of the recovery since local residents knew that mandatory education was funded in the cities while China's poorest people were paying these extra fees.

One bright spot in town L came on the news of Deng's Southern Tour in 1992. Town L began offering preferential policies and tax holidays to attract outside investors. Those moves were important to the local economy, to an extent even greater than the additions to tax revenues and employment. The moves gained the support and loyalty of the businesses and created a government-business partnership that endures to this day. Today the town government is able to ask companies for assistance. They sometimes ask businesses to pay their taxes in advance, for example, in order to meet quotas and deadlines. They are often the beneficiaries of donations that help with public services, and they are happy to assist with contacts and expansions that help meet quotas for foreign investment, trade, domestic investment and GDP growth.

Having learned from its own history and from the experiences of other towns, the government of town L continues its efforts to expand its rural industry base. This effort creates opportunities and choices for peasants and entrepreneurs. Town leaders

say the people are prospering but the town is poor. Despite their efforts, town officials have benefited little from their increased revenues because of the Tax Sharing System in which the fruits of their work is siphoned upwards in the government hierarchy. Local cadres also complain that they could do more if the government followed the official policy of returning a greater percentage of the revenues to the towns that increase their income. The Chinese government, faced with its own tax collection problems, was guiding tax reform with the slogan, *duoyu shaoqu fanghuo*, which means “Give more, take less, and leave them alone.” Local officials, facing problems meeting their own budgets, have found it difficult to do give more if they take less. While town officials complain about their tax revenues, the local peasants earned ¥4,710 on average in 2005, which was significantly higher than the provincial average of ¥3,370 and the national average of ¥3,325.

As was evident in many towns that were studied from the literature, the Town L government and village leaders are active in the economies of their communities, including guiding peasants into new opportunities. As an example, the Town L government led the peasants to a healthy increase in income through the breeding of loaches in their rice paddies. The loach is a long, slender fish that resembles a catfish that is found throughout Eurasia and Africa. The idea came from a neighboring city where peasants had significantly increased their earnings. Local peasants were taken to visit the paddies to learn the benefits and methods firsthand. In this way, rice paddies can generate two incomes. As the peasants came on board with this idea, the town and county governments arranged for supplies and subsidies of ¥50 per mu to

start their fish farms. Peasants who tried this innovation found themselves earning as much as five times the income they earned with just their rice crops. In this region, rice typically earns the peasants about ¥400 to ¥500 per mu per year, and about ¥200 to ¥300 per mu if they plant corn. With the success of these projects, more and more peasants took to breeding loaches, and today such double-yield paddies cover more than 4,000 mu. Among other successful projects, the town government brokered a deal to market locally produced milk as the number of dairy cattle increased. Simultaneously, dairy and other waste products were successfully harvested through an innovative piped collection system that treated the waste to produce methane gas while also controlling pollution and reducing the risk of fire.

Evaluation of town government

The county party committee evaluates the town party committees annually for the purpose of assessing performance. The factors under consideration include economic achievement, social programs, and the condition of the local party. The prime consideration has been economic development. Several town and village leaders expressed the notion that income has become an overwhelming obsession for officials at all levels. The evaluation is a rigid process employing both written and oral reports that must include schedules and budgets for improvement projects. The county party committee publishes its results with opinions and suggestions for improvement. The final results are linked to a reward system for the jurisdictions that can help fund future projects, and are also important to the cadres' chances for promotions and

transfers.

In addition to the visit and official evaluation, the county government adheres to the “*xinfang yipiao fujue zhi*” (system that penalizes town governments that cannot deal with local conditions in a manner that prevents complaints to higher levels of government). Thus, if a government or any of its officials is criticized three times for not correcting conditions, and those complaints lead to the filing of a complaint with higher authorities; or if any such meeting between local people and higher officials takes place in any three month period; or if there are three meetings between locals and county officials, or two meetings with city officials, or one meeting with provincial officials, then a town government cannot be given an excellent rating. This kind of pressure keeps town and village level leaders busy. They must resolve peasant issues, continually improve the economy and continuously tend to social programs. Many live in fear because trying to keep everyone happy is an obvious impossibility. The government further attaches great importance to the maintenance of stability as an essential precondition for economic growth, another condition that is dependent upon many factors over which local officials have little or no control. This evaluation approach to the management of China’s government hierarchy creates both successes and problems.

Rural development

Town L had a very respectable total productive value of ¥4.1 billion in 2005. Agriculture only contributed 5 percent of that total. Within the ¥210 million attributed

to agriculture, 65 percent came from livestock, 10 percent from vegetable crops, and the remaining 25 percent came from grains. It was during the last decade that agriculture in this region changed from the farming of traditional crops toward the livestock industry. This was naturally accompanied by the growth of food and feed processing industries as well as many other support products and services. The growth of livestock farming followed several different development models: a commercial firm with associated farm suppliers; large-scale mechanized farming, and self-organized farm cooperatives. The choice of development models was influenced by such things as the local soil, terrain and climate conditions, farmer preferences, and policies and guidance from local governments. There were 500 households from three different villages that signed land use transfer contracts with a commercial agricultural firm to create a large area of 7,000 mu dedicated to the large-scale (and therefore economical) production of vegetables, edible oil crops, seedlings and other kinds of crop rotations. The farmers receive some income from the lands they have ceded and are freed to participate in local rural industries or in their traditional handcraft industries.

In some of these villages, there has developed a division of labor such that residents in each village produce one part or handle one stage of production, so that the goods move from one village to another as on an assembly line. About 3,000 local residents, a small number, are working outside the area, while more than 20,000 outside workers have found employment in Town L. Those peasants who have leased their land use rights to commercial enterprises earn a small income from those leases

and they typically earn more than twice as much income from their sideline businesses than they did from their farms. Livestock and dairy farming have become increasingly popular as the tax is lower, the risks are lower, and it is possible to start small with a low investment. The free market has found these dairy, cattle and chicken farms and the goods are flowing freely into large urban markets.

In summary, the overall picture of Town L is that it has a healthy development capacity that has been transformed from potential to realized capacity. When town officials as well as higher level government representatives who were interviewed for this research were asked such questions as whether they were satisfied with their progress, they exhibited a sense of pride in the statistics and a sense of confidence about their continued progress. Except for expressing some frustration at their small share of tax revenues, they were satisfied that programs and policies were headed in the right direction. When asked which factors they considered most important to the development of their town, they credited themselves with being alert to opportunities and they credited the peasants with their willingness to take some risks to try new ventures, like the fish farms and animal husbandry and a level of trust between people and government that allows for the deployment of leadership which in turn supports innovation.

These officials often mentioned the cooperatives as being vital to the diffusion of technology and market intelligence. They consider the town and cadre management and evaluation systems as detracting from the government's capacity with its endless

profusion of unfunded initiatives and quotas, its persistent one-dimensional view of governance as conditioned only by revenues, and by the administrative bloating that creates unreasonable levels of duplicated effort, expense and needless layers of bureaucratic intervention and reporting. After a little prodding, several interviewees acknowledged the market benefit of nearby industries, urban markets and their well-developed transportation network, but their response indicated they viewed these as givens that wouldn't have helped without stouthearted peasants and good leadership.

Village M

Setting

On a cold day in February 2006, Village M and its leaders and peasants were visited for interviews and general impressions. The village is four kilometers from Town L. It is as large as a brigade under the previous commune system, larger than most of the villages in the town with its 1,000 households and a population of more than 4,000. Per capita land use is about 1.9 mu, including a 0.6 mu rice paddy and 1.3 mu of dry field. This is a little above the average allocation of land for this region. Rice paddies are efficient from an output standpoint, but since it's necessary to pump water into the pools, the cost of irrigation and energy is higher than for dry farming, and there are additional fees for wells that must be paid to the state. Several peasants recalled that when the original wells were dug about twenty years ago, it was a county leader from the village who budgeted county funds to accomplish the digging in his home village. It was justified on the basis that the village was sufficiently advanced to

be able to take advantage of the improved irrigation and provide quick results. People today are still reaping the benefits of his generosity.

Recent History

Peasants in Village M revealed that in 2000 they lost their enthusiasm for farming because of high agriculture taxes and fees, and cadre corruption. Among the payments were an agricultural tax of ¥20, a per capita tax of ¥17, and education fees of ¥15, along with a variable collection of miscellaneous fees charged by local governments. The total usually added up to more than ¥100 each year. When the peasants had a good harvest, the cadres came for more. As an example, contracted land fees rose from ¥80 to ¥100. The mathematics just didn't work. If a mu of land produces 1200 *jin*³⁸² of corn in a year, it can be sold for about ¥700. Supplies like seeds and fertilizers cost more than ¥100. The use of plow animals and farm labor typically cost another ¥200, and after taxes and fees, net income was only about ¥200. In village M where the peasants have about 1.9 mu of land, after deducting household-use foods the annual income for a peasant family would be less than ¥300 per person, or less than ¥1,000 of income for a family of three. It was normal to pay elementary education tuition fees of ¥200 per year and a simple cold could cost a family upwards of ¥100 for a doctor's visit and medicines.³⁸³

Beginning in 2003, all agriculture taxes were abolished and farmers actually began receiving a small subsidy that was based on the crops. They could earn ¥15 per

³⁸² 1 *jin* is approximately equal to 1.1 lbs.

³⁸³ In addition to several villagers, one of the interviewees was a former accountant in the area.

mu for planting corn, and ¥20 per mu for farming rice or edible oils. This year the subsidy for planting corn was raised to ¥24. Interestingly, the subsidy is deposited directly into peasant accounts, and villagers told me the purpose for this approach to distributing the funds is a history of such subsidies being diverted or withheld by local governments. The central government no longer trusts local governments with those kinds of disbursements.³⁸⁴ Such is the state of trust between peasants, the higher levels of government and the local governments. It is a dominant characteristic of Town M, affecting communications, planning, and all forms of coexistence between the town government and its people. Compulsory education is now free for the students and cooperative medical care has been restored. Although the peasants still complain that these benefits have been partially offset by the climbing prices of farm supplies, they still appreciate that central policy is creating increasing prosperity that their area has never before experienced. (Throughout the interviews in all four provinces, villagers tended to express trust toward the CCP and the central government and to blame local governments for mismanagement, corruption and abuse of their powers. As previously discussed, this view coincided with central government's view of local government). Local governments agree their actions were aggressive, but blamed higher government for taking too much of the tax revenues and pushing too much of the work to local levels in the form of unfunded initiatives and mandates.

In Village M, most people raise chickens and pigs in addition to farming their

³⁸⁴ Source: villager interviews

land. Some who are engaged in other than farming have leased their lands to others at a price of ¥150 to ¥300 per mu per year, depending on land quality and its location. Part of the research time was spent in a chicken hatchery in this village. Because of the bird flu, thousands of chickens had been destroyed not long before the visit. A few of the breeders who had some advance notice of the impending inspections sold their chickens for any price they could get and bought healthy eggs or chicks so they would be ready for the coming shortage. The government public health organizations produced a chicken vaccine, and the current farms are considered safe. It was not clear from the interviews, for obvious reasons, whether any laws were violated or safety policies circumvented in the advance notice, nor was it clear how it came to pass that only a few breeders had enough notice to avoid the losses associated with the disease.

Market and self-organization

The chicken farming in Village M began early in China's economic reform, in 1984. Farming began with flocks roaming free in the farmyards. The peasants learned from southern Chinese about the foreign practice of caging the chickens to make it easy to feed, clean and harvest the eggs. Since there is no tax on this industry, farmers caught on quickly, and the industry grew rapidly and was discovered and encouraged by the market. Soon the support industries such as feed and other supplies and processing plants began to sprout nearby. The purchasing and distribution network has been well developed, and includes a widely-used commodity pricing

mechanism with which the peasants have become very familiar. Every by-product has found a use as jobbers arrive daily or weekly to collect such things as the feathers from the processors, the feed containers and the droppings and other waste from the breeders which go to fertilizer plants.

Kin and clan relationships in voluntary cooperation have created and sustained the vital links in the main industry (chickens) in this village. The people remain close on the job and socially, and the topic of every conversation inevitably revolves around feed, veterinary services, selling prices, and poultry health issues. Rural Cooperative Credit organizations (RCCs) are willing to loan farmers up to ¥3,000; but the villagers don't often deal with the banks because they believe the credit union procedures are too complicated for the small size of the loans and also believe someone would need to be bribed. Thanks to their developing self organization, they find it easier to borrow from each other or to buy on credit, and very few run into credit problems. Although the bird flu hurt many in the village, the interviewees were stoic about the situation – they believe it's inevitable in any market that there will be ups and downs. What they learned is the importance of their information networks. The CCTV 7 pm news is a “must watch” event for these farmers.³⁸⁵ There they become aware of policies and health issues that can affect their industry and are now better prepared than ever to weather the occasional crisis.

³⁸⁵ Source: Villager interviews.

Village management

When the agricultural tax was dropped in 2003, the formerly self-sustaining village government lost its primary source of income. Accordingly, the town government was forced to cover village leaders' salaries. For most, the salary is about twice the average income of peasants, so the cadre job is a desirable one from that perspective. Salaries are adjusted each year in accordance with the growth of the local economy. In 2006 the village party secretary earned about ¥10,000. The town also provides a small amount of expense money to help cover administrative costs associated with required reports. The village controlled about 470 mu of land that was leased to some of the villagers or outside users, and each mu could earn ¥420 to ¥440 each year. This money could be distributed among the villagers, the real owners, but there was a general agreement that it should be kept in village accounts to cover common expenses such as repairs to irrigation systems.

During the last two decades, village leaders arranged for the construction of roads and a new village hall, and also invested in village industry. Meals and entertainment for the village leaders became a significant expense. Since they were outrunning their income, the leadership borrowed ¥3 million from the villagers at 30 percent interest. Village tax revenues were also depressed because some of the villagers owed back taxes and fees. Since current policy prohibits the withholding of land use rights, the governments could not lease the lands to generate alternate sources of income. The accumulated capital from the days of the collectives and village enterprises has been

steadily eroding and there is no mechanism for replacing it through the smallholder farms that remain. Since all taxes and fees have been eliminated, there is no way for the village to repay its debts.

Some of the villagers who had loaned money to the cadres sued in the Chinese courts, but the courts are unable to force a satisfactory conclusion. Some sought to recover their money by leasing the collective lands, but they were stopped by other villagers who are indifferent to the debt. Village leaders organized a meeting of representatives from each household to discuss the matter further. The decision was to continue using the income from the leases to cover village expenses and not to service the debt. During the meeting the villagers imposed their will over cadre spending. When village leaders need funds for other than the stated primary purpose of infrastructure maintenance, they must get approval from the peasants first. This includes such expenses as hosting outside visitors which was once a freely accepted expenditure. If agreement isn't reached with the peasants, the money cannot be used for that purpose. Every expenditure must be discussed *yishi yiyi*, which means "one discussion, one expenditure." For the time being there will be no regularly advanced approvals or budgets for this kind of spending. In village M, village leaders rarely offer to host or entertain anyone.

Villagers in this area appear to understand their rights and responsibilities under the new climate of grassroots democracy, and are willing to risk a firm stand on issues such as this. In another development, the villagers refused to vote for a new village

head until there was an accounting of the condition of village finances. This contentious move came as a result of the previous head's corruption and lavish spending. It augurs well that this spontaneous push for transparency has been appended to secret ballots as an enhancement to local democracy. The CCP secretary who is also the acting village head was elected to his position in 2004. He is sixty two years old and was a brigade head in the day of China's communes. He acknowledged that he is in an awkward position because of the condition of village finances. He also feels pressure from the villagers, who like to compare their leaders with those in other nearby villages. He is graded the same way from below as above, on his ability to raise funds – only instead of collecting taxes, they want him to successfully petition higher levels of government for project money. His current agenda includes requesting funds from the town government to build a greenhouse where peasants can supplement their income by growing vegetables.

Leadership and public goods

During a series of local interviews in Village M, a clear picture emerged that the peasants believe themselves to be enjoying a life free from local government interference and content to take their chances with the market for their goods. I initiated several conversations intended to confirm this impression or correct it. The conversation led first to an example from one of the villagers: He stated that he and his neighbors believe that if they need a road, they can get together and build a road with little or no support from government at any level. The problem, he said, was that

with the first rains the road would become unusable and there would be an increased danger of flooding. Thus a simple road project becomes a more complicated issue, in all likelihood beyond the means of a cooperating neighborhood. Furthermore, those who live on high ground would be reluctant to provide either labor or money to the solution. This is an example of a problem for government, and government has alternative paths to a solution: e.g., to organize the peasants, to manage the project or to turn to higher levels for assistance. The conversation then turned to what kind of local government would work best for their community. The answer came in the form of a story about a neighboring village within Town L.

A villager persuaded his village to guarantee a loan of ¥200,000 to build a steel mill twenty years ago. His timing was right and he became very wealthy. In gratitude to his neighbors, he created jobs, provided social security for villagers over sixty (women over fifty five), built a road and a park and supported village children who had the grades to go to college, among other generous public works. Later, when factories were being closed to protect the environment from air and water pollution, villagers went on a sit-down strike to protect this man and his factory from government intervention. While other similar industries were forced to relocate or close, his factory continued operations as before. That's the ideal leader that village M is seeking – someone who has the resources and the will to help the community.³⁸⁶

It became clear during the interviews that one of the key capacity-enhancing

³⁸⁶ Source: Villager interviews

characteristics of Village M is the kin and clan relationships that led to shared information, help in getting each other started, and even became the source of loans in a community where the farm banks cannot lend more than ¥3,000. This unity also created the means to oppose village cadres and created a strong sense of obligation among the party leadership. This community is also a good example of a location where the market became a critical part of development capacity. Beginning with one small farm that produced eggs, the chicken and egg industry exploded as buyers from nearby markets encouraged the untapped strength of their productive capacity. This niche market developed its own technology, a network of suppliers, and a brisk processing industry. After twenty years, it has become a village that is covered in feathers, flies, sounds and smells of chicken and chicken waste, and within which every conversation revolves around the care and feeding of chickens, the price of eggs or the cost of veterinary services. In an area within which the weather permits only one growing season, chickens live and grow and produce eggs all year long. The people feel free in their work and personal lives in a community where government is a remote force, mostly about family planning. Villagers find today's freedom of movement to be liberating after the regimentation of the communes.

Village H

Setting

Village H was enticing as a source of information because of a news report that the village had gained prosperity through collectives, which had become quite rare by

2006. The village was visited in August and included interviews with the village leaders and many of its people. It is only a fifteen minute drive from village M. It has 1,800 households and a total population of about 6,000. The village is also host to about 2,400 farm workers – quite a small number for a village this size.

During the early 1990s, many of the peasants stopped farming because of high costs and low returns, and many fields were idled. Some of the villagers turned their lands over to the village collective so they would not be forced to pay the taxes and fees. The village leaders didn't have much choice except to find ways to put the land to work, so they invested in mechanization with help from higher level government subsidies and established three collective farms with 4,500 mu of arable fields, leaving about a half of a mu to each household to maintain small kitchen gardens. The village invested ¥1.6 million and created a very successful corn farming industry. There were sufficient profits from the collectives to pay taxes and fees for the villagers and to subsidize veteran's survivors and other poor and sick peasants in the village.

Land use and benefits

The collectives also generated enough revenues to qualify for matching town and city funded projects to build roads, erect schools and improve other village facilities. Between 1992 and 2003, the total of these investments had reached more than ¥16 million. Despite their important successes, the collectives were closed at the end of 2003. When the government lifted the taxes and fees and began subsidizing farming, peasants insisted on their right to get their lands back. The official policy now in

effect says that when land is allocated to a household, it cannot be changed for thirty years. Although village leaders petitioned higher government for the right to enforce the contracts and to hold on to the properties that had been abandoned, town, county and city officials agreed it was an unacceptable political risk to refuse to restore the lands to the peasants who wanted them. The collectives were disbanded and the equipment that could be sold was let go, though some of the larger items are still sitting idle in village storage barns, of no practical use now that the small farms are back.

The controversy is disheartening to the village leaders. They view the collectives as enormously productive and successful, and credit their success with the general prosperity and freedom from debt of the village. The accumulated profits generated significant matching funds from higher levels of government which have disappeared with the end of the collectives. Peasants have gained the right to maximize their income, whether through leasing or farming, and have been indifferent to the need for government-funded public works.

Land disputes are inevitable throughout this area because as policies change, peasants are quick to adjust their actions to their own best advantages. They are quick to run to higher levels of government with their complaints, and local officials finally grow weary of trying to deal with them and let the villagers decide what to do for themselves. In spite of all the changes, it is apparent that this village benefited greatly from its modern collectives. The village has no debt, which is a rarity in this area, and

its infrastructure is in excellent condition because of the collective financial and social resources. Other nearby villages have large debts, as seen in village M, and it is said that Town L has a total indebtedness of more than ¥50 million. Some of the debt came from investment in rural industry during the early years of reform, and some came from the construction of roads and highways they could not afford. The villagers believe that these expensive projects were often pushed because higher level officials need the achievements to earn their bonuses and promotions. This affirmation was often repeated during interviews, but was not confirmed at higher levels.

There are three keys to the prosperity of village H. First, peasants were able to find alternate employment and so were able to abandon their lands or restore them to the village collective. Secondly, the village leaders found themselves with sufficiently large parcels of land to permit mechanized farming, which became very efficient and profitable. And third, the peasants were not required to live with the consequences of their actions. When they demanded the return of their lands, the three collectives were promptly dismantled, and smallholder farming regained its place as the normal peasant approach to making a living. As often as these interviews have revealed mismanagement and claims of malfeasance in public offices, so have they frequently uncovered peasant behavior that looks irrational to the cadres. From the peasant perspective, of course, it was not fair that the government could tax farms into poverty and then change the rules. The changes are recent, so it is not yet known whether the smallholder farming will help or hurt the local economy. But one thing is clear: with no tax revenues, the process of infrastructure decay has already begun.

In this village we find an issue of choosing the development model that is most likely to benefit a community – small, independent farms that are commercially viable because of government largesse, or collectivized tracts that permit mechanized farming. In question are such factors as land productivity and efficiency, rural employment, and the funding of the government. These are long-term issues that do not appear to have received the benefit of long-term planning but have been mortgaged in the name of individual property rights.

Liaoning Province – Town H

Setting

Town H is located in a mountainous terrain southeast of the central plain that is home to Town L. It has a good supply of very clean water because it is in a humid, monsoon-fed region of high altitude. Precipitation averages 800-900 mm per year where moist air currents rise over the hills and mountains, causing condensation and precipitation. The area is frost free about 140-160 days each year. Winters are longer and the weather colder than in the nearby plains. The average annual temperature is 6°-8° C. The major crops are corn and wheat and the seasons permit only one harvest each year. The mountains are rich in mineral deposits, including iron, limestone, copper and gold. Similar to Town L, flatter regions are favorable to and contain rural industries, but roads in this region are always in bad condition due to a combination of bad weather and large trucks ferrying ores and other minerals through the area. The town's iron mines are said to hold more than five million tons of high grade ore, and

the limestone mines are expected to produce a hundred million tons.

This is one of many Chinese towns in which an attempt has been made at reducing the size and expense of its considerable bureaucracy. It was created by the merger of two smaller towns in 2001. It contains within its borders about 420 km² of which about 40,000 mu are dedicated to dry farming and 5,000 mu are used as rice paddies. There are about 485,000 mu of forest lands. The town is roughly twice the size of most towns in this area. The per capita arable land is about 1.8 mu. The town has 16 villages and has a population of about 25,000, of which 24,000 are farm households.

History, culture and economy

The town claims a history of 3,000 years. In addition to corn and rice, the local farmers raise goats, plant fruit trees and raise mulberry bushes for silkworms on the hillsides. A bellwether export for this town is marriage-minded young women who prefer life on the plains – a stark commentary about the state of farming life in this community. The traffic exists because the young ladies on the plains prefer to marry into urban or suburban households. One of the byproducts of China's one-child policy is a shortage of females which means the ladies command a sellers' market and can afford to look for homes where the living is a little easier. This tradition has been institutionalized and has created problems for young men in the mountain villages, and one of the prices to be paid for the one-child policy is additional expenses to care for solitary senior men who have no families to which they can turn for help. Senior care

facilities in this town are planning for 300 such men who are approaching senior status. A second unplanned consequence of the one-child policy and the resulting migration of marriage age women is frequent intermarriages between related families. The region has a high number (1 percent) of people with mental health problems, another public health concern which was claimed by several villagers to be caused by the one-child policy, the shortage of marriage-age women, and the resulting marriages between relatives.³⁸⁷

The town government is working on a development model in these hilly regions that is different from the town in the central plains area: At the urging of higher levels, the town has been training local people for jobs in industry and other crafts and occupations, and after years of restricted travel, are now encouraging peasants to find better jobs, including moving to the cities if necessary. This is a model that was used with good results in the city of Wenzhou in Zhejiang Province. The people of Wenzhou began by working for pennies, making small items that did not turn a large profit, but for which there was a demand. The companies merged, grew, spawned new chains of suppliers and eventually grew into the kind of prosperity that is associated with huge real estate transactions, private airplanes and the large-scale exploration and exploitation of mines. Some of those small businesses now command 70-80 percent of the world market of such inconsequential little items as cigarette lighters and flashlights.

³⁸⁷ Source: Villager and village leader interviews. This claim was not corroborated with public health officials but was repeated by several cadres in response to questions about it.

The people of Town H were not ready to work for pennies, however, so the training produced no tangible results. In the words of one disappointed leader, “The people here would rather lie down all day and eat soup than work a little so they could afford a real meal.”³⁸⁸ Fortunately, the reluctance to invest a little time was not universal. Several villagers tried raising goats that live happily on the hillsides. The harvest is a fine hair that is going to a well known Chinese company that manufactures top-shelf Cashmere woolen goods. One of the breeders claimed a household can earn ¥20,000 annually from their goats. The practice is spreading.

Among the eighteen towns in this particular county, Town H has the lowest per capita income at ¥2,800, much lower than the ¥4,000 reported county-wide. What was surprising was a muttered complaint that even the ¥2,800 represents an exaggeration. “We report what our higher level governments want us to report.”³⁸⁹ This kind of numerical game is widely known, but is not normally spoken out loud with outsiders.

Without much to attract rural industry, the town has little to fall back on except its mines, but the mines are not permitted to operate because of the town’s location upstream of an important source of drinking water for nearby cities. Local leaders complain about being forbidden to make use of their only real resource, particularly since they are able to see the prosperity of nearby mining communities. Apparently the complaints are beginning to bear fruit. A piping system has been designed to carry away polluted waste if the town can find the funds to build it. This system will permit

³⁸⁸ Source: Interview with town official

³⁸⁹ Source: Interview with town cadre.

the opening of a high-content iron mine. As with many such construction projects in China, corruption was claimed by several interviewees to be diluting the available resources. *Guanxi* (influence peddling) is expensive when the stakes include large construction projects.

Town government

On a work day in August 2006, officials from the city Office for County and Town Financial Resources hosted a visit and interviews for officials from the country peoples' congress. The visitors heard reports from key town officials, and were then presented a package of local fish as a parting gift. The Finance Department offices of the town government were furnished with visibly higher quality furniture, computers and other equipment than the head of the town government. Interviewees said these expenditures were supported by the city Office for County and Town Financial Resources. The furnishings are part of the preparation for coming reform when town finances will be managed by county-level officials employing *xiangcai xianguan*, *xiangyong* (township level finance is managed by county level).³⁹⁰ The town government is already managing village expenditures, and now its own expenditures must be approved by the county. This is all part of a general move in this province to require control of budgets and spending by the next higher level of government along with greater financial transparency.

There are three kinds of financial support managed through this system: shared

³⁹⁰ Interviews with town financial leaders.

taxes returned from the province to the counties and towns (¥4.08 million in 2004; ¥11.8 million in 2005 for the county, ranking 26 and 24 among the 44 counties of the province); rewards instead of subsidies for counties and towns based on the comprehensive evaluation of their financial achievement (¥2.48 million in 2004; ¥2.88 million in 2005 for the county, ranking no. sixteen and twelve among the 44 counties); and a reward for introducing large investment projects (¥10 million or larger). The county received ¥700,000 yuan in 2004 and ¥600,000 yuan in 2005. The county government usually follows the same rule as the province for distributing these incentives among its towns.³⁹¹

Transportation and support industries have been recommended to help raise local incomes, but without significant rural industry, the town government tax revenues are quite low. The net revenues are about ¥170,000 – ¥180,000 each year. In order to achieve goals set by higher levels of government to gain the rewards and incentives explained above, the town government needs to “buy tax revenues.” This means they obtain business taxes from companies, turn them in as their own, and when they obtain their share of returned taxes, they add funds to repay the original taxpayer. In this way, the town is credited with revenues that count for earning incentives, but obviously the town nets little or nothing from such transactions, even after receiving the rewards.³⁹²

Tax revenues reached ¥420,000 in 2005, but the expenditures were more than ¥4

³⁹¹ Source: Provincial and country government files about township level financial resource construction in 2006

³⁹² Source: Town finance officials. Although the towns do not net a profit as a result of this practice, the habit of achieving goals and receiving incentives for performance enhances promotion opportunities.

million. The difference is made up by government transfer payments. The province spent ¥1.98 billion on those payments in 2005.³⁹³

As stated earlier, Town H was created by the merger of two smaller towns. It was the government's intention to shrink the bloated bureaucracy, but the improvements have been slow in coming. As in most of China, the newly merged government employed all of the employees of the two previously independent governments. In all of China, the number of town governments was reduced from 50,000 to 36,000, but the actual savings didn't match that drop. In Town H, for example, the "official" table of organization allows for fifty one employees, including active and retired, but the town is paying 123 officials, including seventy four active and forty nine retired. These salaries cost the town about ¥2 million each year. In 1998, a village office building was destroyed by fire, and since it carried insufficient insurance, funds from other accounts had to be diverted to its replacement. As a consequence, officials received no salaries for a two-year period. Salaries resumed in 2002 when the county began carrying officials' salaries.

Because the villages in Town H had limited prospects, they were unable to borrow. The resulting conservative management meant the town and its villages are relatively free of debt. When a village needs emergency funds, village leaders can lease hilly lands, sell fruit trees or in some other way manage to cover the expenses. Forest lands are treated differently under Chinese law than arable land. While there

³⁹³ Source: Town finance officials

are strict limits and controls over the use, transfer and conversion of arable lands, it is still relatively easy for local governments to make money from their forest lands, which are still treated as public-owned.³⁹⁴

Like those villages in Town L, the residents of Village G can decide who will be their village head. Their previous leader was rejected by the voters because he spent all his time tending to his restaurant instead of working for the benefit of the village. Although the villagers said they didn't know the other two candidates for his office, they were ready to take a chance with a new leader. Two years later they had become quite fatalistic about their chances of ever finding someone who can make a difference. In all fairness, several villagers pointed out that it is likely that conditions are so difficult that leaders find it hard to achieve anything of significance. After his first two years in office, some villagers said they had yet to see the new leader. Some opined that he was tending to his own interests while others felt he was just keeping a low profile because he couldn't generate any improvements.

Conditions in Town H and its villages are generally bleak and both the officials and the people expressed doubts that things could get much better, although some villages will benefit if the town is ever successful at commencing operations in the iron mines. Some villages find capacity in their forest lands, selling lumber and other forestry products, though this resource has been treated more like a non-renewable savings account than a source of regular income. Their hilly lands are not suitable for

³⁹⁴ Source: Township party secretary

mechanized farming, and although there are a few in each village who can eke a living out of hilly orchards and some who are profiting from their goats, many are left on the sidelines. The market may well find its way to the building of steel mills if and when the iron begins flowing from the mines, and if the past is a reliable indicator for this area, the support industries and processes that follow would create a generalized prosperity. In the meantime most of the villages in this town have development capacity that is still best characterized as potential. Those who have relatively flat lands have succeeded with their crops because the area is highly populated and not too far from major population centers, creating a brisk market for cash crops as well as some limited rural industry. Mining in nearby towns has created unpleasant externalities in Town H, as the mines generate income for the people and tax revenues for their governments but the transportation of the output damages the roads and environment of Town H without generating any benefits.

Jiangsu Province

Jiangsu is the most prosperous and well-developed farming area of China and has long been so. During the Qing Dynasty its taxes amounted to 50 percent of the entire country's

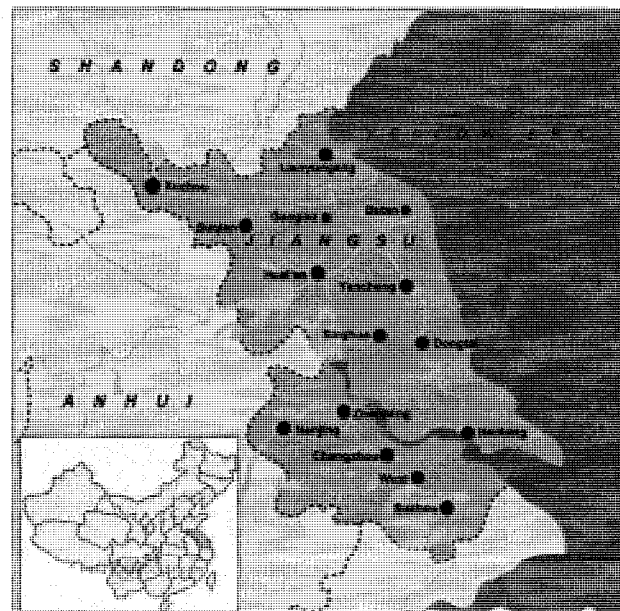


Figure 7-2 Map of Jiangsu Province
Source: Wikipedia

tax revenues. More recently it has seen very rapid growth of its economy because of the strength of its rural industries. It took eighteen years from the beginning of China's economic reform to reach a per capita income of US \$1,016, but it only took another 6 years to surpass US \$2,000 and another two years to pass US \$3,000. Unlike the situation in Liaoning Province, Jiangsu had no foundation of large state-owned industries. It had less arable land and had a larger rural population before economic reform.

Fei Xiaotong is a well known Chinese sociologist who devoted his life to his interest in rural Jiangsu, and from the very beginning of his academic life, Fei's writings on the Chinese rural areas had implications for policy.³⁹⁵ He reported three different kinds of development in Jiangsu in the mid 1980s. Southern Jiangsu committed itself to the Su Nan model in its rural industry and developed very rapidly.³⁹⁶ The further north one travels in Jiangsu, the further one is from the industrialized south and the greater the dependence on agriculture. Both the central and the northern areas were treated more like the western regions in terms of policy support and financial help; and central Jiangsu, which was visited for this project, had benefited from government assistance. Since the area was favored with good soil and growing conditions, the support from government created added to an already favorable capacity, and the towns were on a fast track to prosperity. Fei's work in

³⁹⁵ See Hsiao-tung Fei, *Peasant Life in China : A Field Study of Country Life in the Yangtze Valley* (New York: AMS Press, 1976), Xiaotong Fei, *Rural Development in China : Prospect and Retrospect* (Chicago: University of Chicago Press, 1989).

³⁹⁶ The *Su Nan* model refers to a highly focused attention on the development of private business. It has become one of the fastest growing areas in China.

Jiangsu provides a useful guide for understanding economic policies and possible development models for China's rural areas.³⁹⁷ Considering the average level of development of Jiangsu, two towns and villages in central Jiangsu were visited in February and August as part of this research project.

Town Z

Setting

Town Z is located in central Jiangsu. It contains about 84.5 km², and has a northern subtropical humid climate influenced by its proximity to the Yellow Sea. The average year round temperature is 15° Celsius, annually has about 2300 hours of sunshine, and its frost-free period lasts 227 days which allows for two grain crop harvests each year. Just ten years ago, Town Z was a small town with a one lane road bordered by two rows of tile-roofed homes. It sits astride waterlogged lowland subject to frequent flooding. The area is crisscrossed by numerous rivers, channels and canals, and there was not even a road to the county seat. Except for its fertile soil and a plentiful water supply, the town had no significant resources.

By February 2006 the town was full of housing tracts with western-styled homes, flower gardens, small ponds and attractive streams. The town was zoned in accordance with modern western practices, separating homes from businesses, industries, and farming. The building and landscape architecture had been laid out with help from

³⁹⁷ See his "Four Essays on Small Towns" published in Chinese in 1985, revisited in Fei, *Rural Development in China : Prospect and Retrospect*.

students and faculty from Tongji University which is reputed to host the best architecture education program in all of China. The town's development plan includes provisions for the next twenty years' population growth and commercial expansion. Its population was 64,798 in 2005. A sixth of the population does business all over China. About a third live within the town and half live within its 24 villages. Town Z was the first in China to be certified as having met the requirements of ISO 14001, an international standard for environmental protection.³⁹⁸ Town Z had "gone green." I learned later that the town had been fined more than ¥10 million for violations of China's land management laws. It is characteristic of this region that its leaders find it easier to ask for forgiveness than to ask for permission, as the saying goes. In a later conversation, a Ministry of Land and Resources department head opined that it was in this character trait that southern Chinese have an advantage over their northern neighbors. Northerners seem to need advance approval for everything, so nothing gets done easily. The southerners take risks in full confidence that the final results will justify their actions and make it difficult for their actions to be undone.³⁹⁹

History

The local civilization can be traced back about 4,000 years to small clans of farmers and fishermen. Before the Northern Song Dynasty (1300 AD) local people fished, made salt, and created baskets using cattail stems in which to pack their salt. They shipped their salt all over China, which had the additional effect of stimulating

³⁹⁸ The information from my interviewees also can be found on the local website.

³⁹⁹ Source: interview with government official – ministry of Land and Resources

its river transportation industry. Beginning in the Northern Song Dynasty and until the Ming Dynasty locals developed a rice industry with the encouragement of the government and in support of a growing shipping industry and expanding port cities. The land was not well suited to the growing of rice: the plots were small, the elevation was too low, making the land susceptible to flooding, and the soil was not very fertile. As demand increased, so did the need for labor and improvements in technology to increase the yield of the crops. After 1949, state policy formally pushed the production of grains and other sources of income, such as the transportation industry, and the planting of other crops lost their legitimacy. When the commune system periodically ran short of cash, the state began once again to advocate rural industry. It was the disadvantage in natural resources, less comparative advantage in its economy and the rapid growth of its population that gradually drove many to get away from the land to survive.⁴⁰⁰

In 1978 a strong farmer could earn ¥6 each month according to the work points system. That same farmer could earn ¥8-¥10 in a township level factory. Farming also entailed long months of waiting for the harvest, totally dependent on commodity pricing at that time, while factory work paid promptly each month.⁴⁰¹ There were not enough rural factory jobs to handle the labor surplus, however, so most had to seek alternate ways to make a living. They used local skills at crafts, their talent for innovation and their industry to work for others, selling, performing odd jobs, or as

⁴⁰⁰ For a more detailed account of local development during this period, refer to Fei Xiaotong, *Rural Development in China: Prospect and Retrospect*.

⁴⁰¹ Source: Interview with board chairman, privately owned steel factory.

common laborers. This was a neighborhood of industrious entrepreneurs and workers.

Rural development: from agriculture to business

Jiangsu maintained its rural collective economic system longer than most regions of China in spite of its proximity to China's pioneer areas where the household responsibility system had begun supplanting the collectives. Like many other areas, Town Z worked hard to build its economy around agriculture, but the end result was usually losses, no matter what they planted, and no matter whether they were organized into collectives or the agriculture was managed by smallholder farmers. In fact, the collectives incurred heavy debts in their efforts to find the right path to successful farming. Until the mid-1990s, many rural factories still belonged to the town or village collectives, but by that time ten of the fourteen collective enterprises in Town Z were operating at a loss, and eight of the ten had liabilities of ¥50 million above their assets. The town was on the brink of becoming a failed government. Out of this desperation, a plan emerged in which peasants were encouraged to emulate their more successful neighbors and go into private business.

A local resident described his family's story. His parents were poor peasants who lived most of their lives in a planned economy. They lived in a small and shabby home all their lives. His two brothers developed skills to help them leave the land, but prosperity eluded them also, despite the fact that they made their attempt right at the beginning of China's economic reform. For the interviewee who was watching and learning from the experiences of his parents and siblings, a conviction grew in him

that business was the single best way to slip the bonds of poverty and find happiness. “I realized farming or selling craft skills could not bring me happiness and decided I wanted to get into business.”⁴⁰² Farming had become for him a road to drudgery, boredom, harsh living conditions and poverty. Today he travels for his company about 200 days each year, managing a marketing department and earning an annual salary of ¥200,000. He owns a well-furnished modern town home near a beautiful man-made lake. His nine year old son is in a private school in a nearby city, the carrier and beneficiary of his father’s dreams, gambles, abilities and ambitions.

The chairman of the board and majority owner of this interviewee’s company still had the outward appearance of a peasant life, deeply tanned and lined face and a farmer’s rugged constitution, but he comported himself with a poise and self-confidence that belied his lowly beginnings. During a three-hour interview, he spoke of his very humble roots and the self-made rise to the head of a company that now has assets of more than ¥100 million and annual sales of more than ¥200 million.

The chairman believed the story of his company is typical for many of the more successful and prosperous companies of its kind in this area. The factory was originally built as a collective asset in 1977 to make horseshoes. It took four years and a product-line expansion to include simple tools to raise the annual income from ¥20,000 to ¥1 million. The chairman rose from apprentice to general manager during this period because of his diligence and the fact that his junior high school education

⁴⁰² My interviewee is only about 30 years old and works in one of the largest local private-owned steel factories.

was higher than anyone else's in the factory and because of his capable leadership. Thanks to some technical assistance from a customer company in Shanghai and a small loan arranged with the support of central policy, revenues increased from one to three million yuan in just three years following his promotion. The factory began to produce its own products on which it earned higher margins, and despite some financial ups and downs, the latter particularly related to the purchase of new and more sophisticated equipment for which qualified operators could not be found, the company managed to stay on solid footing in a growing market. The chairman considers two resources as having been critical to the company's success: talent at the top of the organization, and talent among the workforce. When the factory was a collective company, there was no incentive system to attract and retain top people. When things went well, local officials all wanted to be involved, but when things went badly, there was no one around who would accept responsibility. He blames this tendency for the failure of more than eighty percent of rural collective enterprises during the early years of economic reform.

In 1998 the company was privatized and the chairman became its owner. He carried all of the debt and full responsibility for all of its employees. By 2005 the company's sales reached more than ¥200 million on assets of ¥80 million, an increase of eleven times the 1997 figures. The company paid state and local taxes of more than ten million yuan each year. Today there are more than 800 employees, including 200 local people and the rest from outside.

Getting larger and stronger is the goal of the company and its chairman and owner. This is not only a matter of wanting to grow a business, but also recognition of a basic fact of doing business in China. The government pays closer attention to large companies and is more likely to favor it with its policies. As an example of such policies, there is currently in effect a “five-five” policy which means that if a company can reach sales of ¥500 million within five years, it will receive a refund of 50 percent of its local taxes. Such an enterprise also is entitled to bank loans with subsidized interest for technological improvement projects.

From business returns to peasants

In village Z there were more than 200 people doing business in local urban areas. These people had accumulated capital and experience and had moved their families closer to their work. The village head visited those individuals, now very wealthy, to invite them back to invest in their home villages to help their former neighbors. Village officials did everything they could to smooth the way, handling permits and resolving conflicts to make it easy for returning businessmen. Land, for example, was in short supply and appeared early on as a stumbling block for the construction of new enterprises. Villagers voluntarily ceded their holdings to help these businesses. More than eighty of these businessmen returned to their home village and built more than eighty new factories.

In 1997, the first year, the first of such factories reported total revenues of more than ¥10 million and profits and tax contributions hit ¥1.4 million. At the same time,

village cadres and party members were also encouraged to build private businesses. The village head built a factory in 2002. Soon ten of the eleven members of the village leadership had set up private enterprises. Today there are 119 private businesses in the village. More than 85 percent of the peasants no longer farm but are instead engaged in the factories and other businesses. The average annual income has reached ¥8,628 in this village and villagers and leaders share a goal of reaching an income of ¥12,000 yearly per peasant in the next five years.⁴⁰³

Villagers and townspeople and their leaders came to agree that this approach to their development is the right way to eliminate poverty.

The streets of Town Z are lined with lighted poster slogans: “Whether higher or lower cadre, as long as he can lead people to be rich he is a good cadre.” “Don’t review the situation, make a real achievement.” “Don’t debate, have a sense of urgency.” “Speed up development to gain status.” “Strengthen capability to drive achievement.” China has a history of sloganeering to motivate, but in Town Z, the practice has been elevated to an art form. The population and its leaders are constantly exhorted to reach higher, perform better and work harder. The choice of slogans leaves no doubt about the culture of this particular town. The town government encouraged people to check on five facts that would encourage them to leave the farms and find prosperity: Check out your earnings from agriculture each year; Check out your neighbors to see who is making a better living than you are;

⁴⁰³ The information was from the village head.

Check out ways to make more money; Check out the benefits of leaving the farm, and
Check out who gains respect from society.

When villagers lack the money to start a business, the town government can guarantee bank loans or arrange for credit to make business purchases. Peasants who were reluctant to leave their families and lands behind were encouraged as the government built senior homes and organized help-farm teams to help care for the fields. Town leaders said although they could not move the town to a better place, they could find many ways to reduce the distance to the outside world.⁴⁰⁴

Private industries in the town have increased from forty in 1997 to more than a thousand in 2004. Annual state tax revenues have risen from ¥850,000 to ¥18.42 billion. This is a 17-fold growth from 1996 to 2001. From a loss in 1997, town revenues have risen to more than ¥64 million in 2004. The total production value in the town reached ¥5 billion in 2005, 7.3 times the 1996 figure. Real peasant income has climbed to more than ¥10,000. More than 3,000 peasants now live in town houses.⁴⁰⁵

Town Z has invested ¥400 million in town construction, while private industry has invested ¥1.6 billion. The local policy is that any company that invests in town facilities such as a bus station will manage that asset and benefit from it. Business capital was encouraged to focus on third-tier industries and the town infrastructure. As examples of improvement projects thus funded, the town center has been expanded

⁴⁰⁴ The information was from the town party secretary.

⁴⁰⁵ The data came from the work report of the town government in 2005 and 2006.

from .8 km² to 2.8 km². More than 100 km of roads have been constructed to link all the villages to each other and to the outside world. Private investment was directed at the establishment of a privately owned public transportation company with fourteen bus routes that connect the town and villages as well as the farm lands.⁴⁰⁶

More than 98 percent of the peasant households now have clean running water. There is a modern hospital and the town built a ¥35 million bi-lingual school. Beginning in the fall of 2006 mandatory education was free for all children. The town also built a park resembling the traditional *Jiangnan* garden with numerous rivers and lakes and a 12,000 m² fountain square with a music pavilion so that people can exercise or engage in other public performances or activities.⁴⁰⁷

In order to provide a secure business environment, the large steel company whose chairman I interviewed bought a car for the local police department and pays ¥30,000 to help fund police salaries each year. It is said that as long as local government tries to do good job for them, businessmen are happy to contribute or participate in public affairs. Businessmen believe that local governments should take responsibility for integrating resources and priorities instead of trying to “light a fire in each household, with chimneys smoking in each village” (*huhu dianhuo, cuncun maoyan*).⁴⁰⁸

Government, private business and peasants

From an upper balcony of a good hotel in Town Z, one can enjoy a view of a

⁴⁰⁶ The data came from the local governmental website.

⁴⁰⁷ Data was from the deputy head of the town government.

⁴⁰⁸ Information came from my interview with the board chairman, a wise private entrepreneur.

small rural town that shatters all expectations about life in rural China. Instead of dirt-floored shacks, one sees modern homes and apartments in a park-like setting with nearby modern schools and hospitals. At night, however, it becomes obvious that something is missing. The town is quiet and dark. Most of the beautiful new homes do not appear to be occupied. In response to inquiries, it is learned that few owners live in their new homes. Many have invested in response to town leaders and took their cue from others who are making the investment, so although they live and work primarily at the location of their businesses, they have empty homes awaiting their return like “falling leaves that go back to the roots.” In the meantime, poorer villagers, not wanting to be outdone, invest their life savings – sometimes to the extent that they can afford neither heat, nor furnishings nor even paint for the walls – to move into the new homes. Demonstrations such as this one are explainable as manifestations of “face” in Chinese culture.

The only real incentive the town can use to attract businessmen to return is land. As usual, the cost of land use rights is a significant part of the total cost for business investors. Regardless of what kinds of deals a local government may want to make to attract business, the fee to the state cannot be ignored, and neither can the reimbursement for the peasants. Village lands are not privately owned but a collective asset in China. But land is more than an asset, it is also a means of social security.

When peasants lost their land in Liaoning, they wanted complete compensation based on the market value of the land. In Town Z in Jiangsu, a different mechanism

was at work. In Town Z, the compensation per mu of arable land was ¥28,000. The peasants were not paid that price, but were to receive instead the interest on a loan that financed the purchase – about ¥2,300 per mu. An investor was not expected to repay the principal, but only to make payments to cover the interest. The peasants, however, only got about ¥1,000 of that total, plus or minus ¥100, depending upon conditions in each village. The balance of the ¥2300 was kept by the government to finance public expenses and improvements. In the final tally, it was evident that the towns were financing the return of business using peasant assets.⁴⁰⁹ It is difficult to account for the difference in attitudes between peasants in Liaoning and peasants in Town Z in Jiangsu until several conversations on the subject took place with local peasants, leaders and businessmen. Jiangsu peasants had found an easier way to make a living and in the process had become indifferent to their lands. When I asked the peasants where China would get its grain if everyone left their farms, the response was telling and was often repeated: farming is for people in the western regions of China who have little else they can do for income; even better, if all the Chinese have money, we can afford to import grain.

Despite the significant economic success of this town, businessmen feared that the quality of instruction in the new bilingual school did not match the quality of the facility and its furnishings, and most of them sent their children to private schools in other cities near or far.

⁴⁰⁹ It was not easy to understand land use policy and enforcement in this area, since villagers seemed to neither understand their situation nor know where they might learn the facts. They often complained about a ¥100 difference in payments among the villagers in different villages.

Businessmen also expressed dissatisfaction with town and village leaders. It was widely discussed that the cadre evaluation and reward system leads to behaviors that are not in the best interests of the people but are manipulated to the best interests of the leaders themselves. Like bureaucrats almost everywhere, they are blamed for exaggerating their achievements and hiding their failures, assuring that truth and progress are sacrificed to the benefit of inflated reports and bonuses. On the other hand, businessmen are very aware of their own influence that multiplies with the size of their businesses, so in the end, business and government work well together, using each other and collaborating when it is to their mutual advantage. The ruling elite were very much in evidence around the fringes of this little society. Businessmen and officials met nightly for dinner and called each other “brother” (*gemen*).

An interview session was conducted as the town government hosted a meeting for businessmen and higher level officials and bankers from all over the region. In the meeting, farming was totally ignored – it had become a non-issue since much of the arable land had been converted to development or industrialization. The current strategy for improving the lot of the peasants revolved around education – presumably improving the quality of local labor for the factories or making it possible for the peasants to just leave to seek their fortunes elsewhere.

Town S

Setting

Town S is located in the plains area of the river region of central Jiangsu. The town has a thousand-year history as the commercial center of the region. It has rice paddies and a plentiful supply of fish and other seafood products. Recently this town has seen a sharp growth in breeding farms. It contains 69 km² with 51,000 mu of arable land, 6,100 mu of wet lands and a population of 43,900, (2005 census). Of this population, more than 35,000 live in its fifteen rural villages. Rice and cotton are the main crops. The subsidy for farming rice is ¥20 per mu and has been paid for the last two years. In 2005 the government subsidized farmers who were willing to use a new high-yield wheat hybrid at the rate of ¥10 per mu, but only 60 percent of the peasants took advantage of the subsidy. A mechanization subsidy amounting to 30 percent of the purchase price of farm equipment has been paid through a cooperative arrangement between the province, city, county and town governments.

Like the people in Town Z, residents of Town S had a similar problem with employment because of limited lands and a large rural population. During the reform period, many villagers left their farmlands. Although Town S was ahead of Town Z in development in the mid 1990s, thanks to better agricultural conditions and collective rural industries, development slowed as the town attracted less private industry and became more closely tied to farming, lagging behind Town Z in industrial development.

Despite its life in the shadows of Town Z, Town S still has more favorable conditions than many in the region, is able to take advantage of the favorable policies intended to support the less-developed northern area, and has managed to create twenty-four township-level and fifty-four village-level factories and countless team and household factories. These small industries produce everything from tools to textiles to building materials, stainless steel goods and plastic toys. In addition to a solid agricultural base, the town is also the beneficiary of newly explored oil and natural gas reserves. In 2005, the average per peasant income in the town was ¥6,461, which is above the average of ¥5,600 in the province. Income grew by 25 percent in 2005 over 2004, and the town ranks sixth among the twenty-three towns in the region.

Rural development ~ improving agricultural production

Learning from its neighbors, the leaders of Town S have recognized that the key to prosperity lies in the development of private industry. The town leaders have turned to a strategy that can link its agriculture base to industry. Traditionally local farmers grew rice and cotton, but in its history there were almost a thousand mulberry fields in Town S dedicated to the care and feeding of the silkworm. Local people have learned they can earn three times as much in this industry than in rice and cotton crops. Town leaders became aware of a large producer of silk in a neighboring town. The company had formed its own brand and had developed its ability to produce silk as its main product, but has also branched into other parts of the business. The leaders of Town S coordinated peasant farmers and arranged to add their networked farms to the

company's supply chain.

With the success of that venture behind them, town leaders set a goal of placing 10,000 mu into the production of the silkworm by 2010. In 2005, 1,200 mu were placed into production. Among other support measures, the town negotiated a bottom-line selling price and established a training program to help the participants. The training was sponsored by the Service Center of Agricultural Technology Promotion in the town. The technicians in the center are paid by the government, so there appears to be no danger of the center disappearing as in times past. The feeding of silkworms is a green environment-friendly enterprise that cannot be managed by single households. Fields must be of an optimum size in order to be profitable, and that size is larger than one household can tend. Village cadres are given incentives to encourage peasants to divert their lands to the feeding of silkworms. If a cadre achieves his quota, he can receive a reward of ¥30 per mu. He can also be penalized ¥20 per mu if he fails to achieve his quota, and can receive a bonus if he exceeds the quota. The cost to develop a one mu mulberry field is ¥315. The villagers cover ¥115 and local government provides the balance. Town S received ¥50,000 from its county government last year and the entire amount was spent to subsidize the farms.⁴¹⁰

Town and village management

It was apparent in the town's development that local government in Town S is well managed. As an example, the town developed a vegetable industry almost

⁴¹⁰ The information was from the deputy town head.

overnight. Whereas vegetables were once purchased from outside, the government sponsored a training session in which villagers were taught key skills. During the following year, 5,000 mu of land was diverted to vegetables, and there is enough not only for local consumption but also for marketing in Shanghai. It is warm enough to have two harvests each year, so that after harvesting their rice, peasants plant a vegetable crop. The income for rice is about ¥1,000 per mu while the income from vegetable crops is about ¥8,000. Local government began encouraging the raising of pigs, sheep, and dairy cattle, and also urged the breeding of seafood products like crabs that can be bred in the rice paddies. The government has the goal of increasing mulberry field development at the rate of 2,000-3,000 more mu in the next year; and they are also planning to continue supporting rice and cotton in the crop rotation. One of the benefits of crop rotation is a demonstrated improved control over pest infestations, which helps optimize the yields.⁴¹¹

Following government advice has not always been wise for China's peasants. During the early period of economic reform, peasants received lots of bad advice. They planted crops for which there was no demand, for example, or were given quotas to produce grains for which the costs exceeded the income. An aftereffect of those days is that peasants today wait for the evidence before leaping to new ideas or technologies. This is the reason that this research repeatedly reports that a group of peasants was taken to other villages or towns so they could see the evidence and learn the techniques from those whose success was already visible. Often it is town and

⁴¹¹ Ibid.

village leaders themselves who are asked to try the new programs first, becoming an example for the peasants to follow. The success of some peasants is used to demonstrate the means to others.

Jiangsu eliminated agricultural taxes and fees ahead of most of China's other provinces. The tight financial condition created by that move affected Town S as it did most Chinese towns. It is accordingly common for Jiangsu towns to carry significant debt. The strategy for solving this problem has been to develop rural industry first and then use the revenues as a foundation to improve the agricultural economy. In 2004 the town had total tax revenues of ¥20 million, but because ¥25 million were returned to local companies in 2005 to encourage growth, the town saw only ¥15 million in revenues that year. According to the revenue sharing policy, 15 percent of state taxes and 75 percent of local taxes can be retained for use by the town government.⁴¹² After paying the higher-level share of the taxes, the available financial resources left for the town was only ¥5 million— just enough to cover public salaries and leaving almost nothing for infrastructure and agriculture development. The town budget was supplemented, however, by ¥3.5 million from land use revenues as a result of land management policies similar to those seen in Town Z.⁴¹³

As in Liaoning, village cadres are paid from transfer payments from higher levels.

⁴¹² Notice that this is a different arrangement than in Liaoning where tax sharing isn't managed at the local level. In Liaoning all revenues must be turned in to the counties, and the distribution of shares is managed at the higher level. There is no set proportion for sharing in Liaoning, which allows for special allocations, rewards, etc., but also makes the system more vulnerable to manipulation through political *guanxi*.

⁴¹³ Information from interviews with town leaders.

But unlike Liaoning, salary levels are not fixed by average villager income, but by the achievement of quotas set by the town government. After paying a basic annual salary of ¥3,000 to ¥5,000, the balance of their income is determined by their evaluations. I reviewed the quotas and found them to match the goals that had been explained to me earlier. They are based on the number of mu of land repurposed to mulberry fields, on the percentage of fields dedicated to high-yield seeds, on the vegetable crops, on the prevention of epidemics, on the number of households turning to animal farming, on the area and quality of reforestation, on the promotion of agricultural mechanization, and on injury accident rates. Some of the incentives become part of the village budget, but some money is also handed out as reward for individual achievement. In 2005, the most a single cadre earned was ¥20,000, and the lowest amount received was ¥5,000. In a village I visited, the head of the village earned the most money in the town. The village had only six households that were still farming their land. The rest of the land had been converted for rural business. At the town level, the system is the same. In addition to regular monthly salaries, officials can earn bonuses based on their achievement of goals set at the county level. In southern Jiangsu a town leader can earn upwards of ¥200,000, but in town S leaders earn a tenth as much.

Government, business and peasants

Each year during the Spring Festival Holiday period Town S invites 100 businessmen to meet with local leaders. The businessmen are selected based on the size of their investment or their potential investment. The town sells itself by

explaining its preferential policies and at the same time seeks advice for continued development. It seems to be like a board of directors meeting. High-ranking former residents from all over China are also invited as are representatives from the army. The attendees become part of the town's expanding social network. When local leaders must travel to Beijing, for example, contacts there arrange for lodging and introductions to facilitate the work of the town's officials. The town leader characterized the meeting as "very useful" for building social networks.⁴¹⁴

Town S uses land to attract businessmen just as the officials in Town Z do. In addition to surrendering its share of compensation for the land, the town also readily allows businesses to delay the payment of fees and taxes. The town hall was moved from a choice downtown location to create prime business property. As a result, the town received some extra money to attend to other public works. When I visited a village close to the center of town there were only a few households occupying their arable lands, but those lands had already been seized and the peasants were only awaiting final instructions to vacate. They showed me their new homes nicely laid out in a new development. The government controlled the external appearance and design of the homes, but the villagers were able to make their own decisions about interior designs and materials. There were still many poor, shabby little homes dispersed around the village, many of which had been vacated as the peasants moved into their new homes. During the second trip to this area, the relocation had been largely

⁴¹⁴ Source was from my interview with the town heads.

completed and the lands had become available for development.⁴¹⁵ Previous village leaders were given choice locations for their roles in communicating with villagers to achieve their quotas. Villagers who lost land were able to get ¥900 per year, just as other villagers could in Town S. They did not seem to know how long the annual payments would last. The government attempts to persuade them to use part of the money to purchase social security for their futures to avoid problems for the government later. Peasants tend to be suspicious of any scheme that requires them to give up money now for some future benefit. Town officials have begun thinking of ways to subsidize those villagers to demonstrate the value of this government program.

The resources for village improvements are always dependent upon the town's ability to create a complete "set" of sources for the project. This applies not only to construction projects, but also to such programs as the promotion and subsidizing of agricultural mechanization. Sometimes towns wish to pursue a goal when there is little local money to fund it, hoping to secure special allocations from the province. That kind of work is labeled as "dead end," which reminds local officials to stay away from it without careful consideration. In a village in a nearby town, a decision was made to build a road, but of the ¥1.1 million that would be needed, the village fell short in its funding "set" by ¥450,000. In order to raise the money, the village sold twenty five blocks of land for housing at a price of ¥25,000 per mu. Sections 15, 17 and 19 of the Land Management Law prohibit the conversion of arable lands to non-

⁴¹⁵ Chang Hongxiao, "*Jiangsu da guimo shixing de 'nongmin jizhong juzhu'*" (Peasants' Centralized Living" Spread out in Jiangsu), *dongfang caijing* (East Finance, www.finance.eastday.com), Dec. 11th 2006).

agricultural use. In this village, however, land conversion continued as the price the cadres were willing to pay for continued economic development.

In documents and files I was permitted to review, officials, peasants and businessmen all use strong language when they compare their towns or villages to others. In Town S, for example, it is common to chide people from Town Z for having more trouble than achievements. For a local government, the comparisons become central to the search for development strategies and directions and as opportunities to correct past mistakes and build a good future. Village cadre elections are closely watched as opportunities to identify new leadership talent, particularly if it is a successful returning resident whether he/she is a CCP member or not. Those who are selected have demonstrated the ability to generate wealth and often their willingness to serve the public as well. Some of the leadership jobs are difficult to recruit for because of the nature of the position, the difficulty of the tasks, and the unfamiliar environment for people who have made their fortunes and are accustomed to doing things their own way. They are welcome for their ability to build factories and create jobs, but also in the hopes they can contribute directly to public works such as infrastructure improvement or the building of schools. They are adept, not only as leaders and donors, but also as teachers so that others may replicate their successes.

Influence of the regional economy

The area offers key advantages: it is the agricultural base of the province, leading in the production of wheat, rice, cotton and edible oils and holding a spot as one of

China's top 100 agriculture-producing counties (*Zhongguo baiqiang nongyexian*). When local farmers voluntarily brought their products together, local governments helped create market links. A market for goats in this area was created this way and has become famous nationwide. The steel industry sprouted very quickly and has become a pillar of the local economy. Although there are no mines or history of steel production in the area, when returning peasants arrived with their capital and technology, the steel industry developed quite naturally and very quickly. The story is reminiscent of that told by the chairman of the large steel factory in Town Z. They began by producing small goods and mimicking the products of others, but responded quickly to market needs with products of their own. There are currently 1,400 steel mills in a six km² area of town S. They learned industrialization and urbanization from neighboring towns where the "hens" of others produced "eggs" from which they could raise their own hens (*jieji xiadan*). They joined the steelmaking club within which they share resources and technology and have been party to the integration of the regional economy. In April 2006 an alliance was formed between the steel industry in Town S and a large company in a neighboring town.⁴¹⁶

⁴¹⁶ Source is local governmental website. (Anonymity promised).

Sichuan Province

Background

Sichuan Province is in China's southwest. Its central west plain has long been recognized as one of China's richest agriculture-producing regions. It is also one of the most thickly populated provinces of

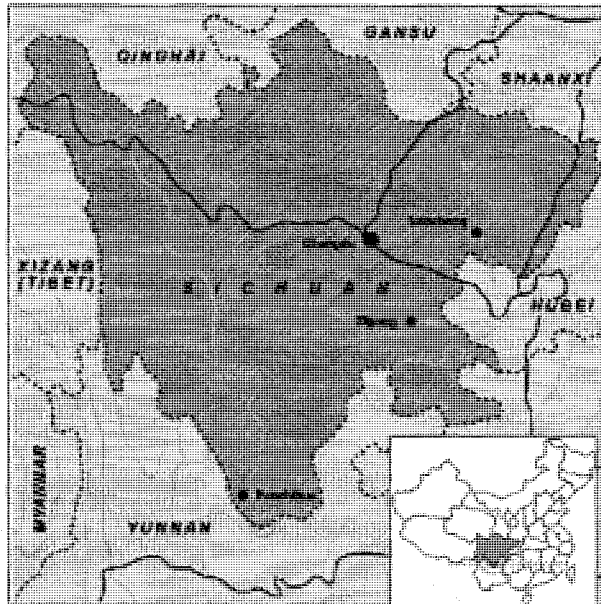


Figure 7-3 Map of Sichuan Province

China. Its modern industry was founded in 1953, when the first Five Year Plan took effect. The domestic and international economic and political condition of those days led to industry having a profound impact on Sichuan. That project, however, did not do much for the agriculture economy because it was focused on defense products and was managed directly by the state. There was little connection with local suppliers and therefore very little opportunity for creating a rural light industry of the kind that would support and be supported by local farming. Farming conditions are difficult in this hilly country, and when that reality was combined with a loose population control policy, the stage was set for a constant tension between its rapidly growing population and the scarcity of arable land.

Sichuan has a varied terrain with extremes of nature, economy and culture. A

report from the Sichuan Social Scientific Academy in 2005 divides the province into six distinct regional economies: Chengdu, West Panzhihua, the south, central, northeast and the northwest regions. As an example, the northeast region (hill area) ranked second in GDP growth between 1997 and 2003, going from ¥45.6 billion to ¥71.8 billion— this growth rate was one fourth that of the Chengdu region (plain area), which had the top growth rate in the province. The population of the northeast region had the same growth rate and ranking as its GDP during that period. Because of the population growth, the per capita GDP in this region dropped to last in the province, a third of the per capita GDP in the Chengdu region. According to the 2005 *Sichuan Statistical Yearbook*, the per capita GDP in County Y in the northeast (one of the top hundred strong counties in western China) was ¥3,720, while per capita GDP in County S in Chengdu (one of the top hundred counties in all of China) was ¥19,369 yuan.⁴¹⁷

The income gap between urban and rural people in Sichuan has been increasing. From 1997 to 2003 the difference grew from 185 percent to 236 percent. When we compare the region's income levels with the national average and with the well-developed eastern provinces, the comparison is striking. Peasant income in Sichuan is 13.8 percent lower than the national average. (Peasant incomes in Jiangsu and Zhejiang provinces were 84 percent and 130 percent higher than that in Sichuan

⁴¹⁷ Source was from the provincial official statistics yearbook in 2006.

respectively in 2004).⁴¹⁸

Information from the Communist Party Committee of the province

Field visits were conducted from Chengdu to the northeast area of Sichuan province during January and February, 2006. The first interview was conducted with cadres from the Communist Party Provincial Central Committee. This was the only occasion in this field research in which the itinerary was approved by the authorities, which caused concern about the nature, accuracy and therefore the value of the information that would be acquired. The arrangements initially dampened enthusiasm for the visit, but the research was very productive nevertheless, yielding basic information about local conditions that were helpful in developing a picture of the province as a whole.

In 1994, even after Chongqing became a municipality, Sichuan reported that 77 percent of its population of 87.5 million lived in its countryside or rural areas. Sichuan has been looking to urbanization as a solution to its rural poverty problems, but except for some recent gains around Chengdu, most of the province has achieved very limited progress in its urbanization efforts despite trying many different programs. In Chengdu, progress was made using such measures as developing agriculture-related industries, relocating residents to make additional lands available for development, and centralized housing. The estimated cost to move each person from a rural village to a city is about ¥15,000— too much, considering the size of the population involved.

⁴¹⁸ Source was from the national statistics yearbook and my comparative calculation.

Because of the tangible benefits of rural industry in other parts of China, this approach has been a strategy for Sichuan, but one that hasn't worked well to date for several reasons: The villages in Sichuan are situated in and around the hills and mountains (93 percent), where not much of the land is arable. Because of the condition of the land and the density of the population, per capita arable land is less than one *mu*. Despite the elimination of agricultural taxes and fees, the cost of farming supplies and materials is still too high for the small yields possible on their small plots, so young, strong adults almost always leave to find outside work.

A second difficulty with farming in Sichuan is the condition of the infrastructure and other public works. Whether considering the education system, rural credit, farm technology or the transportation network, the peasants are virtually helpless, and the government must shoulder the entire burden, so the improvements develop more slowly than other parts of China. As an example, in 2005 the province increased its investment in rural social programs such as public health by 56 percent over the previous year, spending ¥300 million just to improve rural medical care services. Although this spending was the equivalent of the previous twenty years, there are still many towns and villages in the area that have little or no medical services. Beginning in 2006, cooperative medical care has become widespread throughout much of China, but in Sichuan, the program has its own flavor. In many regions of Sichuan Province the peasant fees of ¥10 per year to participate in the medical insurance plan are deducted directly from peasant subsidies for farming from the central government. The rest of the costs are apportioned at the rate of ¥16 from the province and ¥12 each

from the city and county levels. This cost has added financial strain to the budgets of poor counties that are trying to develop rural industry.

A third factor that limits development in Sichuan is a bottleneck caused by transportation limitations. The province invested ¥1.35 billion in road construction in 2005, creating 6,726 km of new roads; but there are still fifty-nine towns and 6,479 villages that have no connection to the outside world except through unimproved paths. A recent investigation and report by the provincial party committee shows that peasants consider road construction their highest priority.⁴¹⁹ There's a dilemma, however, since the government has limited resources for that construction, and allowing private companies to build the roads means that tolls will be collected for a long period of time, thus increasing transportation costs. So far only about 1,000 large firms are active in agriculture in the province. Without a suitable transportation network, there has been little incentive for other large firms to extend their networks into the countryside, even though the province tried to help by creating toll-free "green channels" for the movement of agricultural goods.

Development in Sichuan is further complicated by the dispersion of the rural population. If there is a ten kilometer distance between two homes, winding and climbing mountain roads can easily double that distance, making it very difficult to create an infrastructure. It was hoped that people could be relocated to a central village area, but the construction and the moving expenses are a heavy burden for

⁴¹⁹ Source was from my interview with the assigned official from information department in the provincial party committee.

governments. Even if they were not, the peasants usually resist being uprooted from homes and lands that have been in their families for generations. It's the same heart-wrenching issue that has been so hotly debated occasioned by the need to move families to accommodate the Three Gorges Dam project.

Yet another difficulty in developing this area comes from the reality that local cadres are not motivated. They have long struggled with limited resources, low pay, and very limited achievements for their hard work. In an attempt to meet mandated standards and quotas, many jurisdictions incurred large debt, with which present officials must now contend. In areas that are slightly better off, corruption and powerful gangs seem to be the way of things. In the poorer regions, no one wants the cadre jobs, preferring to seek work outside. Often the priorities are very clear and specific – e.g., roads, running water, electrification and TV cable. Those cadres who achieve some of those goals manage to get by, but in the poorer areas, being a cadre can mean only failure: low pay and none of the respect and prestige that normally accompanies a leadership role. The resulting tension between cadres and peasants is an everyday fact of life.

Finally, the causes and end results of all of these other factors combine to create a fatalistic and disheartened population. The elder locals recall that under the commune system there were social programs that kept everyone busy and fed. The education process was continuous, feeding them a blend of ideology and farm technology and pulling them together for useful community projects. There were no criminal gangs,

the mysticism associated with religion was kept at a minimum, and the people were too busy to spend most of their time playing *mahjong*. Except in the wealthier areas surrounding Chengdu, there are virtually no cultural or social activities to lift the spirit. Local cadres are neither able to collect taxes and fees nor to provide goods and services, so contact with the peasants is nearly nonexistent. This means that the people lose faith in their local leaders, and the cadres lose touch with the reality of peasant life. In the absence of resources, only ideology, spiritual inspiration or pure charisma can marshal a community to work on collective activities such as the maintenance or improvement of the irrigation projects. While ideology and spiritual inspiration once motivated the peasants, those forces no longer have much influence.

County S

County S is in the center of the Sichuan Basin, about 16 km from Chengdu. It is ranked as one of China's one hundred-strongest counties. It contains twenty-six towns and a population of 840,000 people. Unlike most of the counties in Sichuan, S is unique by virtue of having a very solid transportation network of airports, highways and a railway network. Its population is overwhelmingly rural – about 500,000 people, or 60 percent of its population. A key advantage for this county is its proximity to the markets of Chengdu, the major urban population center in this province. The county embarked on a program to improve a hundred villages several years ago and also established ten exemplary villages at that time. The project began with a construction plan, then moved to establish a supportive rural industry, all designed to provide better

living conditions for area peasants. The project made lands available because of displaced peasants, which began to attract industry. The project also attracted funds from provincial and national governments as part of its experimentation in building a “new countryside.” These investments from higher levels of government and different ministries meant that help was arriving from every direction. The county has continued to create its model villages and by the end of 2006 expects to have about thirty.⁴²⁰

Town S

Town S is forty kilometers away from both the county seat and Chengdu, but because of its location in the hilly region in the southeast part of the county, it lacks the advantages of its neighbors to the north that have prospered because of their proximity to urban markets. Yet, all the villages in the town are linked by good roads. Furthermore, it has an advanced water conservation system and is linked by good communications networks. It contains 39.7 km² that include 20,443 mu of arable land. It has six villages containing a population of about 20,000. It is an area with a rich tradition and local culture, and it is blessed with much natural beauty.

When the town began its development planning it was led by the county government to build its economy around its natural environment, cultural traditions and as an appealing tourist destination. Its industrial parks were linked to the nearby airport and the local highway network. Local people were guided to plant peaches and

⁴²⁰ Source was from its county government web page.

dates and to raise rabbits, goats and dairy cattle. As the town developed this standardized approach to local business, it also organized and trained the peasants in crop management for its new crops and how to handle and package the produce in a manner that would be appealing to its urban customer base.

Village N

One of the town's villages, a previously poor and backward hilly village, has become an experimentation site for the Ministry of Agriculture. Agriculture tourism was advocated for the village, built around flowers and small animals in natural settings that would attract visitors. One peasant family spoke of the rise of tourism in the area. Because of its history and natural beauty, it is attracting more and more visitors from Chengdu and other cities, and the trend has been encouraged by outside investment in restaurants, entertainment and sports facilities as well as a network of rural hotels. Some of the farmers feature "U-Pick" fruits and vegetables, which are very popular with visitors, and others sell potted plants. These products are very popular as gifts and have never been seen before in this region. Development continues in the form of training programs to teach peasants how to add to their incomes. The goal is to leave each person between the ages of eighteen and forty five with at least one or two practical skills that will make it easier for them to find work.

In 2005, the town production value was more than ¥81 million. Its total agricultural production was almost ¥72 million and more than half of this came from a fast-growing poultry industry. Local investment was more than ¥17 million with an

additional ¥20 million going to fixed assets. The average peasant income was more than ¥4,400, compared to ¥2,800 for the province as a whole, and to the ¥4,766 reported in County S.

The success of the town and village leaders has changed the attitudes of local peasants toward their government. After years of failure and bad luck, prosperity finally came to the town and a partnership developed between the community and its leaders. The progress has been sufficiently robust to attract some who left earlier to find outside work back to their villages to participate in the newfound prosperity. Competition between peasants and cadres has been replaced by a collaborative spirit and marked by two-way communications in the place of ultimatums and directives. It isn't difficult to understand that now that leaders no longer come around with their hands out to collect, but with their hands full of benefits, they are welcome. The new fiscal policies have made it difficult for leaders to abuse their power, thus removing another irritant from the relationship between cadres and their communities.

After visiting the prosperous regions and villages of County S the next stop was in County Y, an area that is lower on the development ladder, but still not poor. It is east of the Sichuan central basin, is home to 1.15 million people, and was ranked No. 99 among the 100 strongest counties in western China. (These ratings considered more than 900 counties in their rankings). More than 93 percent of its land is middle and low hilly land. Eighty-nine percent of its population is rural. Although the county has experienced a double-digit growth rate in its economy during recent years, it

began from a lower base and still lags those regions that are now quite advanced in their industrialization. As mentioned earlier, the County Y per capita GDP was 20 percent of County S's in 2005. The gross industrial output of the county is often less than a well-developed town in China's east. Because it is lagging the more prosperous areas, I considered it as providing valuable information about regions in China that are still struggling to advance their economies and improve living conditions.

Town P — Setting

Town P is located in the southwest region of County Y. It is better situated with respect to the highway system than other nearby towns and therefore has more wealth and accordingly more political clout than its neighbors. An expressway is under construction that will shorten the travel time to Chongqing from five hours to about two hours. There are also navigable waterways on which goods and produce can arrive and be shipped from the town to nearby villages, towns and cities. The town is about 300 km from Chengdu (a four-hour express bus ride, followed by an additional hour on local roads). The town contains 43.24 km² and twenty-six villages, and has a population approaching 40,000, including 35,000 rural residents. The climate is humid and temperate with an average temperature of 17.6 C°. Its per capita arable land is .84 mu, mostly on hillsides. The cash crops are rice, wheat, corn, sweet potatoes, edible oil crops, silkworm cultivation and vegetables.

Silkworms and orange trees have been the traditional money-making sidelines for the local peasants in this area, although the price of silk fiber dropped several years

ago and many peasants gave up on the silk market. Although the price of silk has recovered, it is still considered too risky a crop and many prefer to leave the land to find other work. A similar problem occurred with the orange groves. Although there was a brisk market where local oranges could be sold for a profit, the local fruit is not quite as sweet and is not faring well in competition with oranges that are arriving from southern China. After struggling with this problem for a few years, the local farmers ended up uprooting and removing the orange trees. County leaders have been attempting to guide the farmers to plant a new strain of good oranges, but the memory of past failures is making it a tough sell. Orange groves produce nothing but costs for a few years until they begin bearing real fruit. The up-front costs, the delay in receiving any income, and the apparent risk associated with a selective market mean the farmers have not taken to the project, even though the county is providing subsidies to encourage the shift.

About 15,000 people have left the town to find outside work, and of the ¥2,700 average per capita income, about half of it is estimated to come from migrant earnings. The men and women both leave their homes to the older generation and the children. There are lands that are lying unused. A local private company processes river sand and stone for use as building materials and highway construction. Since road construction is expected to continue, this business is expected to grow, creating jobs and income for the local economy.

Rural development

In pre-reform days during the 1970s, grains had become the only means for peasants to earn a living on their communes. Local farmers were at a disadvantage in this process, as their fields were hilly and the soils in poor condition. Sometimes all there was to eat was rice and sweet potatoes, and sometimes families went hungry. Under centralized control and procurement, the communes were required to meet a grain production quota. If there was a shortage, communes sometimes had to buy grains from others to make up the difference, reducing the available income.

The system was not intended to drive people to starvation, so that if families did not have enough to eat, an allowance consisting of a grain allotment and a script that was used in place of money were combined to allow families to purchase enough grain for household use. Grains that came back from the higher levels were called “returned” grains and were allocated in accordance with need. During those years, Town P often had to depend on such returned grains. There were no acceptable private sources of income in those days, but those who had relatives in urban areas sometimes received used clothing or a little money they could use to buy something like a pair of breeding pigs that might raise a little cash for other necessities.

Town P is isolated, not only by its location, but also by its lack of infrastructure. Wherever local people want to go, they must walk. Whatever they want to bring to market, they must carry on their shoulders. Facing such hardships, local people regularly choose to leave for other regions for work. Many seek a place where they

can sell their simple skills such as making cotton fiber, repairing knives and tailoring. People tend to follow others who have left and found some success, often meeting and marrying in their new locations and taking up permanent residency. Although this migratory tendency has been pervasive for decades, after the 1980s a combination of increasing freedom and improved information flow has revealed the sharp gap in living standards, and the younger generations have turned away from the harsh lives of their youth and their parents and responded to the lure of urban life. Some who have no land have been forced to leave because of provisions of the land contract law that fix property rights for long periods of time. Migration has not always been a positive experience, however. As we have seen, migrant workers have tended to face exploitative practices in the cities, and have not had access to basic public services. Yet they continued to leave their peasant homes despite the hardships, and they now have hope that things will get better, thanks to new legislation, policies and programs to help migrant workers.⁴²¹

Beginning in 1982 towns in this area began implementing the “household responsibility system” which was linked to production quotas, and represented a step away from communes and other collective kinds of farming. The government encouraged a diversified economy, and in this area silkworm cultivation and pig farming became popular. County Y was designated one of the major “lean meat” pig

⁴²¹ For example, the new PRC Labor Contract Law passed by the Standing Committee of the National People’s Congress on June 29, 2007, which took effect on January 1, 2008, makes detailed provisions to protect migrant workers from employers’ abuse and punish officials who ignore labor abuses with prison time or other penalties. More and more local governments create many programs such as housing, children education and training available for migrant workers.

breeding areas designed to acquaint the area with its new products. It also was a major beneficiary of the provincial government's "help poverty" programs. In 1988 the county became a producing base for silkworms within the province. Town P had a large collective silk factory that occupied more than 50 mu, and numerous small silk factories also sprouted in the region. By the early 1990s, the town's rural industry was well developed, but it was limited by primitive transportation and communications. This was also a time for caution because the market was just beginning to find itself and was still viewed as risky with lots of traps for the unknowing and lacking many of the rules and standards that make a market stable. Under these conditions, everyone was being very conservative, and investments which might have assured survival, growth and prosperity were not being made – not by the government, not by private investors and not by the banks. The silk industry in the town collapsed and the large silk factory and most of the small ones closed their doors in bankruptcy. The market price of pork never rose to match the rising costs of raising the pigs. In this town, the people turned away from silkworms and pigs and toward vegetables and rabbits, which have continued to show promise. By a very natural process of socialization and affiliation, voluntary farm organizations began to form that were later to become the kind of cooperatives that served the population well and were eventually encouraged and supported by the town government.

Township Party government

The local CCP organization played a leadership role in Town P through such

means as experimenting with improved seeds and developing an agriculture support structure. While it is difficult and often impossible for individual farmers to experiment to develop farming improvements, party members learn of improvements through their natural affiliations with neighboring governments and party organizations. In 2004, for example, newly elected town leaders learned that in some areas peasants had turned away from rice and begun cultivating green pepper, with a substantial increase in income. In interventions of the kind Adam Smith might have disapproved, the town government set a bottom selling price for the green peppers, and provided additional support in the form of a ¥50 subsidy per mu for lands that were converted to the production of green peppers. This market intervention by the government fared better than previous attempts. Although the peasants had become cautious about government programs and were reluctant to take this approach at first, the party members and leaders led the way on their own farms. In the first year of this program, more than two thirds of the green pepper crop came from the local cadres. But with their early success, local farmers began to accept the program.

After some trial and error and progress that was limited by local conditions, many local farmers began to achieve a small measure of prosperity, but felt they had reached an earnings plateau. In response to this condition, the town organized an “investment advisory group” of more than twenty of the most successful farm households. This group was given responsibility for staying in touch with villagers and providing useful information, technology and other advice to advance the state of farming on a more generalized basis. They introduced superior seeds and breeding stocks, as well as soil

treatments and other useful technologies, and gradually but convincingly improved local access to and knowledge about markets.

The arrangements and progress resulted in very positive feedback and increased unity on the part of local peasants. For example, fifty-four peasants came together and invited the most successful rabbit breeder to help as their investment advisor. The sales of rabbits for breeding purposes and as meat for the grocery store shelves was brisk, earning each of the households ¥6,000 each year. A similar example developed when 100 peasants were guided by a very successful farmer to rotate their crops with seasonal and out-of-season vegetables. Many of these sold outside of the town, bringing in combined revenues of more than ¥100,000 the first year.⁴²²

Programs such as these often demonstrated a generalized improvement in local conditions. But there are always those who feel bypassed, and in this town there were those who felt the advisory committee provided only the wealthiest families with additional opportunities to gain from the work of their poor neighbors. The town government said it supported local agrarian investment with about ¥100,000 yuan in 2004, but some of the people I interviewed were not aware of any such investment and had not received any such assistance themselves. Here were the same forces at work at a micro level that were creating an income gap at a macro level in China – discriminatory policies and programs are always in evidence.

Another interesting program involves cadres directly in the well-being of poor

⁴²² Source was from official introduction in the town and also was found in its official documents copied later.

families. The program is called *lianpin bangkun zhidu* which means “contact people and help poverty.” In County Y, each county leader takes responsibility for two poor peasant households, offering financial and other support and guidance. This program is not unique to Sichuan; it is quite popular throughout China. Obviously it matters to the towns and those peasant families which officials have been assigned to help them, as some guides may not be much better off than themselves, while some officials (finance, transportation, utilities) have real power to mobilize resources that can make a significant difference. In addition to providing small financial donations and goods such as food and clothing, these leaders can pave the way to connect good students with funding opportunities for higher education, for example, and are also in a position to identify and possibly take measures to correct local problems. The help for one or two families is not insignificant, but is further enhanced by the improved communications links and much better information at an official level about life in the rural areas in their communities.

Cadres and peasants

Most of the towns and villages in this area have debt, some of it very significant – up to several hundred million yuan. The biggest source of this debt burden comes from “face projects.” In 1993, for example, County Y was operationally transferred to a new city which was the home town of one of China’s pioneer leaders. In order to honor the great man, local towns were ordered to pave their roads and streets by the end of 1994. Many of the local towns simply didn’t have the funds to support that

construction, so they had no choice but to borrow. They borrowed from local citizens, from businesses and from local bank branches, and have never had the wherewithal to repay those debts. There was another movement called “brightness projects” which was intended to show prosperity. It involved such projects as erecting expensive street lights, the creation or beautification of parks and the planting of trees. In many places this work was expected to help attract outside investment and was reasonably expected to show a return. In some parts of China, this gamble paid off, but in this region it was simply another generator of debt and it consumed money that could have been spent on the digging of wells or other more meaningful improvements.

In August 1997 the county was designated by Sichuan Province as a beneficiary of a special program called “building financial resources for counties in poor financial condition.” After 1999, central policies began to be adjusted to reduce the peasants’ burden by reducing taxes and fees, and local sources of revenues to the government began to dry up. Today the town government is dependent upon transfer payments from higher levels for its operating expenses. Unlike many of the other towns I have visited, Town P has another major source of revenues and incentives – fines that are collected for violations of the state’s one-child policy. Medical care is still poor in this town, although cooperative medical care programs have been initiated elsewhere within the province. Although all towns were to be covered by this program by 2006, as of February 2006, town leaders still had no inkling when the program would reach their town. Officials did not know where the money would come from to pay for the government’s share of the medical program costs.

As in other provinces, Sichuan has its share of experimental programs and “model” sites that are singled out for special attention and assistance. For the selected locations, the benefits can be substantial. In County Y, seven villages in the two towns that I’ve been discussing were selected for comprehensive agricultural development projects. During the last few months of 2005 and the first two months of 2006 the county invested ¥6 million, which benefited about 1,500 households. Twelve hillside water collection basins were constructed; 25,600 meters of ditches and piping in thirty two different drainage and irrigation systems were repaired or improved; 18 km of new roads were constructed; 2,000 mu of local farmland received soil treatments; 141,000 improved quality fruit seedlings were planted, and 3,000 kg of improved quality rice seeds were distributed at no cost to the farmers.⁴²³

In another program, sixteen towns were selected to implement methane gas production and harvesting programs, using treated waste products from all sources. In this project, the county invested ¥1.8 million in those towns resulting in 1,837 gas systems. Since each system can reduce coal consumption by about 1,200 kg per year, individual households can save more than ¥650 each year, and the environment also benefits from the cleaner burning gas. In the project towns, households received subsidies approaching ¥1,000, while in other towns each household received only ¥100. Once again, the programs are discriminatory in that they help widen the gap between wealthier and poorer households. It is understandable that because of their expense, programs such as these would need to be implemented in stages, and it’s

⁴²³ Source was from the official document in the township government.

necessary to begin somewhere. In general, though, interviewees left a solid impression that investment tends to find its way toward areas that already have some advantages rather than flowing to the poorest villages and towns. It was not possible to determine whether the selections were based on some measure of predictable success or some degree of political influence.

After some important mistakes early in China's reform, it has become an accepted practice that cadres take responsibility for providing peasants with very specific advice and coaching about their crops. Cadres consider the peasants to be too conservative and guilty of thinking small. The peasants, on the other hand, are not convinced cadres have much interest in the well-being of the people, but are more interested in advancing their own careers to access better jobs in the town governments where the work and living environments are better. The people believe this motivation affects government leaders at all levels – characterized not by a desire to improve the lot of their communities but by the opportunity to look good and thereby increase the probability of promotion. I asked peasants in the town to introduce me to town leaders, and my purpose for being there was immediately suspect. They suggested I listen to the people instead of the leaders. Leaders exaggerate their achievements and lie about their problems, I was told.

Village B—Setting

There was no road between Town P and its Village B. I walked with the villagers on a rise between fields and rice paddies. It was a distance of about 15 km. The

pathway was once covered with slate paving stones which made it possible for people and domestic animals to travel relatively easily, but with the demise of the communes, the stones became a ready source of raw materials for private use, and gradually disappeared. Now when it rains or snows the path turns to mud and the walking becomes very difficult. Isolation has its advantages. The village was very quiet and peaceful, and the scenery quite pleasant. The village was green with foliage and surrounded by a checkerboard of fields and rice paddies. Much of the land appeared to be very wet. There was a wide a variety of bamboo, some of which was quite unusual. Many of the homes in the village looked quite new, contrary to expectation in this remote corner of Sichuan.

The village was once a small brigade. It now consists of 106 households. The brigade once owned 84 mu of arable land, 30 mu of which was seized by the government as part of its new expressway to Chongqing. The villagers farm rice, wheat and sweet potatoes as their major crops. There is no rural industry in the village, nor has there ever been. About half of the population has departed to find work in Guangzhou, Fujian and other faraway places. Those who manage to accumulate some savings return to build or upgrade their homes, which explains their new appearance. Many who leave do not return. One of the more successful returned peasants wants to help build roads.

The local television station has arranged a special program to help the departed ones stay in touch with their families, mostly seniors and children. A very bright and

outgoing eight year old girl and a group of her friends were driven by curiosity to come forward. During the ensuing conversation, it surfaced that none of the children had seen their parents for several years. It was determined later that many children are doing badly in school, and there is broad concern that without parental supervision, these children were being deprived of a basic need that would likely adversely affect their schooling and other aspects of their development.

Previously, the aged, the infirm and others without means of support were provided the basic necessities by the communes: food, clothing, medical care, fuel and burial expenses. Today each villager contributes 20 jin of rice each year to help with those expenses.

There were many rice paddies lying idle, and that seemed unusual, given the current incentives for farming. Planting rice also brings in ¥14-¥17 per mu annual subsidy. Because the terrain is hilly, mechanization is not possible. The cost of seeds, fertilizers and other supplies continues to increase, and because only the seniors and children are left to work the land, it's also necessary to contract for labor, even for the small plots. It no longer is worth the effort. Those who left to find work elsewhere were unwilling to leave their land for use by others, but wish to lease the rights to others, typically at a rate of ¥80-¥100 per mu per year – a fee that most of the villagers were unwilling to pay for such a low yield, high-risk return.

Price paid for development

There was a controversy boiling during the interviews in this village. More than

30 mu of arable land was seized in 2005 to become part of a highway complex now under construction. There were two benefits in that exchange. Importantly, the villagers have dreamed of a better access to the outside world such as would arrive with the new highway. Secondly, the compensation for the seized lands was about ¥800,000, from which each household presumably had a share. In July 2006, the villagers were told that ¥150,000 of the payment would be held by the village to cover potential fines for violation of the population control policies and to cover future burial expenses. The villagers were watching the money very closely and it seemed all of them protested at the government's "grab" from what they viewed as their compensation. The villagers who are present in the village really don't have the influence to resist the government, while those who are away at work consider it too risky to invest the time and travel expenses to return to fight for their share of the money.

In another interesting development, the village leaders wanted to take this opportunity to divest themselves of responsibility for some of their villagers. From a village perspective, if a family has lost its land and accepted compensation for that land, then the connection to the land has been severed, and those involved should change their identity from *peasant* to non-peasant, or *nong zhuan fei*. The effect of this change would be to reduce the long-term care responsibility of the village and place the citizens within the state social security system, entitling them to some retirement benefits at the age of 60 for men and 55 for women. Since the villagers need to pay to belong to that social security system, many of them cannot afford or do

not want to pay. In this part of China, attraction to the land is a much more powerful force than was seen in other parts of China, so that although the villagers want the money for the lost lands, they are reluctant to surrender all attachment to those lands.

This issue offered an opportunity to better understand local politics. Local people were questioned about what kind of support they were receiving from local cadres. The villagers were quite unanimous in saying they do not trust their local cadres to represent village interests. It turned out that the full story was more complex than that. In local elections in 2003, two favored candidates received more votes than the candidates nominated by the township government, but the township government overturned the election and appointed its nominated candidate to the position. For the people in that village the terms democracy and election hold no meaning. It has become a useless exercise following which the high levels of government will do what they want to do, no matter the outcome of the election. In a probe to learn what the villagers who had lost their lands would do next, they said they did not believe anyone in any level of government would serve as their advocate and that they could expect nothing good as an outcome. They expected trouble if took their case to a higher authority, so they were simply awaiting the final outcome quite passively.

Village cadres and birth control policy

As in the previous cases, payment for village cadres varies from region to region because of differences in average rural income. In 2006, minimum cadre pay was increased and is determined by the village living conditions in Sichuan province.

Monthly compensation for cadres in plains areas is fixed at ¥300; in hill areas, ¥230; ¥200 in mountain areas; and ¥260 in minority nationality regions. Each village can have up to four cadres who are compensated at these levels. Team leaders earn ¥150 in plains areas, ¥115 in hilly villages, ¥100 in the mountains and ¥130 in minority nationality areas. These standards can be adjusted with the growth of the local economy. Villages are allocated operating subsidies as well: ¥4,000 in plains areas; ¥3,500 in hilly regions; ¥3,000 in mountainous areas; and ¥4,000 in minority nationality villages. The subsidies for compensation and for operating expenses are covered by the county government, though under some circumstances, city or provincial governments may provide some assistance; but normally cadre compensation is dependent upon the financial health of the county.

In village B, the cadres earned ¥100-¥200 per month for time spent on village business before the recent increases. That small remuneration really couldn't attract people to the job, but there were often other little perquisites that made it worthwhile. Perhaps a cadre would be allocated a little more land for farming, or perhaps a better site on which to build a home. The prestige factor made a difference here – allowing cadres to host and get to know higher level officials on their visits and to be seen with them. The job created an opportunity to build a personal network and added to a cadre's own value on the networks of others. In Village B, cadres keep 40 percent of the fines that are levied for violations of the population control policy. The fines are apparently “adjustable” depending on the wealth or influence of the guilty party. Those who are not well connected may be fined ¥8,000 – ¥10,000, while those who

are close to the cadres might pay only ¥6,000. Although the fines are established in the regulations, cadres can influence the size of the penalty by how they choose to report the offense. It is a less serious crime, for example, to fail to obtain a birth permit before conceiving than it is to have a second child, and in a practical sense, it is only the cadres who are in a position to know the reality of what is going on. The overall level of fines is set in provincial regulations and varies in relation to the average per capita income in each county. The birth control administration agency in each county has the authority to determine the amount of the fines or to permit the towns or villages to set the penalties based on the provincial regulation in 2002. In Village B, the fine was set by the town government and the income is shared between the town (60 percent) and the village (40 percent).

Since the elimination of the agricultural tax, there are three taxes or fees that must still be paid by the peasants: violations of birth policy, a burial fee and a fee if a peasant slaughters a pig for household use instead of for sale. The burial expense, like the birth control violation fine, can be adjusted to benefit those who have a connection with the cadres. Instead of a normal fee of ¥500 to ¥1,000, a peasant might pay only ¥100-¥200.

This kind of discrimination is obviously an unfair and corrupt practice and is a target of occasional investigations. In 2005, a team from the provincial level came to the town specifically to investigate how the birth control policy was being managed. The village party secretary visited all the peasant families who had been fined to make

sure they would avoid the investigation team if possible and to be sure they “lost” the receipts from the town for the fines they had paid. The town would be showing the team its own record of what was happening with birth control penalty fees. The villagers said this was a common occurrence. Obviously this was a sensitive topic. It threatened to derail this research project, in fact. Cadres who were charming and gracious and eager to host a tour of their villages became uncommunicative and made it clear the direction of that conversation was not welcome.

Village life

Before 2000, peasants paid more than ¥100 annually for taxes and fees. Later the number went down to ¥70, and by 2005 the agricultural tax and all fees were abolished, except for the three exceptions noted above. Raising pigs is still a common approach to making a living, but several farmers complained that costs have been rising while selling prices have dropped, making it increasingly difficult to make a living in this way. Crop farming is not faring any better. One gentleman said he was over 70 years old and too infirm to manage a farm on his own. His children have all left the farm to seek work elsewhere, so it is only the farmer and his wife at home now. In 2005 he harvested 2,000 kg of rice from which he made a gross income of ¥1,400. He had to hire farm labor for the planting and harvest, and that cost him half the revenues from his crop.

With just a little bad luck from bad weather, the situation becomes intolerable. In the summer of 2006, the temperature rose to above 42 C°, causing a drought that

killed most of the crops. Those who had rice paddies could not plant alternative crops like vegetables or other cash crops to try to recover from the drought. The government announced through a provincial TV program that peasants would receive disaster relief of ¥90 per person, but when the relief aid finally arrived, it was in the form of a small bag of radish seeds, worth less than one yuan.⁴²⁴

The peasants who planted green peppers at the encouragement of government discovered that the selling price of their crops had dropped fifty percent, from ¥1.2 to ¥.60, despite a shortage created by the drought. The government is trying to compensate for the reduced demand and prices by exporting, perhaps to South Korea, but this is a project that takes more time than the storage life of the peppers. The peasants, frustrated once again by the effects of government interference, are turning to other crops – leading the cadres to worry about the fluctuating supply and demand and therefore the prices when all these factors hit the market and settle down.

Because of tight finances, some towns and villages were selected to demonstrate different types of improvement projects, such as the methane gas collection system, electrification, water systems or communications and television networks. Those experimental towns and villages were encouraged to open their village and party deliberations to the local peasants. Some conducted specialized training for peasants who were leaving to find work in other areas. In County S, which is a better developed area in the Chengdu region, officials conducted an investigation to

⁴²⁴ Source from interview the farmers in Village B in the Case of Sichuan.

determine how many adults of working age, 20-45 years old, were living in the county. Their age, education, need for training and their planned destinations to seek work were all recorded as part of a labor survey. Based on this data, a comprehensive training plan was developed for 70,000 peasants. In County Y, officials have developed more than 100 training bases for peasant migrants. These centers trained more than 20,000 peasants each year. In Village B (in County Y), the peasant migrants that were interviewed for this research had not received any training through official channels. They had strong ideas about the kinds of skills for which they believed there was a demand, such as house painting, construction work or as chefs, but they were suspicious of the advertising on television for training in those areas. There was a story floating through the village about peasants who had spent ¥2,200 to attend security guard training, supposedly sponsored by the police department in a local city. When they arrived for the training, the peasants reported the “trainers” had left and there was no training, and no one to take responsibility for the failure of the program and the loss of their money.

Throughout the county, the towns and the villages, people were playing Mahjongg everywhere, usually for money. The Mahjongg parlors were busy day and night, and there were many of them. In one of the typical parlors there were five tables and about thirty people playing or awaiting their turn. The hosts collected ¥50 per table every four hours. If the tables were active 16 hours each day, the total daily income would be ¥1,000. The host does nothing for that money except to make space and furniture available. Ironically, prominently posted on the wall was a warning that

gambling was forbidden. Presumably that is a simple precaution that hosts can use as a defense if brought up on charges. Mahjongg and TV at home and in these public places appear to be the chief activities for these poor people.

Gansu Province

Gansu is located in northwest China, just east of the far west regions and south of Inner Mongolia. It sits astride the Yellow River at the intersection of the Loess and Inner Mongolia plateaus. Its population is more than 26 million, nearly as many as Canada. More than 70 percent of the population lives in rural Gansu.

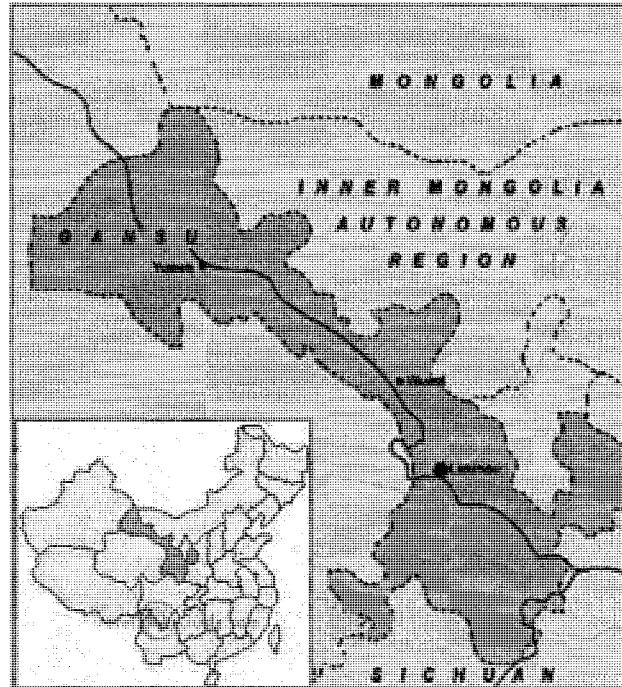


Figure 7-4 Map of Gansu Province Source: Wikipedia

The population is 8.75 percent minority nationalities, consisting of Hui, Tibetan, Dongxiang, Yugur, Baonan, Mongolian, Kazak, Tu, Salar and Manchu. The province is 1,655 km long from east to west, and 530 km from north to south. The area is about twice that of Great Britain. More than 70 percent of the land is mountainous and plateau and 15 percent is desert, part of the Gobi desert ecosystem.

Only eight percent of the land is arable, and that part is in poor condition, consisting of 3500 mu that are hilly and arid. Water availability is one tenth of the world average. Long-term (eight or nine year) draughts are common, so large-scale farming is impractical. Gansu has 17, 725 villages, and as of 2003, 643 of those villages did not yet have electricity. 854 were without roads. 11,515 did not have running water. 4,997 were without phone service. 1, 439 received no radio signal, and 755 are not served by television signal or cable. In the poor regions illiteracy is higher than 34 percent and about 1.7 million have difficulty with food and clothing. Forty three of its eighty seven cities and counties are served by the state “help-poverty” programs.⁴²⁵

According to China’s official help-poverty data, since 1983 more than one third of the program in Gansu support has gone to the area in southeast Gansu. It is in this region that research was conducted for this project. The area is 27,900 km² in size. More than 84 percent of the population in this area lives in the countryside, compared to 73 percent for the province and 59 percent for the state. The area is a main transportation hub connecting Gansu with Shaanxi and Sichuan provinces. It sits astride the Yangtze River and is the only region in Gansu to have a sub-tropical climate. The terrain is mountainous and contains tropical, temperate and alpine climate zones side by side. The idiom in common use to describe the extreme variation translates to “One mountain has four seasons and the sky looks different just

⁴²⁵ Wang Xiaoxia, "Dingxi duibi Shunde: Zhongguo dong xi fang de chaju" (Dingxi vs. Shunde: Gap between the East and the West in China), *Zhongguo jingji shibao* (China Economic Times), March 8, 2006.

10 kilometers away” (*yishan you siji, shili bu tong tian*). The temperature averages 5–15 C⁰, and there are 400-1,000 mm of rainfall each year. The combination of geography, topography and geology in the presence of diverse climatic conditions has created a region that is rich in biodiversity and also contains plenty of water and large reserves of minerals in its mountains. An area ripe for tourism, it has been called a “treasure belt,” and yet 1.59 million of its 2.71 million people live in poverty today.

This part of Gansu has eight counties and one city, and only two of the counties are not in the Help Poverty program. The Help Poverty funds have been used for regional comprehensive economic development, including education programs, and are also used for specific improvement projects such as basic sanitation facilities, irrigation, and electrification. Roads can be easily taken out of service by flooding, landslides and mudflows during periods of heavy rains, effectively severing transportation networks. Part of the development strategy has been to improve roads by tunneling through the endless mountain ranges, and a bus ride from Lanzhou to this region that once took eight hours has been shortened to about five hours since 2000. A railway-highway corridor is now under construction between Lanzhou in Gansu and Chongqing in Sichuan.

Town W

Setting

This town is located in the southeast corner of the region under study, 38 km from the nearest urban area. It contains nineteen villages and a population of about 20,000. Eighty-five percent of the people live on the hillsides, while ten homes sit along a road that follows the river. There are four villages that have no roads to connect with the outside and are not served by television cable. Another four villages have unpaved roads that are subject to closure during periods of heavy rain. Some of the houses along the road look fairly new, but most of the villagers live in poor homes constructed of mud bricks with a wood frame – usually two rooms with dirt floors. With a little extra money, however, the homes are improved with clay roof tiles and the floors may receive a thin layer of poured cement, occasionally with a linoleum cover.

There are about 1,800 mu of arable land, but only 690 mu (one third) can be irrigated. The major crops are wheat and potatoes. In addition to farming their land, local people take advantage of their proximity to the county's urban area to earn from their labor. The people tried to create a fruit industry by planting tangerine trees to take advantage of their climate, but insects and low yields offset the good prices and that project was abandoned. At the suggestion of the government, they next tried wild pepper which seemed ideally suited to their climate. With support from the Help Poverty program, they supplemented their groves with olives, walnuts and herbs. For

the last five years the region has been a major producer of wild pepper and popular Chinese herbs that serve markets in Southeast Asia. Although the crops run hot and cold, dependent upon the weather for yield and upon the market for prices, in recent years the retail price of wild pepper has risen from ¥16 to ¥20 per *jin*,⁴²⁶ and pepper trees can produce roughly 200 kg per mu. The per capita income in this town is low at ¥1,445 per year, but is still better than the other twelve towns in this mountainous region.⁴²⁷

Although the state is in the process of implementing a country-wide program of medical care, when I asked residents of Town W if they were seeing the benefits of that project, the answer was everywhere the same – no such program was yet in evidence as of 2006 in this poor region of Gansu. I was aware that the province began experimenting with the program as early as 2003, but evidently had not yet reached this depressed area. Because the town was formed in the merger of two smaller towns in 2004, there are now two township hospitals with twenty two doctors and thirty eight beds. The facilities have a poor reputation, however, with relatively primitive equipment and capabilities. Most of the local residents seek medical care at the county urban medical centers, about a one-hour bus ride away.

The town has a junior high school and most of its villages have elementary schools. Before the new mandatory free education policy took effect, some of the village schools were built by the peasants themselves. Because even the little children

⁴²⁶ The *jin* is a Chinese unit of weight, approximately equal to 1.1 pounds or .5 kg.

⁴²⁷ There are 36 towns in the region after the 2004 township administrative reform.

had long walks over mountainous terrain to get to center schools, these local schools were warmly welcomed by the peasants. Sometimes there were several grades working concurrently in the same room. When financial conditions became difficult, towns stopped paying the teachers in those little schools. Instead they received payment in the form of grain at the beginning of each school term. Some of the schools had a good reputation and high enrollments, though the facilities were primitive and in very poor condition. The chalk board in one such school was nothing more than a patch of wall that had been painted black.

Facilities in the public schools were considerably better, and the teachers typically earned ten times higher salaries than the teachers hired by the peasants for their little local schools. There are 108 teachers in public schools in this town, including 30 in the junior high school. The central policy abolishing tuition and fees for rural children and book and notebook fees for children from poor rural families has been in effect since 2005. School expenses for rural children are borne by the county, supplemented by higher level allocations when necessary. Teacher payrolls take up more than half the town's annual revenues. Although the program seems well intentioned, the mountainous terrain continues to create special challenges. It is appropriate to have local schools, especially for the younger children, but there is no policy that requires support for them, so their very existence hangs under a cloud of uncertainty.

The town has a cooperative credit union that can help with small loans. There is

a farmers market twice each week where people can buy and sell their goods and limited retail products. Those who have greater needs take a bus to the county urban area where there are many stores and supermarkets.

Peasants here apparently feel no great attachment to the land and will readily leave for good employment elsewhere. The land contract law that mandates no changes for 30 years means that young people have no hope for getting farmland.

Town governments are now dependent upon transfer payments from higher levels of government because of the elimination of agricultural taxes and fees. Other taxes and fees, as for business commercial taxes and licenses or permits, raised only ¥90,000 in 2005. In addition to the town government payroll, the town pays salaries for technicians, professionals and administrators who are not public officials but hold bureaucratic positions of various types. In this category we can find technology center and medical service employees. Some of these employees charge a fee for their services and may therefore be partially or wholly self-funded. Others are appended to local government payrolls and paid through higher level transfer payments. Town W received ¥820,000 from higher level governments to cover these expenses and to cover other expenses associated with the operation of the government and for public works. Unlike many rural towns, this one did not accumulate any debt because of unfunded mandates from above. When institutions such as schools and the technology promotion centers ran out of money because of the cutback in rural taxes and fees, they simply ceased to exist.

The township government employs seventy one people. Per capita peasant income in 2005 was ¥1,447, which is close to the average level of the county. That income means peasants in the town get by with just enough food and clothing and very little for extras. There are a few private businesses including a flour mill and a forage plant that contribute roughly ¥100,000 to the township revenues. Before the 2006 rural tax and fee reforms, the town received about ¥500,000 in tax revenues annually from the agriculture tax and the agricultural special production tax,⁴²⁸ but since 2006 those revenues have disappeared.⁴²⁹

Starting in 2006, the town began receiving ¥100,000 in annual operating subsidies through transfer payments. That amount was decided by the provincial government without consideration of the size, population or location differences between different towns. The county government considered setting larger budgets for the larger towns, but that idea was vetoed at the provincial level. Beginning in 2007, an additional ¥30,000 was added for hosting visitors since they are the beneficiaries of national “help poverty” subsidies that occasion frequent inspections and auditing.

Village cadre salaries come from transfer payments but the specific amount is determined by the county government based on the size of the village. For example, a large village (more than 1,000 people) can have four cadres on staff whereas a village with less than 1,000 people is only authorized to have three paid cadres. Village heads were paid ¥1,500 in 2006, but the salary was increased to ¥2,000 in 2007. The vice

⁴²⁸ Certain categories of farm products such as tobacco upon which additional taxes are levied.

⁴²⁹ Interview with Town W Party Secretary

heads now earn ¥1,400. Each village also receives funds for an operations account: ¥2,000 for larger villages and ¥1,000 for the smaller ones. The village operating funds can be used to purchase office supplies and cover authorized travel expenses such as to attend party training schools for mandatory classes. As we've seen in other towns and villages, the actual funds are managed at the next higher level of government, in this case by the township government.⁴³⁰

Officials' salaries are paid through monthly transfer payments. After years of fighting for sufficient revenues to fund government employee salaries, the transfer payments are a welcome change. Because of these assured payments and salary increases, cadre jobs in Town W are once again in demand.

During the last two years, the newly elected party secretary in the city has focused on regional advantages to develop special agriculture. The per capita arable land is 1.2 mu in the town, but along the roads, peasants only farm 0.4 mu land per person. The peasants of Town W no longer plant grains. In the flatland areas (below 1,400 m above sea level), the town's agriculture experts have been strongly advocating the cultivation of olive trees. In hilly areas, they advocate the planting of such crops as wild peppers and herbs, and in the smaller plots along the roads, they recommend the planting of off-season vegetable plots. In each case, the goal is a yield of ¥10,000 per mu.

Peasants are also encouraged to leave their lands to find other work. Beginning

⁴³⁰ Interview with Town W Party Secretary

in 2006, the county and city governments set up employment offices in Beijing, Shanghai, and in Jiangsu, Zhejiang and Xinjiang. Many peasants are being trained to do housework and are sent to these places through official organizational channels. There are also rural recruiters who travel regularly into this area to hire young, strong peasants for urban construction projects. There were frequent reported incidents among those peasants who sought employment on their own of being very badly treated in harsh or unsafe occupations and often cheated out of their earnings. These government programs help avoid those pitfalls. After a year of hard work, peasants can earn about ¥10,000. The town has 4,400 households; most households have at least one person working as migrant workers, while some households have two. Of that number, about 2,000 do not come home regularly while the rest find nearby odd jobs and are often at home, particularly during planting and harvest seasons. The manpower drain caused by this migration makes farming particularly onerous, leaving older family members and sometimes women to take care of the family and the farming work as well. Relatives and neighbors are encouraged to help, and cadres and party members are required to “volunteer” to help.

Under the national Help-Poverty program, the town is overseeing village improvements through subsidies of ¥500,000 – ¥600,000. The funds are used for infrastructure improvements such as new or improved roads, water supply systems, and electrification, as well as projects directed at improved farming and breeding operations. There is an intent to use the funds not only to improve local conditions, but also to hire local people to do the work. The World Bank also has funded projects

to improve production and living conditions. Beginning in 2004, the central government sharply increased anti-poverty investment, and city and county governments have provided planning and leadership.

Capacity development has reportedly included human capital development, not only in the school and public health programs, but also in training programs for young adults several times each year. Village cadres are required to hold monthly meetings to discuss village affairs and policy from all levels of government. All village meetings are open to the public.

Peasants receive direct grain subsidies from the central government based on the size of arable lands they farm. The subsidy has amounted to ¥11 per mu per year. There are also 4,800 mu of lands that are in the process of being reforested. Government policy compensates the farmers for such land conversions with 300 *jin* of grains per mu. In terms of income, that equates to about ¥210 per mu, and adding the subsidized medical insurance, farmers receive about ¥230 per mu each year. “Eco-forests” are subsidized for eight years, while commercial forests (periodically harvested) are subsidized for five years. Each household is guaranteed at least one mu for planting. There is not much money left at the town and village level for other subsidies or incentives, so the governments do not have much influence over the selection of crops or farming methods.⁴³¹

Village cadres in Town W are selected by the villages and certified or approved

⁴³¹ Interview with Town W Party Secretary.

by the township government. Township officials must qualify for their positions by examination. The party secretary of Town W is a retired military man. He has been in township government for sixteen years, and has been party secretary for six years. He spoke about how difficult it has been to work at this level of government. The harsh natural conditions mean that there are few resources and depleted manpower. In the meantime, the central government's push to improve rural conditions means the demands become more specific and the supervision becomes closer and closer. The increased investment means there are increasing demands for visible achievements, but the soil and climate are still harsh and many of the town's people are still leaving to improve their own family conditions.

The party secretary has the same opinion about peasants that leaders all over China have. He considers peasants to be very conservative in their view of change, to seldom think beyond their personal conditions and traditions, and to be generally easily satisfied with small gains. He attributes the town's slow progress to this lack of enthusiasm and lack of a forward vision. He believes the peasants trust him because, he claims, he keeps them informed about policy and because he has accomplished worthy goals in the form of sponsored projects. As examples, he stated he was able to obtain subsidized materials for roads and other rural projects like electrification, even though he was unable to obtain funds because those are controlled at higher levels. When peasants can furnish the labor, the materials he has "found" are put to good use, and he thereby earns peasant trust. Beginning in 2007, county and township leaders are evaluated in part based on the level of investment they are able to attract to their

jurisdictions. He said that leaders at the county level are required to show a ¥10 million project each year. He proudly reported he had negotiated a ¥100 million hydroelectric project for his township.

This interviewee reported a decline in the number of local specialized departments such as the various institutions and centers of expertise (*qizhan basuo*). That kind of work may be staffed by one or two employees, but the small staff limits their capacity, so township cadres are handling that kind of work with support from the county level.

By way of summary, the town party secretary claimed that conditions in Town L are improving. Peasants are encouraged to see doctors in the township hospital instead of traveling to county facilities. The encouragement comes in the form of reduced reimbursements. Since September 2006, compulsory education is free and children for poor families also are given free textbooks. The township is holding its first “Wild Pepper Festival” which he believes will attract consumers and expand the market for a crop that seems to be well suited to the local growing conditions and is finding a welcome in the market for specialty crops.

Village B

Village B is located five kilometers east of town W. Per capita arable land in Village B is 1.2 mu. Most of the land is on hills and the soil is poor. The road follows a river valley and connects the village with the town and other neighboring villages. Because of the road, villagers easily travel to and from odd jobs in the urban areas. A

dagong or big job can earn them ¥40 per day, while *xiaogong* or little jobs typically earn ¥20–¥25. These earnings are much more than they can gain from farming their fields. It is a common arrangement for the older residents and women to tend the crops while the men travel to their work in nearby towns. During peak workloads on the farms, such as planting or harvest seasons, the men stay home or return to their farms until the work is done.

An assistant investigator in the city's statistics bureau in Village B said the only thing he regretted about leaving his family farm was that he did not leave earlier. Interestingly, he still feels a stigma associated with wanting more money – that he knew how he felt about it, but felt others were looking down upon him for that motivation. In his first work, he handled and maintained large glass bottles of the kind used in industrial welding. He was paid ¥400 per month for that work, enough to buy wheat for three people for six months. Like many, he was forced to settle for small jobs at first because he had no skills or training to qualify him for positions higher up on the ladder. The job search process is a team effort, with husbands helping wives and men helping younger brothers. In the meantime all are willing to work hard and are always alert to recognize new opportunities and thus finding their way to higher paying work.

The elimination of the agricultural taxes and fees did not represent a very long stride in making smallholder farms pay in this region. Fertilizers and other supplies are costly because of transportation costs into these remote areas. The subsidy for

farming is about ¥8 per year, which is insignificant, even added to the favorable swing in cash flow that came with the tax reductions. The condition of the soil and the low motivation of the peasants mean that many arable fields have fallen into disuse. Some grain plots are being reforested because villagers receive ¥300 per year from the state for this program. The peasants were not certain how long those subsidies will continue.

As in most of the poorer villages, there is always a temptation to “adjust” official reports in an attempt to increase grants and subsidies. In this village, peasants are told to report higher figures for reforested area to gain higher subsidies. The extra income does not go to the peasants, but is retained in the local treasury to help with operating expenses. Because of their complicity, the villagers cannot report the wrong-doing.

Visitors from higher levels of government are always directed to the home of the village leader upon arrival. Others do not wish to communicate with higher levels, in part because they have become pessimistic that any good can come from above after all the years of predatory behavior. In this village, it became difficult to recruit village cadres after the onset of the household responsibility system because they no longer received reimbursement for their expenses. Villages were still organized into teams for special projects such as recruiting militia or repairing infrastructure facilities, so cadres were still required to spend time in those kinds of activities, but were doing so with no pay. When higher level leaders came for inspections or visits, they expected to be hosted for their meals, and village cadres found themselves paying for those

expenses out of their own pockets. Additionally, it was rare to see any return for those investments and activities. People began refusing the job. After 2003, village leaders, including the village head, the village party secretary and a clerical assistant began receiving money from the town in return for the time spent managing these and other public affairs of the village. The additional prestige also began to pay off in the form of a small amount of additional land or higher quality lands for their homes and farms.

Beginning in the mid-1980s, and especially since 1999, this area has been the target of state poverty alleviation programs, and projects are in evidence throughout the region. Despite this influx of jobs and money, the peasants suspect there is *guanxi* (social network) power at work behind the scenes that determines the allocation of relief funds and projects, as opposed to any assessment of need. They pointed, for example, to a nearby village which is even more isolated and at a higher elevation in the mountains, but which already has electrical power, a luxury to which village B does not yet have access. Villagers know that the completed project higher up the mountain was more expensive and difficult, and cannot understand why it received a higher priority. In fact they believe they do understand.

In another example, villagers reported the case of a remote village where water was not available except from a small spring located some distance away. In addition to the distance to carry the water over hilly country, villagers needed to wait in a queue for the slow running spring to fill their containers. It seemed it would be relatively inexpensive to create a small storage tank and piping system to serve the villages in

the area, but the county has not responded to requests for this assistance and villagers have become discouraged they will not get this assistance.

As a result of conditions like these two examples, villagers place a very high premium on leaders who understand the *pao xiangmu* (“run for projects”) approach to gaining support from the government. Leaders are valued who have the kinds of networks that can make them aware of new policies quickly and can support aggressive efforts to capitalize on them before the funds or other resources are allocated to others. They believe that their problems are of such significance and that their resources are so inadequate that solutions to most problems can only come from government, and they see their leaders’ effectiveness as linked to their ability to “win the race” for government money. This view of leadership also extends to international governmental (IGO) sources of money such as the ADB, the World Bank and UNDP. Leaders are also expected to set aside their own interests and work for the benefit of the village as a whole – devoting time and leadership to the common good.

The government is taking its responsibility for successful projects seriously, sending investigators to assure that the projects are real and serving real needs, whether the funds come from government or from IGOs. In Village B, the county water works bureau furnished the cement and the villagers furnished the labor to make one or two *muqin jiao* or “mother pits” in each village as an improvement project. Mother pits are basins built to catch rainfall that can be used for washing and laundry, for example. The costs were low and the project helped many villagers. Part of the

problem with getting utilities such as electricity and running water into these areas is the wide dispersion of the people. It is the reason for central schools and central facilities such as these mother pits. This is precisely the kind of project welcomed by both the local governments and the villagers.

Unlike in many parts of China, there are no direct elections in Village B. Village heads are appointed by the town government. The villagers can complain, but the final resolution is invariably a series of persuasive meetings that are repeated until there is a compromise – which means the town’s appointments are accepted. The town still must take appointments seriously because incompetent leaders cannot do a good job of handling problems. The result is that town officials must face and take care of issues that should be handled at the village level. It was evident in the interviews that part of the difficulty springs from the reality that educated and talented people leave the villages early to seek better opportunities. It’s a new form of extraction that deals in human capital.

The extent to which village leaders are personally involved in public problems is illustrated by an incident related by the party secretary in a village that is close to Village B.⁴³² One of the female villagers who had already given birth began to show signs of another pregnancy. When her condition was reported, an official from the town government was dispatched to supervise an abortion – a procedure which the lady resisted for days and finally ran away to escape. She was found at the home of a

⁴³² The information is from the town party secretary and local people in the village and the town.

relative and delivered to a local hospital where she was diagnosed not as pregnant, but as having a massive abdominal tumor. Of course the official from the town government disappeared, leaving the party secretary to straighten out the embarrassing mess. The lady's family moved her into the party secretary's home to be cared for until he could arrange and pay the ¥2,000 for the surgery that could cure her condition. This incident is illustrative of the extent to which local officials and cadres must go to prevent reports from reaching higher levels of government.

The research trail led from Town W to county C

I mentioned earlier that two of Gansu's southeast counties are not involved in the state Help Poverty program. I went by bus from Town B to one of those two counties – County C. More than 60 percent of the county's residents are comparatively well off and some are closing in on real prosperity. The average income in County C was ¥2,000 per peasant in 2005, and more than half of that income typically came from farming. The county is characterized by good roads to nearby cities and counties and sits on the intersection of two China's major rail lines, so its transportation network is a key advantage for the region. County C has received ¥74 million for its reforestation efforts and industrial development from the state. The county budget and its ability to raise additional funds through such means as exchanging preferential policy in return for special subsidies contributed about ¥6 million that was specifically dedicated to "special" agriculture – so designated because it is a unique capability or product line that is worth nurturing.

Town D

Setting

Town D is 13 km east of the county urban area. It sits in the center of a relatively fertile basin formed by surrounding hills and mountains. It encompasses 66.7 km², has a semi-humid and warm temperate climate, and has about 29,295 mu of arable land. The average year-round temperature is about 12 degrees C, and the frost-free season lasts about 212 days. There are about 720 mm of rain each year and the relative humidity averages about 74 percent. The river that splits the area flows at an annual rate of about 5 billion m³. The water table is at a depth of 1-2 meters throughout the area, so drought is not a concern in this town. There are no nearby industrial zones or mining operations, so the water and the air are very clean. There are three graded roads that connect the town with surrounding towns and cities.⁴³³

Economic data

The town has 15 villages and a population of about 17,000 divided into 79 teams. The per capita arable land is 1.7 mu. The climate and soil conditions permit the rotation of three crops every two years. Garlic has been a local specialty for 1,300 years, and there are 26,000 mu dedicated to its production in this region using a well sharpened set of practical and efficient techniques and skills to keep the garlic quality and yield high. There is a 10,000 mu "model field." The field is an area that was successfully farmed to produce a high yield of a quality product, bringing good

⁴³³ Data source comes from the introduction document from the township government.

revenues for the peasant farmers. The town designates the area as a model field so that others can learn how to emulate the process. It is a way to propagate a process or system within areas with similar conditions. The area has also turned to pig farming and as of the time of the interviews for this project, there were about 10,000 pairs of baby pigs as a base for developing a breeding program. Among other crops that have been successfully farmed in this region are tobacco, corn, and mulberry fields to feed the silkworm. The area has become a model for the comprehensive development of all available agricultural resources in hilly regions of the province and is also an example zone, so designated by the Ministry of Agriculture.

The town's total production value reached ¥150 million in 2005, and the "third industry"⁴³⁴ revenues were close to ¥50 million. The town revenues were ¥1.1 million that year. Per capita net income was ¥2,890, which was the highest in County C.

Agriculture production

Farmers rotate and overlap the production of corn and garlic crops in their fields. Corn is planted in March and garlic is usually planted in July. When the garlic is harvested in May, the corn is already more than a meter high. The corn is harvested in September. The total production of garlic was 41 million kg in 2005 and it sold for around ¥40 million. Garlic has been certified as a "green" food by China's green food development center. "Green" means that the crop is sustainable and environment-friendly.

⁴³⁴ Agriculture is known as the first industry, both heavy and light manufacturing are designated the second industry, and the service and all others are collectively called the "third industry."

The farmers in Town D began using plastic film mulch and greenhouses to plant off-season vegetables during the early 1990s. In this manner the peasants can generate extra income of ¥6,000 – ¥20,000 per mu. Celery, for example, can grow at the rate of about 7,000 - 10,000 jin per mu. The price of celery in the winter is about ¥1 per *jin*. Similarly, green pepper can generate about ¥3,000 – ¥5,000 per mu. In a greenhouse, it is possible to rotate four crops each year. Skilled farmers get four crops each year and the less capable still get at least three. They frequently “interplant,” which means new seeds are sown while the previous crop is approaching harvest, as we saw earlier with the corn and garlic. Ten interplant models have been developed that seem to work well under these soil and climate conditions, and the farmers can usually identify one that they want to use.

Technology and training

Irrigation in this area is accomplished in one of two ways: sprinklers, in which high pressure nozzles distribute water in large measure; and drip irrigation, which is newer technology coming into favor because more of the water goes to the roots of the plant rather than being lost to evaporation. (According to official state statistics, less than one percent of the rural population uses these technologies in China).⁴³⁵ The town is responsible for training the farmers in these methods between growing seasons or in evening classes; and officials bring peasants and engineers from the Agriculture

⁴³⁵ Dong Migang, "2005 Zhongguo xibu jingji fazhan" (China's West Economic Development 2005), in Zhongguo guojia tongjiju niandu baogao (Annual Reports of the Chinese National Statistics Bureau), China's National Statistics Bureau, 2005.

Technology and Agricultural Animal Administration bureau for this training.

Engineers and officials both frequently visit the farms to stay current about successes and problems and to provide training and assistance on the spot when it is required. It is not unusual for these people to identify themselves with a sign at the field locations so they can be identified as responsible advisors who can be contacted either to report problems, or because another peasant or team wishes to learn the techniques or benefit from some training.

Through a process of diffusion, technology spreads rapidly between the local farms. In one example, peasants discovered that leaving 20 mm of root in the ground when an eggplant is harvested will quickly produce a new plant. The peasants call this approach *pingcha* which means that the plant was cut but left in the field. The peasants could not explain why the technique worked, but the Agricultural Technology Center took responsibility for additional experimentation and improved the technique and the final results. It then broadcast the results to others in the area.⁴³⁶

Projects and support from state agencies

Town D has benefited from higher-level government programs. The state's Office of Agricultural Development sponsored the construction of many greenhouses in 2003 – the first project the office offered to this area. The state Finance Ministry financed the construction of more than 10 km of paved highway in the town, and paid for the widening and hardening of field roads that would permit the use of farm

⁴³⁶ Interview with township officials.

machinery. The town is the largest recipient of agricultural equipment in the area, having earned more than 1,500 sets of various types of machinery. In continuing government programs, mechanization was part of the 2006 Implementation Plan for Subsidizing the Purchase of Agricultural Equipment and Tools, and the farmers in Town D are scheduled to receive some of this support. This program will be funded 80 percent by the state and 20 percent from the county budget. It is specifically directed at increasing the availability of small tractors and multi-functional tilling machines. The state has also helped fund sprinkler irrigation for about 11,000 mu of farmland in the town. The local hydroelectric agencies contributed to the digging of wells and piping systems while the local people contributed their labor to the project. The agencies also help with the supervision and maintenance of the irrigation facilities, and the farmers who are benefiting from the projects are also taught how to properly care for and use the system. The irrigation project has been well received, is being well managed, and shows signs of having been a worthwhile investment for all involved.⁴³⁷

Local town officials spoke to me of the politics involved in pursuing projects sponsored by higher levels of government or IGOs such as the World Bank and the Asian Development Bank. There are two fundamentally different ways of funding public projects. In the first case, towns or other jurisdictions must assemble a “budget set” that shows all of the sources of funds that will be used for the project. This approach tends to be more formal, more complex and more difficult to manage, but it

⁴³⁷ Annual report of the township government and interviews with the township party secretary.

is the only approved and legal approach to getting larger projects funded and completed. The second approach is one that is not legal, but is the approach of choice because of its simplicity. In this approach, an up-front “commission” is paid, and money from higher levels of government or even from the international development banks is made available, with usually a little extra left over at the end for other things. The kickback is not inexpensive – usually a jurisdiction like a town will need to “invest” 10 percent of the total value of the project in advance. For a town that can afford the money, it’s a good investment because it is fast and easy. The process tends to be self-prioritizing, which means that lower-level jurisdictions tend not to have the funds for the large projects, so those are arranged and handled through higher levels of government. This is not a bad deal for the towns, however, since the projects from such arrangements are usually distributed, with the towns each receiving a piece of the action. What is most startling about this second approach to funding projects is the openness with which it is carried out and its pervasiveness, at least within this part of China. Local governments remain enthusiastic about this way of leveraging their limited funds.⁴³⁸

Markets and Associations

In the early days of market reform, dealers, distributors, and brokers came to the area in search of farm produce in higher quantities. The market was fragmented and undefined, and there was no way for farmers to know whether they were receiving fair

⁴³⁸ Interview with township leaders.

prices or not. Later the town government helped the peasants to form different kinds of organizations based on the kinds of products they were producing. A web page helped improve the flow of information in both directions and brought buyers from further and further to make their purchases, even coming from as far as other nearby provinces of Xinjiang, Sichuan, Qinghai and Shanxi. In what has become a seller's market, some buyers now drive their trucks right to the fields in order to assure their supplies.

Some towns have learned how to develop complementary markets. The garlic in Town D is planted in July and harvested a year later. In other areas in the province, garlic is planted in March and harvested in September. Although the year-long crop produced by Town D is considered to have better quality, the demand is vigorous year round, so the crops that become available in other seasons are readily picked up by eager buyers. Even the garlic seed disappears quickly from Town D's output, and it was thought that by cooperating with other neighboring towns, the market could be expanded even further. But the seeds from Town D's superior products have not yet been successfully used elsewhere.

Town government – Finance and Income

Town revenues consist of industrial and commercial taxes, car and boat taxes, and specialty taxes such as that levied on tobacco crops. Before the tax reform, the town could legitimately collect taxes on garlic crops, but chose to forego that income as a means of encouraging production. With tax reform, that source can no longer be

taxed even if the town wanted to do so. There are other agencies of higher levels of government that collect taxes and fees, but those revenues do not flow into the town treasury, so the town is basically dependent upon transfer payments from higher levels of government for the expenses not covered by its internal fees and non-agricultural taxes. Salaries for town officials and compensation for village leaders all come from such income. Village leaders and village party secretaries earn about ¥1,000 annually as compensation for their work. Team leaders typically earn ¥400 – ¥600 for work at their level. The reward is not substantial, but in this area the jobs are still considered desirable for two important reasons: leaders are first to receive information about new beneficial policies; and they often meet town and county officials, so they can extend their personal networks. The value of a solid personal network can easily amount to ¥100,000 – ¥200,000 per year through the exploitation of the business opportunities that filter through such networks.⁴³⁹ There is also a prestige factor in being appointed or elected as a team or village leader, as well as a higher social status.

The Chinese township is an “official” government, and unlike village leaders, town officials are expected to dedicate 100 percent of their work lives to the benefit of their towns. So they receive a real salary. In Town D, that is about ¥10,000 each year, but officials also have the ability to earn bonuses for completing certain projects or reaching certain quotas, such as incoming foreign investment. As with most of these kinds of programs, some of these quotas are easy to achieve, while others are controlled by factors outside of their circle of influence and are quite impossible to

⁴³⁹ Interview with the township head.

predict or control. The birth control quotas are a good example of this last kind: officials are completely dependent upon every man and woman in town, each of whom has drives and motives (such as the desire for a son, maternal instinct, and mating instinct) that are radically different from the leaders who are attempting to benefit from the achievement of a low birth rate.

As a result of these conflicting interests, an entire bureaucracy has sprouted up to enforce a draconian system designed to assert supremacy over human nature. Married women are required to submit to pregnancy tests, and if they fail to do so, they or their families are fined. The fine is a substantial source of income. If a married woman seeks work in another town or city, she is required to report for testing and to return a certificate to her home town attesting to the fact she is not pregnant. If she fails to do so, her family will be fined. Women who find jobs in strange cities are not familiar with their new areas and must take time off from work to find test centers and submit to the testing. The time to do that has been known to cost women their jobs. Once each year, women must return to their home towns for testing. Failing to do so costs them or their families ¥1,000. The fees and fines are heavy enough to represent a significant burden for people already so poor they must leave their homes in search of outside work. It is a gender aspect of Chinese society that is a continuous source of frustration and complaints from women; but the policy has become such an integral part of the social fabric that except for the women who must subject themselves to the indignity of being required to constantly prove they are not pregnant, it has disappeared as an issue for the rest of government officials or others who are not

directly involved.

The country's birth control project is the most important of the seven "high tension lines" for the Chinese government. "High tension lines" is an idiomatic description of critical and sensitive policy issues that must be treated very seriously. Local farm families feel they are engaged in guerilla warfare in their attempts to overcome this official resistance to their need for boys in the family. The policy recognizes the high value of male children formally by providing that families whose first born child is a daughter may have another child without penalty. One of the side effects of the policy is an imbalance in Chinese society between males and females. It wasn't long ago that there were persistent rumors that infant daughters were slain, and the reports persist that female fetuses are frequently aborted even today, just to create opportunities to bring a son to the family.

Officials understand that overpopulation is at the core of many of China's problems, so they take population control measures seriously. "Fewer children mean more income" is a slogan guiding rural families. Many other regulations, policies and programs (education, development, and social programs) are connected to the population control measures in one way or another. Those families that do not follow the rules are penalized in several different ways, as we have seen, while those who abide by the population control measures are rewarded in different ways. Another project that officials take seriously is *special* agriculture. In this hilly region of Gansu, for example, the town government has mobilized farmers to plant walnut trees

throughout their farms. Ten walnut trees per mu will not affect other crops but creates another source of income. Farmers have also been encouraged to cultivate silkworms, and tobacco, to breed pigs and chickens and to find other sources of income based on their local conditions. All peasants received the grain subsidy whether they grow grains, vegetables or other economic crops. The subsidy is considered a fair incentive to encourage peasants to farm on their lands.

A third significant task for Town D officials is the continuous monitoring of labor for export. In fact this is a program that engages city, county and town governments, and all have developed an agency dedicated specifically to this purpose. Their primary goal is to make full use of all forms of communications and contacts to help farmers find out-of-town jobs.

Town officials and farmers

Local officials get involved in town life to an extent that would amaze western politicians. One of the long-time town officials and a current party secretary told me of an incident in which he was called upon to investigate a domestic disturbance. Upon arrival, he found a farmer beating his father-in-law. He used force to subdue the individual, then lectured him about his family responsibilities. The situation was resolved when the man wrote a letter of apology to his father-in-law. The interviewee was an educated man who claimed to understand that different people need to be handled in different ways; and he was supremely confident in his ability. He said that permanent criminals who bounce in and out of the jails are treated to a display of

power and force, while those who are struggling with poverty are personally led to opportunities and taught and encouraged in the right way to improve their situations, and all of this personally handled by local party or government officials.

I asked an official his opinion about what it takes to bring prosperity to a poor, rural Chinese town. Because he was the former party secretary, because he had worked there for ten years, and because Town D was named a “star” town and ranked No. 1 in every scored dimension by the Chinese Ministry of Civil Affairs, it was apparent this confident man would have strong opinions to contribute to the research. It is his opinion that nothing is as important as leadership. He stated that he considered the economy to be very fragile. Leaders who could not arrange for a road or an electrification project quickly lose the respect of the villagers, and public projects will stagnate. There are other factors that create conditions for success. This official believes, for example, that the success of Town D is due in part to the fact that it is the home office of the county party secretary, and therefore cannot be allowed to fail.

Another key indicator of success in a town is its education system. Town D completed all requirements for state literacy goals and ended its campaign in 1993. The current illiteracy rate is about 10 percent (the official report of its website shows the rate is only four percent), much lower than other rural areas in Gansu province. Tuition is free in the junior high schools and all peasant families who abide by the population control regulations are also subsidized for their texts.

Town D is also covered with cooperative medical care. Families that follow population controls pay only half the fee, five yuan, each year to join the program. Poor families (under 1,000 yuan per year) are identified by name in a public health bulletin, and unless there is evidence that they are not as poor as they claim, they are eligible for free medical care.

Town and village elections

Village cadres are chosen in a popular election supervised by the town government. The villagers may nominate and vote; but the successful candidates are chosen by the town government. If villagers should disagree with the selections, persuasion sessions are held until the town recommendations are finally accepted, and in this way there are never any surprises in the final election results. In selecting candidates for town elections, people are chosen who not only have ability to help farmers, but also who can identify with and support state and local collective interests. These vetting processes are part of the requirement to build “grassroots” organizations, one of the critical factors that mark the success or failure of local leaders. Complications are avoided whenever possible. For example there is no attempt to “get out the vote.” Farmers who are not aware of the elections will not be reminded because a high voter turnout can create the possibility of complications.

Elections at the town level are more complicated. Voting is not directly by the people, but by representatives chosen from among the people. Current leaders organize meetings to introduce the recommended slate of officials for the next

elections. Candidates are selected on the basis of their unswerving loyalty to the party. When decisions are made in which the party has an interest, the leadership is expected to favor the party line.

While the government election process was exclusively in the hands of the party representative meeting, making it relatively simple to control the outcome, the party leadership succession process is more complicated. There is a meeting for the party membership to mobilize for the election and to prepare recommendations. When the results are reported to the next higher level of the party and are approved, the recommendations will be released to the public. In the next stage, the party representatives select the town party committee which then selects the party secretary and vice party secretary. The head of the government is chosen by the people's congress, which is a group of representatives selected by popular vote from a slate approved by the next higher level party committee.

When there are election controversies in the form of voter rejections of approved candidates, the current leadership will be thought incapable of discharging its responsibilities, which include getting the "right people" into public office.⁴⁴⁰

Village Z

Village Z is 20 km east of Town D. It has all the natural endowments enjoyed by the county and the town, and has become the first well-off village in southeast Gansu.

⁴⁴⁰ The relevant village and township election information come from my interview with the former township party secretary.

It has been named a “civilization” village by the state Ministry of Civil Affairs. In 2005, the net income per peasant was more than ¥3,600. More than 60 percent of their net income came from vegetables and animal farming.

Because there are many villages that appear to have good natural resources but still struggle against poverty, I was interested to learn what other factors were at work on the prosperity found in Village Z. It was reported that the village makes use of two primary resources to improve conditions in this village: Today there are both poor and well-off peasant families in Village Z. The poor are offered financial support and training in crops and breeding technologies in an effort to improve their lot. Those who have created a higher degree of success are recruited into the party so their abilities and resources can be harnessed to the advantage of the village and its people. They are encouraged to help with school projects, help with infrastructure, and take some responsibility for helping the local poor. As party members they accept responsibility for leading and guiding others toward a better life. In other words, those who have become successful are recruited to help their less capable or less fortunate neighbors.

In fact, this village is an example of why land was considered the primary social security for rural villagers: farmers can always grow enough food to keep the family from going hungry. During the 1960s and 1970s, while people all over China were struggling to feed themselves, the peasants in village Z never wanted for basic foods. In fact, many urban citizens who had gone hungry moved into this area to survive.

Officials from higher levels of government are also encouraged and in some cases required to donate resources and service to the poor, and it is done on a personal level. County level party members will partner with poorer party members to provide information, technology, guidance, and an occasional network boost to help them find pathways to a better living. This program is quite formalized, requiring written plans and signed agreements. The goal is inspirational and lofty: to make an entire village wealthy (*zhengcun tuijin*). The program has met with good success and was described and recommended in UN studies as an approach with great promise.⁴⁴¹

⁴⁴¹ Mark Malloch Brown, United Nations Development Program (UNPD Administrator thought that the poverty-relief experience made by China is worth learning. *China's Achievements in Poverty Alleviation Impress the World* People's Daily online, 2004, available from http://english.peopledaily.com.cn/200410/18/eng20041018_160620.html. Detailed information comes from Interviews with provincial officials.

Chapter Eight

Case Analysis

This chapter is based on the eight cases reported in chapter seven. The purpose of this chapter is to extract general conclusions from those cases and to follow that with a cross-case analysis in which different conditions, methods and results will be compared to draw additional useful information from the findings. The work of others will also be appended to this research by way of comparison or contrast to the extent they are based on the same terms and offer alternative interpretations for consideration.

Summary of findings

The findings and conclusions presented here are drawn directly from the analysis which follows. It is hoped they will be considered in their more extended and

documented form, as this summary can only sketch the scope and significance of this project.

The historical information about rural development in China during the last 60 years gives us a very detailed look at the outcome of two radically different approaches (top-down and bottom-up) to rural development. Both periods yield important information about both successes and failures. The new policy appears to be centered around a mid-point between the two extremes that were previously used – using elements of both top-down and bottom-up models, in other words. I also discovered, however, that the newly-found balance is not a simple concept to define in this case. It calls for an adjustable, synergistic approach that integrates policy goals at several levels of government and the target population, and must be modulated by local capacity. It is therefore not a fixed recipe but a “Swiss Army Knife” of available tools.

The findings suggest that local capacity consists of some combination of:

- Real assets (natural endowments, financial resources, infrastructure)
- Leadership
- Human Capital
- Social Capital
- Organization

When I found a prosperous community, I found farmers and officials both who

were voluble with their opinions on the foundations for their success, and they were largely in agreement. These people had a strong sense of their accomplishments and what it took to succeed. These characteristics came out often in my comparative case studies. They contained no surprises, but helped sharpen my definition of development capacity.

In some cases, solutions came as a combination of market forces finding and developing a commodity. For example, there is a village in Liaoning Province that became a “chicken village.” A buyer for a large grocery chain found a farmer with a few chickens and inquired about eggs. Within two years everyone in the village was producing, tending, feeding or plucking chickens, or dealing with the byproducts like feed, egg cartons, feathers and guano.

It was not only the market that made a difference. People in this area had migrated long ago from highly civilized regions, and they have a different culture with an optimistic view of life and opportunity, and they did not fear change. They had been doing sideline work in addition to tending their crops, even in the early 1970s when they were in the communes. They have a higher literacy rate than people in hilly villages in the same area. A spontaneous, self-organized kind of cooperative network helped them to share information, techniques, costs, risks and market know-how.

In other successful communities, prosperity was not so easy to come by, and had to be coaxed, experimented with, and tweaked. Sometimes local leadership and management was enough, but sometimes expertise and leadership had to come from

outside. In two neighboring towns in Jiangsu Province, I found very similar natural conditions but very different levels of prosperity. In the better-off town, leadership made good use of two local resources: developed lands and local talented leaders who had left the area to manage urban enterprises. These capable individuals were invited to return to help their home town. The invitation was approached as a kind of patriotic appeal. This approach worked exceptionally well, and brought financial capital, human capital and social capital to the town so a good socio-economic cycle could be generated. Later, the expanding economy spread to nearby towns.

In remote towns and villages located in mountainous areas, there was not much basis for rural industry, and market development depended more on specialized rural goods and resources. People with educated and open minds and with good social networks created the conditions for a market, but when there are bad roads and infrastructure, the costs were too high to attract a market. There is one western town that made use of national funds to build roads and telecommunications and then geared its output to a specialized little niche – a delicious species of garlic that quickly became a regional favorite and commanded premium prices. It became one of very few towns in this area not designated as a help-poverty town. The leadership created the conditions for its specialized production. Communications between local leaders and farmers were continuous. Evening farmer training classes sponsored by town and county governments helped farmers learn techniques and technologies and allowed them to learn from each other. A cohesive local social culture was cultivated

to complement local development.

In every successful town and village I visited, social networks were making an obvious difference in facilitating access to information, finances, technical expertise, leadership and other resources. Organizations like the government or party, or farm-business cooperatives or farmer self-organizations all served vital roles in helping to identify and locate resources and to create channels to gain access to those resources.

Figure 8-1 summarizes the constituents of capacity as grounded upon a combination of real and human assets. Capacity is a very practical way to account for the differences between communities with similar circumstances but different outcomes. Capacity comes in many forms, and the quality

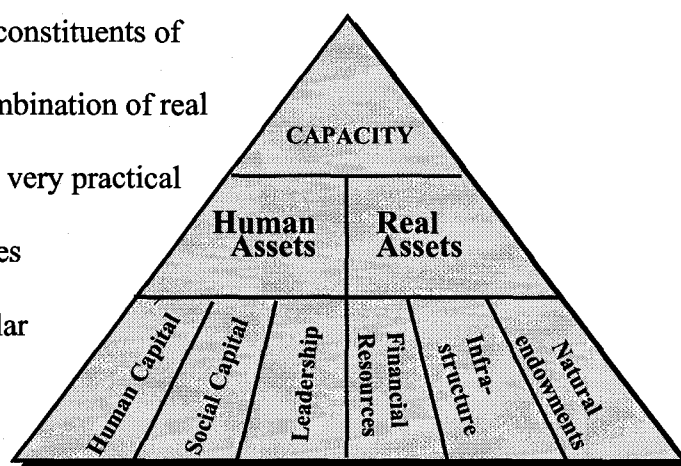


Figure 8-1 The makeup of capacity

and availability of social capital depends largely on the condition of tangible assets. When real assets are marginal, more and higher quality human assets are required to make best use of what is available, but it becomes decidedly more difficult to keep or attract top human resources to China's rural wastelands. When real assets are non-existent, the first order of business is deciding whether to create capacity or declare the area uninhabitable.

Here are additional conclusions that came out of the site cases:

- There is no one recipe for success; and there is enough regional variation in China to squelch any attempt at generalization.
- There didn't seem to be much point in beginning a revitalization project unless the starting point was well defined. "Just do it!" may work for tennis shoes, but is not a good formula for rural development.
- There are almost always more than one combination of real and human assets that can lead to success, if success is possible.
- Because of favorable real and/or human assets, there are some areas in rural China that have needed little or no outside help.

China's party and central government have initiated a wave of rural reforms that match in scope and degree even the radical changes that inaugurated the era of the collectives and then presided over their demise in favor of the household responsibility system. Current rural development policymaking builds on years of piecemeal successes and it attempts to correct many wrongs all at once. Previous initiatives were thwarted, sometimes by incomplete policy and unanticipated effects, and sometimes in the implementation process, but always visible were breakthrough levels of isolated success, enough to feed China's development theory, to encourage continued experimentation and investment, and sufficient to create visible signs of rural vitality.

What is also clear from the research is that when one or more natural endowments are missing, the development task is significantly more difficult, and when all those endowments are lacking, the task has often appeared to be utterly impossible. If the

government surveyed some of these areas today, some may well be declared uninhabitable. This condition is evident, for example, in those communities where government has trained the farmers for other work and encouraged migration. In those cases, farmers and governments have agreed that the capacity for sustainable development does not exist and cannot be created with existing resources.

In the past, opportunities for the use of capital were confined to conspicuous consumption, usury, and investment in land. There were few realistic alternatives to the use of family labor in farming. Today, however, industrialization provides rich and poor alike with available alternatives. Those with capital can consider investment in their children's higher education to enhance urban job prospects, or investment in urban-based family enterprises that can provide a good living for family members. Even those without skills may well make a better return on their labor in an urban factory than in agriculture. These alternatives have been taken up by countless villagers from the length and breadth of China. Since the amount of land owned by a household is an important determinant of the rate of return on household labor (Jiangsu and Sichuan cases), the size of the family farm is a prime factor that conditions both family and government strategies that affect village social organization and is a critical factor that peasants must consider in their choices of crops or animal breeding, regardless of the market condition.

There are two streams of capital associated with off-farm work: in the east capital flows out due to scarcity of land, and also flows in as some return to their home towns

to invest. In the west, capital flows only one way – out. The conditions have not existed to attract investment capital, while human capital continues to migrate to eastern and urban areas. Another factor that affects this cycle is an unpleasant side effect of land tenure policy. Land use deals remain valid for 30 years. This means that when young people become old enough to want to start families of their own, they are unable to find land and must settle for sharing the family farm with the previous generation. Subsistence farming does not generate sufficient income for two families, and so the young people are literally driven away. In the past, migration away from the hardest hit areas occurred when peasants simply gave up farming. The luckier ones were able to rent the property to others or leave them with friends or families they could trust, but many others just walked away. In areas of good land, those left in possession of larger tracts of land suddenly found themselves in a good position when agriculture taxes were eliminated and the different subsidies began flowing. Thus, the land-tenure patterns in rural villages are the result of numerous long-term decisions about the allocation of family labor and capital that have resulted in the departure of households with certain characteristics and the retention in the villages of households with different characteristics. The end result is a changing of social patterns, the creation of new elites, and an outflow of the young.

When conditions for development are challenging but possible, there is one thread which unites the successes that have been visible in this research: that human resources were invariably integrated in planning and effort; and in their collaborative efforts they were able to identify available resources, tease out innovative ideas worth

trying, and create conditions that compensated for the realities of local weaknesses, to build upon a foundation of locally available strengths.

Integration extends to every dimension of the success stories that have been visible during this research. Among the difficulties which had to be overcome were myopic views of the development project as being about farm productivity and peasant income. Solutions became possible when the issues were viewed as a social, economic, political and cultural whole, because this broad view opened new paths to ideas, more complete preparation of foundational conditions (e.g. education, health services), important channels for temporary or permanent relief (support for labor migration), and influence that could make a difference (infrastructure development, poverty relief, agriculture technology).

It was also evident that integrating forces had shed their regional isolationism, extending information, markets, and infrastructures in every direction of the compass. Although these extensions of rural policy tested the abilities of party, government and business, successful linkages were visible and were cited by governments and farmers alike as having developed into a valuable source of resources and a powerful coordinating mechanism.

Visible in the more prosperous towns and villages was an integrated approach to government. While local officials were complaining about unfair distribution of tax revenues at the beginning of this research, it was evident during the latter stages that successful communities had developed an integrating partnership involving all levels

of government and all responsible agencies. Policy from the top was being assembled with more appropriate levels of discretion for local governments and the environments in which they operate. There are still communities where relations between local and higher levels of government can best be characterized as contentious and each tends to complain about the other; but in the successful communities, the tone and frequency of the complaints was consistently milder and underscored always with visible respect for the jobs they have to do and the complexities they must face. It has become apparent, in other words, in those communities that have achieved or are beginning to show signs of development success that there was little room for heroics, that no one government or agency could have succeeded alone, and that it took coordinated effort to create the conditions for prosperity. Success has not been spreading over China's huge population like a quilt, it has been showing up in widely separated small projects, first in communities where conditions are best, and later among towns and villages with more challenges than resources, but where coalitions have improved in the collaboration between policy-makers, administrators, business persons and farmers.

Always in evidence among the successful communities has been an integrated set of assets and human capital that combined to become development capacity which had previously been dormant. In the absence of nearby markets, there were transportation improvements; in the absence of flat terrain, there were crops (walnuts and mulberry bushes) and animals (goats and rabbits) that do well on hillsides. The key to discovering, developing and maintaining capacity came from an integrated social capital. Leadership talent and approaches varied greatly between the case sites. When

development was easy, good leadership was optional and came from different directions, sometimes from government, but also from business persons and from the peasants themselves. When development was not easy because of gaps in local real assets, leadership became critical, and in those towns that succeeded, government leadership was consistently in evidence, not in the traditional form of bureaucratic authority but in its ability to organize and coordinate.

In most of the case sites, peasants played very limited organizational roles. This was true because peasant organizations (e.g. collectives, cooperatives) are still in the early stages of development in rural China. This sector of human capital was consistently weak for reasons discussed below. But human capital and social capital are both context-dependent variables. With the right policy environment and in the presence of real assets, human capital was everywhere being improved. With this development, social capital, including trust, cooperation and a spirit of public service were near the surface in successful communities. Successful communities had largely set aside sectarianism, isolationism and corruption. An attempt to trace causes and effects in this mechanism have been fruitless. The most likely scenario is that prosperity and social capital develop in parallel. Where peasants remained isolated, other attempts to assemble assets and develop social capital remained stalled. In successful towns and villages, the peasants and the state had come to grips with the reality of their interdependence.

Factor analysis

Real assets in case study communities

Among the eight case study towns, in 2005 the highest township level government tax revenue was nearly ¥70 million (south-central Jiangsu), whereas the lowest was only about ¥90,000 (the hill town in Gansu). The highest average per peasant income in the Jiangsu Town was ¥7,000, whereas in the Gansu town, peasants only earned ¥1,447, about 20 percent of the more prosperous town. Per capita income in the eight studied towns varied from below ¥2,000 in the hill town in Gansu, to ¥2,000–¥3,000 in the basin town in Gansu and the hill town in Liaoning, to ¥4,000–¥5,000 in the plain town in Liaoning and the suburban town in Sichuan, and to ¥6,000–¥7,000 in the two towns in central Jiangsu.⁴⁴²

There are two basic economic models among the case towns: agriculture-centered and non-agriculture-oriented.

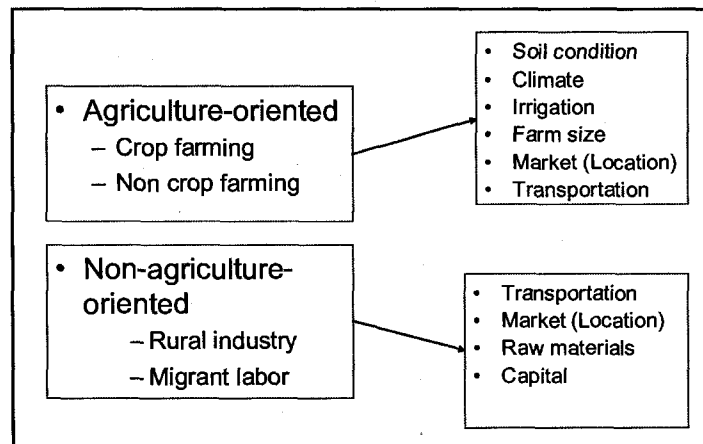


Figure 8-2 Economic models found in the case towns

(Figure 8-2) In the plains town of central Liaoning and the two towns in central Jiangsu, rural industry contributes more than 80 percent of the total production value, and more than 80 percent of the local population works in both industry and small-

⁴⁴² The data come from the cases in Chapter seven.

time farming. For those towns, proximity to industrial areas and large cities creates opportunities, not only as a part of industrial expansion but also as suppliers to the large market for farm produce. Convenient, advanced transportation connects these towns to the fast growing industrial and residential developments. Traditional entrepreneurial thinking among the people includes an apparent receptivity to change. The natural endowments in the soil, water and a benign climate, all very important for agriculture, don't seem to mean too much for peasants in these towns. Many peasants left their farms in the 1980s because there wasn't enough land to support a family under the system of grain quotas and taxation then in force. It was relatively easy for them to find work in nearby cities. When taxes and fees began to drop, and farmers were granted increased autonomy about cropping decisions, they returned to their lands with their labor and also with newly-gained management and sales experience as well as a little capital and the motivation and courage to try a little farming again.

The other five case towns are agriculture-oriented, of which there are two types: crop-farming, and animal husbandry or breeding of poultry, cattle, dairy, fish and pork. The poorer of these five towns also rely on returns from their migrant work and some have begun seeing success related to tourism. The two case towns in Sichuan are in this category. The suburban town in Sichuan has a growing rural tourism that accounts for one-third of its economy, while most of the balance comes from its poultry industry. The plains town in Liaoning has, besides its prosperous rural industry, a well developed poultry industry, which has grown to the extent it can support a well developed processing industry. In the hill town of northeast Sichuan,

almost all the young, strong farmers left to find work in cities and mines; and more than half of the peasant income comes from migrant work. Unlike migrants from Jiangsu who had developed skills and a jump on the market, migrants from Sichuan struggle to survive in urban jobs. Most sell their labor in difficult or dangerous work and for low pay. Staying in their homes is not an option because of poor conditions and an undeveloped infrastructure, so they continue to leave, and they continue to send or bring money home, but life for these people and their families is a terrible struggle. Non-crop farming needs transportation, technology, labor skills, market and more capital than crop-farming agriculture.

The two Gansu towns and the hill town in Liaoning are engaged in crop farming agriculture. That type of agriculture can be divided into two sub-categories: the first is the production of higher value agriculture products such as fruits and vegetables and also rotation and simultaneous farming of various cash crops by using local unique natural conditions. The town in a small basin in Gansu has found its niche in its garlic fields but also grows other vegetables. The Jiangsu towns also have a well-developed rotation cropping agriculture in addition to their booming rural industry. The suburban town near Chengdu in Sichuan, besides its poultry industry, has its “green” fruits and vegetables which support its growing rural tourism and agrarian economy. The hill town of southeast Gansu recently has changed its crops from staple crops to an excellent wild pepper, Chinese herbs and olive trees which are better suited to its unique environment. The second kind of crop farming is found in the staple grain crops. The hill town in central Liaoning is in this category, although some of its

villages have a growing poultry industry, the major crops are still corn and wheat.

Crop farming is more risky than other foundations for rural economies. Its strength is limited by many factors such as land size, soil, climate, water, technology, infrastructure and the markets. Rotation and simultaneous crop farming are good ways to reduce agricultural risk and multiply income, but technology related to compatible crops, timetables and treatments is more demanding. In Sichuan in 2006, for example, there was a serious drought. In the hill town, crop rotation enabled some farmers to have very profitable years, thanks to multiple harvests and market shortages, while those engaged in grain farming lost more than 60 percent of their harvests.⁴⁴³ In another research project conducted by twenty seven people's representatives of the National People's Congress (NPC) and committee members of the Chinese People's Political Consultative Conference (CPPCC) from Xinye County in Henan, a central agricultural province in more than 10 villages of the four towns, almost all the villagers there have learned that the key to increasing agricultural output is to optimize agricultural structure – maximizing gains by linking agriculture to local employment and the relative domination of commercial agriculture in the landscape, the distribution of farm sizes and the distribution of farm family incomes.⁴⁴⁴ For staple crops there is less demand elasticity (the consumption of grains remains fairly stable regardless of normal price fluctuations), making it an unattractive source of income for

⁴⁴³ Source is from the case of Sichuan mountainous town.

⁴⁴⁴ Wang Dongan and Qi Guoqiang, "*xin nongcun jianshe bannianduo, nongmin sha xiangfa? tingting nongmin sha yijian*" (Six Month Later after Building a New Socialist Countryside, What Are the Peasants Thinking?), *Farmer Daily*, August 26th 2006.

both the farmers and local officials because good harvest years simply translate to more work and lower prices. This translates into a disincentive which creates a conflict with national grain security policy. In the plains town of central Liaoning, peasants turned from crop farming to more profitable breeding, household crafts and rural industry to make their living. They leased their lands to investors who combined fields to create economies of scale for efficient grain farming. The suburban town of Sichuan shows a similar approach. Here peasants lease their land to private investors who have developed an orchard industry. The peasants earn from the leases and also became workers in that industry.

In Gansu, local economies are predetermined along natural divisions. Underground water in the basin town makes irrigation agriculture possible, whereas in the hill town, only one-third of the arable land can be irrigated. The different transportation conditions in the two towns also lead to different approaches. In the basin town, there is a public bus that has linked the town and all of its villages since 2003. Beyond the county, there is a railway link connecting Gansu and Sichuan. In the hill town, more than 20 percent of the villages have no roads and another 20 percent have only dirt roads, and therefore there is no link between most villages and the outside world. Under these circumstances, the opportunities for getting farm output to market are very limited, although farm families are always seen on the connecting paths, shouldering large bundles, baskets or bags that carry the full sum of their livelihood capacity.

Another constraint on farming in the west comes from the previously mentioned labor drain caused by the need for migrant work. This effect is removing the strongest young people from the farms and also has an indirect influence in terms of the ability to organize, to find and develop leadership talent, and to spread farming technology among the most capable. Migrant labor from the west is readily hired in wealthy provinces like Guangdong because it is cheaper than local – thus adding to problems in the wealthy provinces by making it difficult for local peasants to find alternative work.⁴⁴⁵ Because of China's huge population, labor is sold in a buyers' market, adversely affecting the poorest segment of China's population.

As we have seen in the eastern provinces, rural industry creates robust development opportunities. However the growth of rural industry is predicated on essential preconditions. As an example, rural industry tends to “cluster” in areas close to urban or industrial markets. It is less expensive to move raw materials from the farms and mines of Gansu to a factory on the east coast than it would be to move finished goods along the same route, and the distance would adversely influence marketing. Clustered manufacturers and service companies tend to feed on each other, creating a self-sufficient commercial community that needs metal working, marking, molding, milling, assembly and joining equipments, for example, as well as a host of services including restaurants, print shops and shipping agencies. Isolated rural communities lack all the essentials except land.

⁴⁴⁵ Zhou Yingjin and Liang Jingweng, *"ershi xiangcun xingzou jilu"*(Record of Walking into 20 Villages), (Nanjing: Nanjing University, 2006).

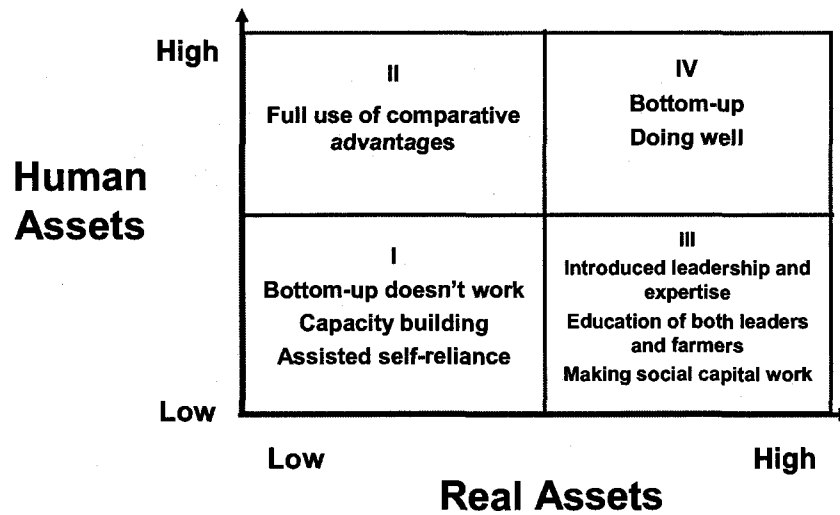


Figure 8-3 Real and human assets

Figure 8-3 summarizes the findings from my research which indicated a set of conditions that seemed to align with these results. This is not prescriptive, it is descriptive. It shows what had happened or was happening in the successful communities I visited, and in towns and villages that remain depressed, either the real assets or the human assets or both were inadequate to sever the chains of subsistence farming.

One of the limitations of this research that is described later is that it was not possible for me to measure development capacity. And yet Figure 8-4 represents an irresistible impulse to do just that.

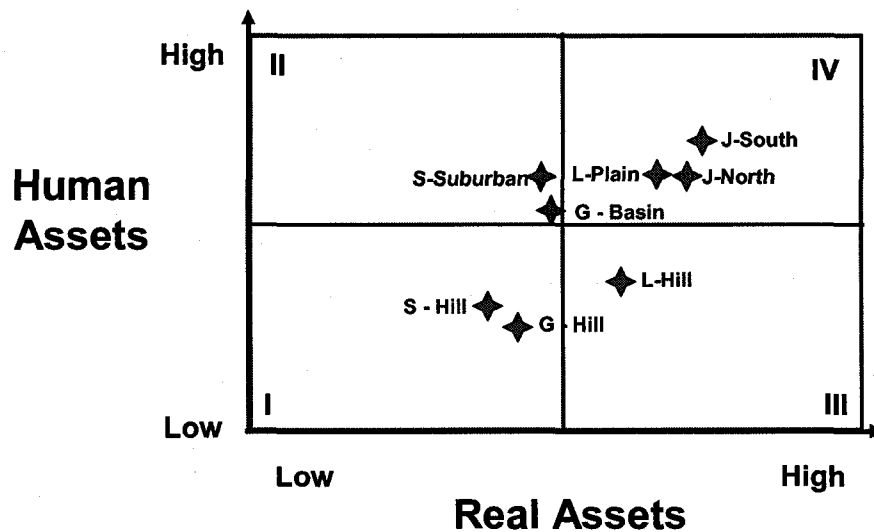


Figure 8-4 Relative status of case towns

Figure 8-4 is the author's impression of the current state of development capacity in the eight case towns. As the matrix was constructed, the original intent was to simply place each case site within one of the quadrants, but there was a very insistent scale in operation – clearly at work on a comparison between each of the locations. It was obvious, for example, that social capital was operating at different levels in different towns, even though there is no social “capital thermometer.” There were variations in human assets and degrees and gradations in the natural conditions all lined up awaiting comparison. Industry has found a practical solution to the measurement of intangibles (quality, tastiness, etc.) by using the scaled opinions of panels of customers and experts. That approach and the experience of this research project suggests a direction for future regional evaluation. Another interesting observation is that there are no real extremes among the case towns, providing a degree of validation for the case selection process that was intended to assess

conditions in average towns in the four selected provinces. There is also a visible central tendency in the arrangement in this matrix, a tantalizing hint of an ability to quantify conditions in future research.

The grid is also useful because it suggests a priority for those seeking to initiate capacity-building. A town or village in quadrant III, for example, is not likely to benefit from a grain subsidy because endowments are not the problem. It supports one of the assumptions of this research that the mass programs of the past would benefit farmers who didn't need it and never reach farmers who were most in need of assistance. Grain subsidies provide meaningful assistance only to a segment of the rural population. A town that is in quadrant I would seemingly benefit either from the construction of real assets such as roads or irrigation systems, but this research suggests capacity building should begin first with human resources, providing leadership and expertise, conducting leadership and technology training and developing communications networks. That direction comes from the belief that capacity building is best undertaken as a joint effort between capable local leaders and organizations and their higher level sponsors. It is capable people who can best identify, develop and take advantage of local comparative advantages.

Benefits and limitations of central policy

Since 2006, Chinese peasants no longer pay agriculture taxes and fees. They were also relieved from most of the fees they'd been paying for public goods such as rural education and health care. Many government agencies are no longer managed (and

paid for) by local government but are sponsored by higher levels of government. Moreover, peasants have begun receiving subsidies, grants and training from all levels of government. The combination of reduced taxes and increased benefits led many peasants to hope they were seeing the most favorable policy conditions in all of Chinese history. That attitude was visible in all eight research towns and their villages. While the small case size in this research leads to caution about broad generalizations, it was certainly universally visible within the visited towns and villages that current policy is stimulating excitement and hope among many of China's poorest citizens.

Also visible were significant changes in bureaucratic behavior and in a burgeoning civic engagement. Gone are the predatory taxes and fees that were a constant source of resentment and hostility and escalating draconian collection tactics and peasant demonstrations. Gone are the frustrations occasioned by unpaid wages since government employees are now paid by the higher levels of government. During the period of this research, which spanned two years and four months, complaints about corruption in local government went from nearly universal to almost nonexistent. The most frequently cited reasons were that local officials no longer were required to collect their own revenues in order to get paid, and most forms of rural taxes and fees were prohibited. No one in the interviews used the words *public trust*, but the clear perception in the eight case towns and villages in this research was that local officials had gradually become public servants. Both the motivation and the opportunity for corrupt behavior had seemingly evaporated in some of the cases studied.

Illustrative of this changing policy environment was a case in village M in the plains township in Liaoning province. The peasants refused to vote for a party secretary because public finances were in disarray and no one could offer a satisfactory explanation. A new candidate for office invited villagers to a meeting in which the proper handling of village affairs could be discussed, and priorities could be established in a transparent way in full consideration of villagers' real needs. In another example, villagers in a hill town in Liaoning rejected a village head for evidence of his previous corruption. A recurring theme in all of the provinces was a visible ostracism in the case of officials who were not doing their jobs, or doing them badly.

By way of contrast, in both of the visited Jiangsu towns villagers get only a fraction of the compensation due for land conversion, and are kept in the dark about all aspects of the land seizure process. As previously discussed, the generalized prosperity in those case towns means that land may not be a key issue for many, and aside from occasional mild grumbling, there has been little expression of dissatisfaction, verbal or otherwise. The situation is reminiscent of Japan and Korea where corruption is rampant, but prosperity keeps the voters relatively quiet. And in Gansu, party officials very openly reported that they do not need or want citizen participation. The party leaders manipulate information to assure they keep citizen involvement (seen as interference) at a minimum. In spite of these examples, the net effect of current policy is a set of conditions under which the opportunities for abuse have diminished, the oversight and management have improved, and the motivation

has therefore lessened. These cases do not address the very high visibility of corruption and abuse cases that have occurred at higher levels of government during recent years, but have produced some evidence of change at the local level of government in the cases under review, even where traces of the “old ways” remain as irritants.⁴⁴⁶

In a related policy direction, the National Peoples’ Congress recently promulgated a new Labor Contract Law that took effect in January, 2008, over the loud objections of business, both domestic and foreign. The law protects migrant workers from unfair, abusive and dangerous labor conditions. This is a first in all of China’s long history. It is noteworthy that the law passed despite very aggressive business interests which have prevailed until now against all such measures. Business persons have threatened to move their operations into places like Bangladesh and other developing states where, presumably, abusive slave-like conditions remain not only legal, but the norm in a policy environment that is still locked into economic growth as the highest priority. The new law represents a shift away from China’s directive of “economic growth at any price,” and toward an accounting of the costs of such runaway growth and consideration of who must pay those costs. It also reflects growing Chinese confidence that the economy and its blossoming market provide sufficient incentives for both domestic and foreign investors that officials can be more selective about what

446 A year and a half into this program, the elimination of taxes, the funding of social programs like education and public health, and the fiscal practices that are affecting the way local governments do their work have spread to the far corners of rural China. The changes were occurring during the research for this study, and have represented a serious challenge and a continuous source of delays for this research.

kind of working conditions they will tolerate. At the same time, enforcement is currently sporadic, so the full benefits are yet to be realized.

During the last three decades, 200 million peasants have moved into urban areas to find work. The necessary social shifting that accompanies a migration of this magnitude has already been reviewed in early chapters, but clearly it was once again China's peasants who were forced into harsh and unhealthy living and working conditions. The labor contract law may have been written about industry, but the beneficiaries are the lost segment of Chinese society, the peasant farmers.

In the four case towns in Gansu and Sichuan, peasants have been encouraged to leave their lands in search of better work. In the hill town of Sichuan, more than half of local household income comes from migrant work, on average. Even in relatively prosperous Liaoning Province where *per capita* arable land is higher than in most of China, two out of every three rural laborers are excess to the demands of farming and needed to find off-farm work during 2005.⁴⁴⁷ Even in the wealthy towns of Jiangsu the peasants are encouraged to *do business* instead of farming. The sum of all the evidence thus far reviewed tells us that China's limited arable land, its huge population that requires feeding, the increasing productivity of rural farming, and the pressures of industrialization and urbanization are continuing to make life choices complicated and to create tensions for both rural and urban workers and families, a universal constant in the lives of China's people for the last two hundred years.

⁴⁴⁷ The source is the Liaoning Provincial Statistic Bureau, "Retrospect and thinking of construction of countryside and peasant income in Liaoning."

As already seen, the holistic policy approaches and effects of current rural policy are having a calming effect in many Chinese communities, but the country is in constant motion, and the limited cases of this study do not yet permit a forecast of success. Indeed the evidence from the study draws attention to gaps or limitations in current policy.

Financial gaps remain

In an attempt to curtail local corruption, abuses of power and lavish spending, the Chinese Ministry of Finance promulgated a new policy that makes the county level of government responsible for managing the finances of the township tier. The policy has been implemented on a trial basis in many areas of China, beginning in 2006, and is planned to reach every corner of China by the end of 2008. The system has already affected government in several of the cases in this research. Budget planning is tightly regulated and supervised as are all contracting and spending. The remaining problem is that wealthy towns like the two that were visited in Jiangsu and the plains town in Liaoning retain very solid financial advantages because of their ready sources of industrial taxes. The relief that all rural towns will experience as a result of state funding of social programs will result in extra “disposable income” for those wealthy towns, enhancing the already advantaged condition of their infrastructure. All three of those towns realized returned taxes of more than ¥60 million in 2005.

It is not yet clear how the state funding of local expenditures can be prevented from worsening the gap between poor and wealthy communities. Counties with towns

that have rural industry and other sources of business income will have a greater capacity to meet their revenue-sharing obligations to higher levels and still have resources to address the public good, while farming community governments will receive no taxes from their citizens, have little or no rural industry taxes, and are wholly dependent upon transfer payments and grants from such programs as “help poverty.” An example of the resulting imbalance is evident in the fact that cooperative medical care began in Jiangsu in 2003, but only appeared in Gansu in 2007, when the central government assumed responsibility for its funding.

From another viewpoint, it seems the new approach to financial management may provide benefits in the reduction of abuses, but has not removed budget restrictions from poor areas. It has only shifted them to higher levels of government. Since it has not been unusual for transfer payments to the counties to be up to six months late, the tension remains and items that are not directly funded by the central government won't be seeing significant improvements any time soon. The net outcome is hoped to include a reduction of the income gap (or at least a slowing of the gap's expansion), and a lessening of the fiscal malfeasance and mismanagement in rural communities..

Current development theory calls for putting social capital to work to help rebuild poorer farm communities, but the absence of business means these farm communities are lacking in business leadership and resources, in addition to the drain caused by labor migration. There isn't much for cooperatives to build upon, either, and leadership cannot operate upon or within a social vacuum within which can be

found neither resources, nor influence nor much hope.

Limitations on direct subsidies.

During 2004 to 2006, the government paid direct subsidies at a cost of ¥39 billion to hundreds of millions of peasants to support the farming of grain crops and to help pay for tools and machinery. In 2006 new subsidies were added to help defray the rising costs of such things as diesel oil and fertilizers. In 2006 direct subsidies reached ¥26.2 billion.⁴⁴⁸ Each of the eight case towns has been the recipient of larger or smaller subsidies under this program, depending upon farm size and subject to local distribution standards. In addition to the subsidies for growing grain crops, some farmers in Jiangsu and the basin town of Gansu also received subsidies to purchase upgraded equipment. In Liaoning, villagers in the plains town were subsidized for growing wheat, rice and corn as well as to help with their machinery expenses. Because the per capita available farmland was larger than average, so were their subsidies. Meanwhile in the hill towns of Sichuan, farms are much smaller and not well suited for mechanized farming, so the subsidies were much smaller. The net outcome of the subsidies, then, works to the benefit of those with the best farming conditions and does little to improve conditions for the poorest peasants with the worst growing conditions and with roads and terrain conditions that work against mechanization.

⁴⁴⁸ Zhu Juan, "Zhongguo nongmin butiewang zai jian guifan guanli zhongliang nongmin zhibu zijin" (the Website to Display Direct Subsidies for the Chinese Peasants in the Construction to Standardize Management of the Subsidies), *People's Daily*, April, 19th 2007.

Although the direct subsidies reach peasants' hands without local siphoning or skimming as was the previous common practice,⁴⁴⁹ the policy is limited not only by farm size in different areas, but also by supply-demand trends caused by the market prices, cost of supplies and irrigation and other expenses. The direct subsidy for using agriculture machinery and tools is limited by local roads and land size too. The basin town in southeast Gansu has good field roads so peasants line up for those subsidies; whereas in the hilly town of Sichuan peasants have no use for that subsidy because their paddy field is called "*wan tian tian*," (a field like a mirror that can allow people to watch the sky through it) which means they are deep and wet and small as a handkerchief where machinery is essentially unusable.

Market challenges

The grain subsidies are intended to encourage peasants to farm grains. However the price of grains has not kept up with the costs of supplies and materials, and the subsidies encouraging the farming of grains have not made enough difference to create real incentives. Despite government spending, therefore, the market has exerted its own power and farmers have turned in great numbers, especially in the poorest areas, to cash crops in an attempt to improve their incomes.

Additionally, the centralized management of rural finances has increased the transaction costs of government. This was a major topic of discussion in interviews

⁴⁴⁹ Ministry of Finance of China, *Finance Minister's Response About Direct Subsidy Policy for Peasants in 2007* (www.gov.cn, May 21st 2007); available from http://www.gov.cn/jrzg/2007-05/21/content_621610.htm.

with officials in the Liaoning case towns. The policy goal is a valid one: to curb corruption, abuse of power, lavish spending and the accumulation of debt. The problem, however, is that all spending now must run an obstacle course with delays and added administrative overhead. Perhaps local spending is better controlled, but the benefits are eroded by reduced transparency and additional opportunities for abuse at higher levels, and with new inefficiencies occasioned by the bureaucratic overhead. The interviewee echoed an old refrain from Pressman and Wildavsky, saying it has become more and more difficult to get anything done.⁴⁵⁰ Tight, centralized controls over the larger portion of local government revenues that come in the form of transfer payments are earmarked for specific budget items so that local discretion has been seriously eroded.⁴⁵¹

The most popular leaders in Gansu are those who successfully “run for projects” by being attentive to trends and opportunities through their personal and professional networks. Traditionally those networks come at a price: a payoff is expected in return for useful information. At the same time, the allocation of funds for those special projects is still being accomplished in the shadows, and it is common knowledge that “commissions” (*haochu fei*) are being paid for the “right” decisions.

⁴⁵⁰ Jeffrey L. Pressman and Aaron B. Wildavsky, *Implementation : How Great Expectations in Washington Are Dashed in Oakland : Or, Why It's Amazing That Federal Programs Work at All, This Being a Saga of the Economic Development Administration as Told by Two Sympathetic Observers Who Seek to Build Morals on a Foundation of Ruined Hopes*, 3rd ed., The Oakland Project Series. (Berkeley: University of California Press, 1984).

⁴⁵¹ Wei Lin, "jiceng regua 'xiangmu' feng, zhinong 'dangao' shuilai fenpei" (Hot Wind for "Projects" Blowing, Who Should Distribute the "Cake" of Funds to Support Countryside) (Henan channel of XinhuaNet, 2006); available from http://news.xinhuanet.com/focus/2006-06/26/content_4732474.htm.

Whether the central controls are necessary or not, they are sure to be unpopular with those who must manage local conditions, and their argument that they are in the best position to understand local needs makes sense. Since the policies and controls were tightened because of audacious abuses in recent history, the core problem is a lack of trust, and therefore will not be easy to correct. It is clear that local governments brought these policies into their own lives through a long tradition of abuse, and it is not clear what conditions will permit a relaxation of their provisions. In the meantime, it is difficult to know whether the less frequent but much more costly examples of abuses at higher levels are more or less expensive than the previous chronic, continuous lower level abuses.

The mix of market forces and centralized controls is also creating unintended consequences associated with tax relief policy. As earlier reported, despite very good growing conditions in Liaoning, farmers have found it more profitable to engage in various kinds of business. The motivation springs from a combination of the harsh working conditions on the farms, and the economic fallout from the taxes and subsidies. Since local governments cannot tax farmers, farms do not add to local government revenues, and local governments therefore have no incentive to encourage farming as a way of life – indeed quite the opposite is true. Local governments gain from industries and businesses, and from the rural industries that spring up in association with breeding farms where soil and climate conditions do not matter.

In several of the case towns, people have turned away from agriculture and

towards rural industry. Consequently, the preferential policies (such as tax holidays, and low priced lands) have become important predictors of progress. Where they exist, they are popular not only with outside investors, but also with local farmers and even with many cadres. Furthermore, attracting business is tied to promotions and bonuses for officials, so the pressure is constant and significant.

Another consequence of current policy is that money, while always an important factor in Chinese life, now conditions all activities. Corvée labor once was a key mechanism for many types of infrastructure projects, for example – effecting such improvements as road construction and maintenance and irrigation projects. Today the villagers as well as their leaders only show up if there's to be a paycheck. Even militia training, formerly very easy to handle, now requires enforcement, which cadres are reluctant to do even though the training is a citizen's duty. Villagers forego the training for any opportunity to earn money in other activities. In the case town in north-central Jiangsu Province, village and team leader salaries are tied directly to township work projects, and the villagers are given an allowance to participate. These conditions all help explain why tax revenues are so urgently sought, which raises the motivation to encourage business growth, which further discriminates against those small, remote villages where conditions have not favored rural industry.

Investment in public health has improved conditions for many of China's peasants, but costs are still burdensome for many. Peasants complained that the health policies and medical care procedures are complicated, and have been changing so frequently

and so dramatically that the peasants are confused about what is available to them. In some areas, participation has actually declined. This condition was visible in this research project and also in the work of others.⁴⁵²

Land Use Issues

Yet another area that has been caught up in the pinch between the desire for modernization and the limited funds available to rural townships is land use management. We have already seen how new policies are affecting eastern provinces differently from their western counterparts, but this is not the whole story. As townships work on the five objectives of the policy, many focus on appearance projects, which are more visible symbols of their achievements. But these things cost money, and since there is less discretionary money available, officials have had to find ways to fund their progress. As we have seen, land seizures became a common source of plenty when township governments were required to be self-supporting. The new policies prohibit seizures, and other policies have placed tight controls on the conversion of arable land to industrial use. There is a loophole, however, that is being used once again to displace peasants from their homes with little or no compensation. By building centralized residence communities, townships can improve the appearance of their regions; and they also free up the lands upon which the old housing was built, and can make it available for commercial use or for development, thus raising badly needed discretionary income. Since the property was commune

⁴⁵² Zhou and Liang.

property and only made available to households, replacing it with nice new homes is not a violation of the seizure laws. And since the land was not previously farmed, the re-purposing doesn't fall under the restrictions that regulate arable land conversion.

The process rests comfortably (from the standpoint of township government) within the official Beijing exhortation of *finding resources locally to build a new socialist countryside*. Regardless of whether anyone favors or would argue against such seizures, there are two issues that must be managed to the benefit of the people of China in general, and to China's farmers specifically: the big picture of property rights, and sustainable development, which refers to assuring that the decisions being made today will not diminish the quality of life of China's future generations.

Transparency remains a problem in many areas. In almost all of the selected case towns and villages, local officials are selective about the policies they enforce or about which they choose to inform the villagers. Surprisingly, many farmers were not even well aware of the new socialist countryside policies or how they would be affected. Some even worried this was a shadow of the type of mass movement that was common in Mao's administration. Their concerns are very basic: How will this affect me? And, what will I have to pay for it? It is a suspicious attitude born of many previous false promises and dashed hopes. What came through from village leader and township cadre interviews was the same suspicion, but tinged with more hope. These people also want two things – to be consulted when priorities are being planned, and to be involved in the development and financial management of new countryside

projects. When asked if they support the new socialist countryside program, they answered the question with a question: How do we know how our money is going to be spent?⁴⁵³ The new rural development policy has been highly publicized and though most interviewees appeared familiar with the concept, it was surprising how few people acknowledged knowing anything about it. This curious phenomenon has been called a “collective aphasic” in other research, and has been reported as a difficulty associated with bringing peasants into the decision-making process.⁴⁵⁴

In practice it is not unusual for policy to turn out to be a double-edged sword, with unintended consequences and unforeseen obstacles; and the body of policies that have been combined to create China’s new socialist countryside is no exception. Those who know little about the policy beyond the propaganda from on high are ready to believe in the good intentions and wisdom of the policy makers, but many have seen little of real substance and therefore still harbor reservations and doubts, which is to be expected after six decades of trampled promises and steadily worsening rural conditions. In addition to the issues listed thus far in this chapter, there is not yet much evidence that assistance is being matched to real need, but still appears largely to be constructed around the one-recipe principle – thus policies can be expected to continue helping people who do not need help, and failing to make conditions better for those who are among the poorest. That has been the effect of past programs and

⁴⁵³ *"zuijian jinkuai zhifu zuipa xinzeng fudan"* (Looking Forward to Being Rich at Most, Most Concerned About Burden), (XinhuaNet, March 29th 2006).

⁴⁵⁴ *"xin nongcun jianshe: nongmin jiti shiyu?"* (Building a New Socialist Countryside: Why Are All Peasants Silent?), (Southern News, July 5th 2007).

the early returns from current policy impact shows the same kind of gap. What matters in each rural community is its development capacity. Policy does not yet appear to respond very well to this limitation.

The Role of organizations

As discussed in Chapter Six, China's current rural development is a multiple-purpose integrated rural development project. In addition to aiming at agricultural productivity and farm income, it aims at a holistic view of rural well-being. During the early stages of implementation, limitations have already become visible. It was clear from the very beginning that neither local governments nor Beijing can fund a complete makeover of all of rural China. What makes matters worse is that the policy does not go far enough in rectifying the uneven distribution of endowments and other resources. As already described, some policies have the undesirable effect of adding the most help where it is least needed, and vice versa. What was visible in the eight case towns was the important role of organizations in helping to bridge the gap between rural communities, government resources and the markets. Interviewees claimed that it is important not to rely on just one set of links, but to develop multiple channels through which local leaders can become engaged to meet their needs. This was reinforced in the findings of Uphoff et al. in several other Asian regions.⁴⁵⁵ Peasants in the case towns had proven themselves very adept at identifying different

⁴⁵⁵ Norman T. Uphoff and Milton J. Esman, *Local Organization for Rural Development: Analysis of Asian Experience* (Ithaca, New York: Rural Development Committee, Cornell University, 1974).

channels through which to approach needed resources, and recognized that different agencies bring different kinds of resources, expertise, programs, technology and information, so it is important to maintain contact with all of them. The multiple contacts were also reported by one official as opening possibilities for sidestepping bureaucratic delays and abuse, for stimulating policy adjustment and for prodding those who control resources to assure a fair share. We see, for example, how the hilly town in Liaoning has been working to gain approval to open their iron mines by supporting the private sector to use its influence.

In three non-agriculture oriented case towns, the organizations that had become active and were becoming increasingly effective included local government, the local communist party, private business associations, and cooperatives. These organizations had extended their tentacles both horizontally and vertically to the benefit of their members.

Obviously the central government and its ministries are the most dynamic and resource-rich of the institutions pushing rural development. Between 2004 and 2006, rural development funding jumped more than 30 percent to ¥34 billion. Sixteen ministries and agencies have responsibilities for different aspects of the program, and these funds are distributed to provincial departments, bureaus and offices and from there are made available to local branches.⁴⁵⁶

What follows are some examples of projects that have reached case study towns

⁴⁵⁶ Lin.

and villages: The Ministry of Agriculture sponsored an advanced irrigation system in the basin town of Gansu, and the Ministry of Finance funded improved roads in the same area. Two case towns in Liaoning Province were chosen for an experimental project in which the Ministry of Commerce aims to build standardized rural supermarkets to improve the quality of available consumer goods. A fertile soil project (*Wotu gongcheng*) sponsored by Ministry of Agriculture was also in progress in Liaoning, where large amounts of marginal lands were made suitable for some types of farming.

The real give and take of governance in China, however, does not arrive in the form of central government projects, but takes place at local levels of government where officials balance their perceptions of the political will of provincial and central governments against local needs. In that role they are constantly prioritizing their work in “must do,” “can wait,” and “forget” categories, a set of priorities any manager in the world would recognize.

The urgent business of China’s central government has long been called “high tension” work and includes such things as family planning, petitions and conscription work. The high tension list has now been amended to add the new rural education standards, public health, and direct subsidies for the peasants, among other things. Fortunately the responsibility for the collection of agricultural taxes and fees has disappeared, and officials appear to be managing their work quite well, except that they still struggle, as nearly all local governments do, with unfunded initiatives from

higher levels. These officials spend time exercising their networks in attempts to get pieces of funded projects, as earlier discussed. When unfunded projects are passed down the hierarchy, officials handle the easy ones and try to forget the rest.

The role of the party organization at the grassroots level

The party's role in China's governance is quite unique. The CCP draws its legitimacy from the Chinese constitution, and is widely recognized as holding a monopoly on power, although the government has been showing small signs of independence. During the days of the commune, the party dominated every aspect of rural life. After the economic reform that began in 1979, the household responsibility system created much freedom for China's farmers. During the 1990s, peasants left their farms in great numbers for all the reasons cited earlier, leaving a mess in their wake. Among the case towns and villages, those with high development capacity have recovered or are well on their way, while in poorer, more remote locations, the party has a challenge on its hands. Some have chosen to cling to the top-down approach to local government, such as the Gansu township where party officials try to keep the farmers out of government business, but the central party line has encouraged grassroots village elections and grassroots party organizations.⁴⁵⁷

In some of the case towns, both party consolidation efforts and government influence have been complicated by past problems and a resulting reluctance on the

⁴⁵⁷ Zeng Qinghong, "A Programmatic Document for Strengthening the Party's Ability to Govern: Study and Implement the Spirit of the Fourth Plenum of the 16th Party Committee, Strengthen the Party's Ability to Govern," *China Report* 41, no. 2 (2005).

part of farmers to take new risks. In the hilly town in Sichuan Province, local cadres tried to improve productivity by encouraging, with subsidies, the growing of a popular and profitable Korean green pepper. Under the new policies, farmers have been emboldened to act more independently and conservatively towards proposals from above. Since past attempts proved risky, and since the burden of risk was all theirs, they are no longer docile about following programs such as this one, and in fact some peasants took policy advantage against local cadres to stop their intervention. This situation means that even well-conceived and helpful programs have become a difficult sell.

It is the party that is attempting to remove these barriers. By mobilizing party members, new projects can be experimented with and demonstrated. This appears to be working, because in the better off towns in Sichuan and Gansu Provinces, farmers who are party members have been helped to higher levels of prosperity. At the same time, independent farmers who have succeeded in finding their own path to success are heavily recruited into party ranks so they can be mobilized to help others. There is no doubt party members are much more easily influenced toward the political will expressed from higher levels. This means of deploying political will, as well as its use in technology diffusion are both part of the operating credo of the party, and exemplify the party's legitimacy as a not only a source of policy but as its own policy instrument.

The role of the private sector

Rural industry in China really began as town-village enterprises (TVEs) during

the era of the communes. As we have seen, with the demise of the communes, TVEs were taken over or sold, often to their managers and often to town and village cadres. There was also a large influx during the 1990s of local peasants who had left their farms and who came back to create private businesses. Where this happened, development progress was especially rapid, as we can see in the works of Jean Oi. This was the condition found in the case towns in Jiangsu Province where local officials persuaded business persons to return to their home towns to give local businesses a boost and to help others. Since businesses tend to “flock,” a growing presence of private business creates a spontaneous pattern of accelerating development that benefits everyone. Business taxes fuel local government initiatives, and commerce creates jobs and taxable income. In the plains town of Liaoning, in addition to the boost in taxes and jobs, some local businesses have been persuaded to sponsor school construction through their donations. In Jiangsu, businesses have sponsored schools, parks and public transportation. Businesses were often tapped by cadres to help with welfare projects and other public goods, and we saw the case in Jiangsu where a local company donated a police car to the township. This kind of behavior wins the hearts and loyalty of local governments, which obviously helps when policies are developed and administered that affect business. It also gains favor with local people, who develop a sense of loyalty that can easily carry important influence when higher levels of government are planning actions that are contrary to business interests. We saw an example of this in Liaoning Province when citizen intervention halted an attempt to force a steel mill to relocate.

In the modern town in Jiangsu, sponsoring companies were even asked to participate in the management of the projects they helped to fund. In this way, public administration becomes the beneficiary of business savvy with respect to competition and efficiency. In sum, it is clear that the development of a rural industry has proven far more significant than simply a source of tax revenues.

The example of the poultry/egg industry that developed in Liaoning provides an excellent case study of the interaction between local business and the market and how it helped a town. The chain of suppliers and customers related to egg farming created another “flock” of profitable businesses for that village, and it was impressive how quickly the chain was assembled. By the time of the research visits, this small Liaoning village had extended its business all over southern China and into Hong Kong. The seemingly bottomless demand required business and peasants to respond in a coordinated and technically appropriate way. The government very quickly leaped into the situation to partner with businesses to spread the technology and encourage wider participation. It was inevitable in this environment that farmer associations would develop, and although those were still quite loose during the research visits, they were active in many important ways, as we saw in Chapter Seven. Even China’s developing banking industry became involved as more customers sought to transition from cash to business accounts. The tendency to “flock” or “herd” to which this research has alluded several times is another aspect of rural development that should be studied. It is a phenomenon with which marketing science is very familiar, but has not been examined for its effects on rural development. The central

decision to experiment with rural supermarkets, for example, may well be impacted by the effects of this predisposition.

The scene for private business participation in economic development is very different in remote Sichuan and Gansu provinces, depending on the degree of isolation. Proximity to large urban areas is a significant capacity indicator, and the suburban town in Sichuan has been developing under conditions quite similar to the more prosperous towns along the east coast, though it began later, and in suburban towns in Gansu, the private sector has introduced simple agriculture processing industrial centers. In both of these examples, many jobs were created for peasants who were not successful on their farms. In the hill towns of Sichuan, and even in Liaoning where poverty is surrounded by affluence, local governments live a constant struggle to find the means to improve. Conditions are such that it is difficult to attract incoming investment, and without taxes, the resources do not exist to create improvements. Peasants struggle in subsistence farming and are under too much pressure surviving to provide volunteer labor that might help. Natural endowments are lacking, people have left in large numbers, leaving a leadership vacuum, financial capital is not available, and government programs are attuned to reward accomplishment, not to ameliorate backwardness. In sum, development capacity in these towns is very low and the development programs that are now taking root all over China are not finding their way into these impoverished areas.

This is the condition that created the present environment. What was done during

the 1980s and 1990s to improve rural conditions really only worked where capacity was high – the low hanging fruit has already been harvested. There has been a tendency on the part of government and its agencies to believe that the lack of progress in these poor areas is due to local leadership problems or to shortcomings among the farmers themselves. What was really needed was an evaluation of capacity so that appropriate capacity-building could be undertaken in these isolated areas. It is a continuation of the policies that led to the closing of schools and health centers which have further exacerbated the loss of social capital in these poorest areas.

China's Rural Cooperatives

Although the CCP was initially suspicious of all organizations outside of the party, there is now a generalized respect for the work that farm cooperatives can accomplish. In one of the case towns in Jiangsu, a model has been developed called a “company and peasants households.” In one case in Jiangsu, the model is constructed around the silkworm cultivation and silk production and the cooperative has helped organize local markets which it then connected to global markets for silk. A similar process is at work in a plains town in Liaoning, where cattle breeding has been developed as a complement to a thriving dairy industry and dairy processing. Although the model is very effective, in this case the chicken must come before the egg. In the western case towns there is no sustainable core around which cooperatives can develop.

In Liaoning, a slightly different mechanism is at work in the town that is developing around eggs and chicken production and processing. In this case it is

purely a peasant organization that began very informally and gradually evolved to take on some of the characteristics of the cooperatives. The ones that were at work in the case villages are still quite loose and informal, but in their ability to help with market information, technology diffusion, and problem-solving, they have become quite valuable to their members having sprung spontaneously from practical needs. During the interview process, leading members barely seem to recognize they are organized, treating the process as just a logical extension of social processes that happen to be quite focused in orientation.

Local governments and party organizations in several of the case towns acknowledged they have received information and training in these kinds of peasant organizations because of Beijing's advocacy; and although the idea has not yet taken root everywhere, the visits uncovered a watermelon association, a grape cultivation association and a pumpkin association, among others. The rapid growth of all these organizations makes it apparent that their members had been awaiting a go-ahead signal from the watchful party and government. Though this phenomenon is still in its early stages, officials have learned that in addition to the good these organizations can do for the peasants, they also lighten the workload for local government. This is an example of participant engagement that constitutes social capital in an inventory of local development capacity.

The principal value of social capital lies in its voluntariness, its fostering of self-learning, self improvement and self reliance. In addition to requiring a crop or

industry around which it can grow, perhaps the most important ingredient that separates success from failure is the leadership. Much of the work of these organizations requires activities that are voluntary, organized, and tailored to support new technologies and types of knowledge, such as market development, soil treatment, breeding technology, available agency resources and funds. The leadership that emerges as these organizations attempt to find a place in their societies was represented during interviews as the best kind of leadership, often coming from the ranks of its members and always representing talent instead of the product of some kind of spoils system that characterized past government-run programs. Since the beginning of economic reform, the government focused on the economy writ large and on peasant income. What is surfacing these days is individual courage and acceptance of risk, an acknowledgment of the critical nature of knowledge about financing, markets, and agrarian technology, tools and production supplies and materials. Leaders have been emerging who have the ability to identify and harness local talent or enlist and coordinate the aid of available government offices and agencies. In the case towns, this leadership most often came from local government or party organizations, but successful private business owners and successful farmers are also prominent in the rural organization leadership core.

One interviewee expressed the belief that government and party leaders are more likely to have their own ambition and self interest at the top of the agenda than politically neutral leadership that comes from either business or within the farm community. But officials are also more likely to possess leadership ability, networks

and technical know-how. For this individual, there is no best formula for identifying good leaders, but is perhaps best left to natural evolution. In his organization, there were several abortive attempts to seize control by people not properly motivated or possessing the necessary knowledge, but normal group dynamics corrected the situation soon enough.

In the case towns, there was no better formula for smoothing farm-government relations than economic prosperity. Progress eases tensions and helps create an atmosphere in which mutual respect and collaboration become the norm. Prosperity in the Jiangsu case towns meant that local bureaucrats could turn away from economic intervention or interference and focus on those kinds of activities that stimulate further progress. In Sichuan, township officials formally designated a dozen successful peasant experts as advisors for others in the community. In the basin town of Gansu, teams consisting of successful peasants and agriculture experts from county agencies were formed to guide other farm households. In some programs participant advisers received modest payment, but most often the work was accomplished on a voluntary basis by peasants designated as *paraprofessionals*. The mentoring relationships were formalized and became semi-permanent social organizations as well. In many fields in which these organizations did their work, the names and contact information were prominently displayed to indicate a continuing responsibility. This was welcomed as a significant change from the days when outside experts blew in, made speeches and conducted a few training sessions and then went back to their comfortable offices.

The paradox that makes all of this work is that locally grown leaders and experts speak with full knowledge of local conditions, problems and needs, but also carry with them the full backing and access to resources from county and township governments and party organizations. They communicate more naturally, use local language and examples and are thus better equipped to persuade and lead. They are also far more likely to become permanent fixtures in their regions, greatly enhancing the sustainability of local economic progress.

The evidence supports the belief that there is a widespread understanding of how to stimulate rural economic progress, but progress is shadowed by the realization that those who most need support are not finding it. In other words, local leadership has been adept at identifying and building upon existing capacity, but has not yet identified or found the resources to create development capacity where it does not exist. It may turn out that the solution often seen in the poorest areas such in Liaoning, Sichuan and Gansu is the best one – qualify people to leave.

Interviewees made use of the term *facilitator* as previously discussed, but in successful communities in Sichuan, perhaps a better term for the type of leadership that has been successful is that of *catalyst*. As used here, the catalyst role is distinguished from the facilitator role by being more subtle. Whereas facilitators take responsibility for assuring the requisite skills and knowledge among a group in the early stages of development, and for personally forging links between local output and the market and between local organizations and government agencies that can furnish

resources, a catalyst demonstrates respect for what people already know, and spends more time encouraging self-management, self awareness, self reliance and independence. Uphoff, Esman and Krishna described how the catalyst kind of leader can stimulate action among members of a group who are sufficiently advanced to respond well to this kind of infusion of energy and passion. The concept of leadership expands from one centered on the most visible individual to a more collective vision of leadership.⁴⁵⁸

What has been seen in this research is that rural development progresses in stages and the kind of leadership that is best suited for any given stage is an important factor to include in development planning. If social capacity or innovation are most important, catalysts have an important role. If diffusion of technology is critical, paraprofessional facilitators are best suited to the task. In the early stages of rural agriculture development, farm technology and resource connections are paramount. In the next stage, market know-how dominates. When conditions permit, as they did in Jiangsu and in those case towns close to large markets, rural industry has been the best choice, and in those cases, leadership came from business persons.

The lack of capacity in remote towns of Gansu and Sichuan has an insidious problem related to leadership, as was seen in Chapter Seven. The drain of resources, as the brightest and most ambitious (or most desperate) young men have abandoned their villages to the wives, the elderly and the children, leaves a significant gap in

⁴⁵⁸ Norman Uphoff, Milton Esman, and Anirugh Krishna, *Reasons for Success: Learning from Instructive Experiences in Rural Development* (West Hartford: Kumerian Press, Inc., 1998), 56.

qualified leadership. This condition of relentless poverty thus reproduces itself. A broader range of investigation reveals that it is a national situation that the quality of peasants who become migrant workers is higher than the average level of rural labors.⁴⁵⁹ In Jiangsu and Liaoning, there has been a generalized outflow from the farms and into industry, but there has also been an inflow of capital and migrant labor as well as larger farmers who have been able to consolidate small farms into large agricultural concerns, spawning additional new processing and handling businesses. In the remote villages of Sichuan and Gansu, there is only an outflow of human capital with no incoming resources to balance the losses. What little capital finds its way into these poor areas is mostly in the form of subsidized housing, which is intended to improve living conditions, but which does little to improve human capital.

When there is even a faint glimmer of hope, human capital in China generally responds well and quickly to improvement initiatives. As has been seen in the more successful areas of Gansu and Sichuan, even where development capacity was low because of remoteness, poor transportation and marginal growing conditions, the spirit of a well-led citizenry was able to create capacity and get on a path to prosperity. This was visible, for example, in towns that created the beginnings of a tourist industry around its flower cultivation, and in the town where experimentation led to a very high quality garlic that has been selling for premium prices. A similar success occurred in Liaoning where it was discovered that Kashmir goats could thrive on hillsides that had

⁴⁵⁹ Project Team, "Liaoning Nongmin Suzhi Zhuangkuang DiaoCha Yanjiu (Survey Study on the Quality of Peasants in Liaoning)," (Shenyang: Agriculture University of Shenyang, 2006).

previously produced only meager crops under the harshest of working conditions. By way of contrast, the hill town of Sichuan faced a serious drought in 2006 and in some places a large proportion of the harvest was lost. Officials cited three reasons related to human capital: farm families had not learned how to manage their crops properly; even those who had been trained were reluctant to make changes; and most of the men and even many of the women had departed, leaving the crops in the hands of a few young women, seniors and children.

The distance between Jiangsu and the western case towns is most visible in terms of human capital. In Jiangsu, returning workers brought back working capital and helped create a prosperous network of small steel rural industries. They also brought with them technical and managerial skills. Migrant workers from Sichuan and Gansu seldom return, even when their land-use rights are threatened.

The value of human capital is sharply differentiated between east and west. When the central government snagged most of the local tax revenues during the 1990s so that even the schools and medical facilities were abandoned, towns in Liaoning and Jiangsu were still reaping enough of a harvest from local industries to support basic public programs. The results of those two different conditions are revealing. The national illiteracy rate in China was reported as 11.04 percent at the end of 2005. Liaoning's rate was 4.77 percent, Jiangsu was 10.02 percent, Sichuan was 16.61

percent, and Gansu was 20.83 percent.⁴⁶⁰ (The actual illiteracy rate may be higher than official estimates).⁴⁶¹ Illiteracy rates also showed a regional component. For example, Liaoning had a low 4.77 percent illiteracy rate, but in the hill town that was visited for this research, the rate was actually 10 percent. In Gansu, the provincial rate was 20.83 percent, but in the basin town of the province, illiteracy was reported as less than 10 percent.

Another example of development support that is disproportionately higher in the already prosperous areas is the implementation of Beijing's policy of funding nine years of compulsory education. In Sichuan, the government actually funded only half the tuition in the hill town in 2006, but in both towns in Jiangsu, all rural children were the beneficiaries of free education in 2006.⁴⁶² A similar condition was seen with respect to public health. Cooperative medical care and social security services did not reach Gansu and Sichuan until 2007, but was already fully funded in Jiangsu cases by 2004.

With respect to the development of human capital, there was some degree of training for peasants in all the case towns. In the agriculture-centered towns, the training consists mostly of agriculture technology, while in other areas the training is

⁴⁶⁰ National Bureau of Statistics of China, "2006 Statistical Yearbook," in *China Statistical Yearbook* (Beijing: National Bureau of Statistics, 2006). It should also be noted that the illiteracy rate may be higher than the officially reported one.

⁴⁶¹ In a Washington Post article, doubt was cast upon the standard being used by the government to determine literacy: *Maureen Fan, "Illiteracy Jumps in China, Despite 50 Year Campaign to Eradicate It," Washington Post* 2007.

⁴⁶² "Jiangsu jinqiuqi shixing nongcun yiwu jiaoyu mianfei" (Free Tuition for Rural Compulsory Education from This Fall in Jiangsu) (XinhuaNet, August 2nd 2006); available from http://www.gov.cn/jrzg/2006-08/02/content_352758.htm.

mostly focused on helping people qualify for outside work, such as in industry or construction, and in housekeeping for young women. Although there was no evidence the training programs had reached the hill towns of Gansu and Sichuan as of the date of the field research, job training was scheduled for both. Most such training was conducted by government agencies, but there were also large firms getting involved in the training project. An additional measure was the establishment of placement agencies in China's major cities to help connect hiring companies with migrant labor from the poorest regions.

Government-Citizen Synergy

Another dimension of this research into what is currently happening in China's current development initiative was shaped by the work of Peter Evans as he described the structure of development synergy. It is a perspective that retreats from the actions of people, governments and other organizations to look at their interaction, which Evans calls *complementarity* and *embeddedness*. Complementarity refers to the degree to which the work of officials and an energized citizenry complement each other as opposed to being tugged in different directions by different interests. Embeddedness refers to the extent to which the actions of each group cross the boundaries between them, working from within to further the shared interests of both.⁴⁶³

As we have seen in our three advanced towns in the east where the farmers have

⁴⁶³ Peter Evans, "Government Action, Social Capital and Development: Reviewing the Evidence on Synergy," *World Development* 24, no. 6 (1996).

turned their attention to occupations other than farming, there was a market opportunity due to nearby urban and industrialized communities, as well as an agreeable display of attitudes by both the local government and the people. All that was lacking to unlock a powerful synergy was the government's acceptance of privately owned business. The condition of the social capital was right, as was the condition of the economy, and though self-interest was everywhere visible, the combined forces of the market and social capital quickly combined in a productive, complementary way.

In the successful towns in the western provinces, embedded leadership and expertise helped overcome generations of traditional farming crops and methods to build a comparative advantage and successfully market it. It is interesting to note that none of these phenomena were planned, but appeared spontaneously as a result of what people learned, what they all perceived as their own self interests, as a response to local capacity environments, and as a result of persistent calls to action. In other words, given some pushing in the form of both exhortation and financial incentives, leaders and farmers gradually shaped a response to market forces that appears to be a logical and natural outcome, rather than a preplanned one. Despite the superior visibility of hindsight, there was always a little bit of surprise on the part of both the leaders and the farmers at the success of their collaboration. There were important and visible consequences beyond the increasing prosperity, consequences that further strengthened social capital. A growing mutual trust and a collaborative spirit were evident that had displaced some or most of the hostility that had been engendered in

previous policy environments. These observations support the old maxim that success breeds success.

Conservatism had evolved into a readiness to experiment. Apathy had gradually been replaced with confidence and optimism and open hostility towards government had been supplanted by a grudging respect. These observations call attention to the need for early successes, even if they are small ones, specifically for the effect of success upon individuals and organizations.

The importance of networks is another rural development factor that has been learned by China's farmers. In the poorest towns, there was a visible pattern of discussion on this topic. Leaders are rejected for their lack of ability to wrest funds from higher levels of government or from IGO projects or business sources; while new leaders and officials are valued for their abilities in these areas. This impulse comes from a very solid belief, especially on the part of the farm families, that they simply do not have the resources, natural or financial, to effect meaningful development progress and thus need to find a higher roost on the central government's development agenda. These are not unfounded or shallow perceptions on the part of those families, but a fatalism born of generations of subsistence farming, one bad season following another. The end of the great famine that followed Mao's Great Leap Forward did not mean the end of sorrow for them, just a sense that the next famine is just around the corner. They have listened to empty promises and come to believe there is no other kind of promise. These villages are difficult to research for the overwhelming sense of

sadness and despair that is never far from the surface of every conversation. The discouragement would be enough of a burden for them to carry, but thanks to improving communications and the travels of their young men, these people also know what is going on in the rest of China – that prosperity has arrived for hundreds of millions – so that their despair is tinged with anger.

Although they know that China's most powerful leaders are continually working on their behalf, they are conscious that this is not a substitute for representation in all the intermediate levels of government and all the agencies that control China's resources. Because the communist party considers itself the representative of the people, the peasants have not been permitted to form unions that could exert political influence on their behalf, so the cycle continues – their poverty means they are excluded from the halls of government which means they are powerless to affect the decisions that continue to extend the inequality that is their lot in life. It is a management system that is strongly entrenched in the structure of China's institutions, and the source of the argument in this thesis that for many of China's farmers, their poverty is institutionalized. For China's poorest farm households, the very legitimacy of the communist party is called into question by the extended reality of their plight.

The CCP is still firmly in control of China's institutions, but it also became evident during this research that farm organizations, the market, local governments and other institutions are becoming more active and influential. The party is no longer able to resist this tendency, but its members appear to agree the evolution is one that is

good for farmers, and good for China, and they therefore have shown a willingness to bend with those forces instead of fighting them. Those in power expressed some discomfort about this trend, but most expressed a willingness to share some of the control as long as the responsibility and the work are also shared. One interviewee said this willingness to surrender control became easier as the positive results became visible.⁴⁶⁴

Current policy is making redistribution efforts to close the gap between developed and less developed regions through transfer payments to fund local government and cover other programs. But as of the time of this research, interviews disclosed that in the hill town in Sichuan, payments were still too low to cover local cadre salaries, and it should also be noted that salaries in this town are 10 to 20 percent of the salaries for similar government positions in Jiangsu. There is an additional problem with money not getting to its intended function. In Sichuan, officials reported that old projects and old debts are still getting a large measure of any money that is placed within reach of township officials. We can say that past problems have been left far behind in Jiangsu Province and are being handled in the more prosperous towns in Liaoning, and even in some western regions; but the past is still an anchor for those who started their recovery at the same time, but without the capacity to effect significant progress.

By way of summary, the new socialist countryside is not a single policy or project but is best viewed as a strategic direction for China. Since it must be accompanied by

⁴⁶⁴ Source: Interview with a city leader in agriculture in central Liaoning Province.

significant institutional change, it appears self evident that the authoritative approaches of the past would not succeed, and neither would the mass movements that benefited some but ignored many. The new policy must also be treated as a *system* that is characterized by rules and norms that are new to many Chinese but that must become habit. The system that has worked best in the research towns includes the benefit of emerging technologies, a learning approach and applied creativity to the task of development, and a synergy between government, the people, business and the market. In much of rural China that has not yet been touched by China's rapid economic advance, the system must include support from above to increase development capacity, village by village.

Comparative Asian Development Approaches: Important lessons from the cases in Japan and Korea

China's latest approach to rural development was planned with the full intent to learn not only from its own experiences, but also from the good and not-so-good experiences of two of its close neighbors, Japan and Korea. This section compares the research findings from this thesis to those two states to identify whether the experiences of others can help China sharpen its predictions about the eventual outcome of its development strategy. There are important differences between the case in China and the cases in Japan and Korea, but they were chosen because of similarities in their Asian cultures, because of the similarity of their objectives to improve rural society, and because of how far they have advanced in their own development efforts. Despite the presence of lingering problems, both states have

become fully industrialized, modern, developed countries, a status that China still sees as a goal.

The case in Japan

Seventy percent of Japanese lands are forested and/or mountainous, and most agriculture takes place in the lowlands. The average family farm is barely a hectare in size (one tenth of a square kilometer). Despite their small size, Japan's farms are managed as a family business. In other words, Japanese farmers have left subsistence farming behind.

Japan's rural development strategy was called the "rural life improvement movement" and consisted of a broad variety of different approaches going back to the end of the Edo period and through the Meiji Restoration. (mid 1800s through the first decade of the 1900s). The post WWII rural life improvement has continued for the last five decades.

After World War II, beginning in 1945, the Japanese experienced twenty very difficult years of extreme poverty and near starvation. What surprised the world was how quickly the Japanese economy recovered after that slow beginning, and to what extent the country succeeded in bringing a large percentage of its people unprecedented economic benefits. The recovery was made possible by a combination of cumulative and progressive economic and social programs in which rural society

was a full partner.⁴⁶⁵

There were three programs that were initiated by the occupying U.S. army that laid the foundation for rural reform in Japan: rural democratization, the establishment of agricultural cooperatives: and introduction of the agricultural extension system.

The agricultural extension services were formed as part of the Agricultural Improvement Law of 1948. It was designed to tap into a community spirit characterized in rural Japan by volunteerism and mutual support, and it brought government resources in the form of designed experiments and research.⁴⁶⁶ In addition to rural life improvement and technology advancement, the extension services fostered rural youth organizations. Rural life improvement consisted of basic lessons related to sanitation, food safety, child care and other basic household skills. This kind of organized effort was new to Japan, replacing a pure productivity oriented approach that had focused only on agriculture technology. This approach was based on the belief that quality of life had to follow prosperity while the new approach was conditioned to address quality of life in parallel with agriculture as a business. It was undertaken in the belief that high productivity is not only a function of technology, but also the result of healthy and happy farm families.⁴⁶⁷

⁴⁶⁵ Hiroshi Sato, "Rural Life Improvement Experience in Japan for Rural Development in Developing Countries," in *Rural Life Improvements in Asia*, ed. D.A. Cruz (Tokyo: the Asian Productivity Organization, 2003).

⁴⁶⁶ Mieko Takaoka, "Rural Life and Extension Service in Japan," in *Rural Life Improvement in Asia*, ed. D.A. Cruz (Tokyo: the Asian Productivity Organization, 2003).

⁴⁶⁷ Masami Mizuno, "Rural Life Improvement in Contemporary Japan," in *Rural Life Improvement in Asia*, ed. D.A. Cruz (Tokyo: The Asian Productivity Organization, 2003).

It was recognized early in the rural democratization program that ancient social structures and cultural habits would make progress difficult and slow. Ingeniously, the program was narrowed to Japanese women who had long been severely repressed, and the democratization energy was focused on social reform. Female extension workers were directed to use every opportunity to visit rural household in their districts to convey in a one on one setting the knowledge and skills necessary to improve living conditions and rural health. The program was a manifestation of a change in thinking from top-down government subsidy and training mechanisms to a system in which help and guidance came from an independent and community approach.⁴⁶⁸

The female extension leaders were not expected to become leaders, and were not treated as such. They were instructed and encouraged to help other women become aware of the numerous problems that existed in daily rural life, and to recognize them as problems. Discrimination in education opportunities, for example, is not seen as a problem in some societies because that's just how things are. What the extension workers were bringing to Japan's farms is that those kinds of conditions come from mistakes about life and living and do not necessarily have to be perpetuated.

The workers quickly gained the appreciation of the households upon which they called because of the very practical and helpful nature of their contribution. They introduced a new stove, for example, that was inexpensive but more effective in providing heat for cooking and warming, while being safer, less wasteful and less

⁴⁶⁸ Ibid.

harmful to the air in the home. They introduced improved work clothes and sources and varieties of nutritious food. The approach of these workers was not to foist advances and change into farm households, but to identify the problems with the old techniques and offer a chance to try new ways. The workers could not be trained in all of the areas they might encounter, so they were also taught to be observant, to be good listeners, and to facilitate the diffusion of good ideas, wherever they were found. This approach served Japan well, since the archipelago has a wide variety of local conditions, and it was not practical for the central government to attempt to identify and make use of technology that could vary greatly from one island to the next.⁴⁶⁹

Initial contact between these female extension workers and a male-dominated Japanese village was expected to be difficult, so that contact was carefully orchestrated. The extension workers would be introduced by a familiar face from the next higher level of government. The workers participated in male-and agricultural technology dominated meetings to familiarize the men with the goals of the program and its official status. With this approach, village and township leaders were largely cooperative and helpful, and the nature of the initial contacts with farm households quickly dispelled any suspicions of undue government interference in anyone's home life.

As it evolved in practice, the Japanese concept of improvement was constructed around several important principles: minimize the need for money; put available

⁴⁶⁹ Sato.

resources to best use; and put groups to work on the problems.

The approach was therefore easy to deliver and easy to accept, which increased the chances of success. It was a grand experiment in comprehensive rural development and early use of a participatory approach that helped build social capital on a foundation of small successes.

In contrast to developing countries where group leaders monopolize information and knowledge and direct citizens in their work, it is interesting to note that this group approach *fukuden* was part of the job description of extension workers in rural Japan. Even when the opportunity for travel and for study tours was made available, members easily selected participants, not on the basis of rank or connections, but with the expectation that the person selected would be the best at learning from the experience and returning with useful information.

Two other talents were noteworthy in Japan's approach to development. Those involved were good listeners and learners, and thus made good use of external aid, and of incoming external resources. As an example, there was not enough milk to go around, and under similar circumstances, the resource is routinely hoarded by powerful elites and later turns up on the black market. The Japanese entrusted delivery to their resident groups who met and discussed the situation and distributed the milk according to need.⁴⁷⁰

The process of organizational development of rural life improvement in post-war

⁴⁷⁰ Mizuno.

Japan can be divided into three periods based on phases of system consolidation: the small district period (1951-57), the intermediate district period (1958-64), and the broad district period (1965-68). During the first period, livelihood extension workers themselves were exploring the definition of rural life improvement in their process of probing in the dark and they struggled as they formulated their plans and actions. The main activities that characterized this period included the improvement of cooking stoves, kitchens, water supply facilities and baths, food preservation, promotion of wheat flour use and consumption, insect control and the raising of small livestock to increase protein intake.

During the second period, and following the revision of the Agricultural Improvement Promotion Law in 1958 and overlapping with the launching of the so-called Agricultural Basic Law Administration, there was a trend toward part-time farming. A higher percentage of women and the elderly joined the farm labor force, and there was an outflow of rural youth to urban areas resulting in a reduction in available farm labor and an increase of the income gap between industry and agriculture. In this environment, harsh working conditions, health disorders and a declining quality of life became the norm, and the focus of problem-solving activity was quickly re-directed to the securing of good nutrition and dissemination of good work practices and healthy habits. The program was also expanded during this period to include special programs for the management of forests and fisheries.

In the beginning, group members did not come to meetings with a purpose, but

only considered them a social obligation. Many were hoping for outright gifts and technology, whether they really needed them or not. They were lazy about using their new skills, but in some cases treated them as an opportunity to demonstrate their superiority. They were constrained by the presence of leaders, and were mostly silent, keeping their information and opinions to themselves. As the successes began to pile up, however, these attitudes gradually changed to the opposite, in which they enjoyed working and learning together and helping each other. Meaningful dialog replaced rumors and gossip, and their position in society faded in importance.⁴⁷¹

The case in South Korea

Development programs in Korea did not so much evolve, as in Japan, but shifted with changing administrations. The 1960s was characterized by social development in which a specialist or councilor lived among rural villagers training and assisting them in identifying their own problems and developing solutions. This was a participatory approach that really signaled the very beginnings of the bottom-up approach to rural development.⁴⁷²

During the 1970s, rural development was termed the New Village Movement, or *nongchon saemaul undong*. In 1970, then President Chung-Hee Park instructed a national conference of governors and ministers to study ways and means of promoting rural self-help efforts based on cooperation among farmers, government agencies, and

⁴⁷¹ Ibid.

⁴⁷² Mi-Ryung Song, "Republic of Korea (2)," in *Rural Life Improvement in Asia*, ed. D.A. Cruz (Tokyo: the Asian Productivity Organization, 2003).

farm leaders. Based on this instruction, the central government drew up an experimental project, named the *Saemaul Undong*. This well studied approach was characterized as top down and bottom up. It emphasized villagers' initiatives and provided meager but welcome support in the form of materials and financial assistance from the central government. The programs focused mainly on roads and other infrastructure improvements, and on the upgrading of housing units. The end result was a spirit of self reliance in the solving of problems and managing of their own affairs. As a result of the successful implementation of the *Saemaul Undong*, Korea was recognized as one of the leading developing countries during the 1970s.⁴⁷³

The development of the *Saemaul Undong* approach occurred in four consecutive stages.⁴⁷⁴ The first was characterized as a foundation building stage that lasted from 1971 to 1973. It focused on the living environment including the replacement of thatched roofs, the widening and improvement of roads, the improvements of fencing and the construction of more bridges. These projects did not increase income, but they benefited the villagers and helped foster an attitude of sacrifice, cooperation and self sufficiency. During this period, per capita income in Korea increased from \$289 to \$396 (U.S. dollars).

Having successfully completed the improvement projects, villagers were then encouraged to take up income-generating projects such as joint or cooperative farming, common seedbeds, off-season vegetable cultivation, pasture development, community

⁴⁷³ Chang Soo Choe, "Republic of Korea (1)," Ibid.

⁴⁷⁴ Mi-Ryung Song, "Republic of Korea (2)," Ibid.

re-forestation, and the raising of pigs. This stage lasted from 1974 to 1977 and during that period per capita GNP rose to U.S. \$802 by 1976.

The third stage of *saemaul undong* lasted until 1979 and was focused on *spiritual enlightenment*. This stage was aimed at inducing and internalizing a spirit of diligence, self-sufficiency and cooperation and with a dedication to innovation. In 1979, South Korea's GNP reached U.S. \$1,647.

The final stage of the development of the *saemaul undong* began in 1980, following the assassination of President Park. One of the first moves of the new administration was the transfer of the *saemaul undong* program from the Ministry of Home Affairs to a government-affiliated private administrative body. From this point on, responsibility for planning and administering the program was gradually transferred to private organizations and people. It is widely acknowledged that the vitality of the movement quickly eroded following the third stage. Industrialization, meanwhile, continued to improve the income of the average Korean which climbed to U.S \$2,568 during this final period.

The good news was not to last, however. Dissatisfied with the overall results and facing continued rural complaints with political and social fall-out, the government took matters into its own hands during the 1980s and launched a top down approach in which specific areas were targeted for modernization and a generalized improvement of public services.

The 1990s are best characterized as a top-down modernization effort focused

upon industrialization. The government developed and executed development plans, rural industrialization, the development of industrial complexes and the creation of non-agricultural earning opportunities. The 1994 Rural Environment Rearrangement Act led to more rural infrastructure improvements and tourism development. The top-down approach to develop became solidly institutionalized, which meant that villagers stopped demonstrating their own initiative and have since looked to the government for plans and directions.⁴⁷⁵

Since this thesis involves a search for successful rural development techniques, and since Korea's *saemaul undong* program was highly regarded by scholars and practitioners alike, it is appropriate to include a more detailed description of its provisions. To begin, it is significant that the program began without a formal or theoretical framework. Government officials planned and implemented the project entirely on their own. Second, their approach was uniquely Korean, making use of mottoes, slogans and terminology that came from the heart of Korean culture and tradition. Third, it is important that the project was initiated as a consequence of the political will of Korea's president, and as the rural component of a national industrialization program. One of the critical forms of input into the *saemaul undong* program was the basket of government interventions and support. Fourth, the most important motivation to launch this program was to lead Korea out of poverty. When this program began, many Koreans experienced frequent cycles of near famine conditions. One of the first goals of implementation was to increase rice production in

⁴⁷⁵ Song Mi-Ryung, Ibid.

Korea's farms. Fifth, the *saemaul undong* program achieved much in the way of a spiritual awakening of rural Korea. The average farm family moved from despair to diligence, from dependence to self-reliance, and from self-interest to public cooperation.⁴⁷⁶

An important lesson arises from the realization that such programs as the *saemaul undong* are destined to peter out eventually. One of the reasons for a mutual lowering of interest in the Korean program was that people had come to enjoy an acceptable level of wealth and well-being.⁴⁷⁷

Attention to the spiritual dimension of rural development turned out also to be very important. Farmers gained not only new technologies but also a higher level of motivation and a higher degree of self-confidence which led to permanent and sustainable changes in basic attitudes, values and behaviors. This improved approach to farm life also included a feature that was seen in Japan, the value of group activities, joint projects, integrated planning and development projects and an important social component that replaced "I" with "We" in development activities. This closely resembles what is today recognized as community engagement and an enhanced capacity for development. The one step at a time approach is also considered important when compared with other assisted development projects which failed

⁴⁷⁶ Chang Soo Choe, "Republic of Korea (1)," Ibid.

⁴⁷⁷ Mi-Ryung Song, "Republic of Korea (2)," Ibid.

because villagers were asked to do too much too quickly.⁴⁷⁸

Comparing Notes

Rondinelli argues that successful rural development requires a strong national political commitment and substantial administrative and resource support.⁴⁷⁹ As we have seen in both Japan and Korea, those two factors were in play from the beginning, focusing first on filling the stomachs, secondly on filling the homes with consumer goods, and thirdly in filling peoples' minds with spiritual satisfaction. Despite these commonalities, it is evident that the mechanisms and leadership operated from different viewpoints, each taking advantage of national cultural and traditional mores and values to engage the population in the work.

In relating the Japanese and Korean precedents to the China case, we see several strong parallels. First, the commitment from the highest levels of China's leadership is always and everywhere in evidence. We are not dependent upon speeches to support this contention, but see it in a constantly increasing level of financial support and other programs such as the elimination of taxes and fees that could only come from the highest level of the party and government.

We can also see a community engagement function at work, and while we cannot say whether this is part of a plan or the natural offshoot of institutional change management, we can see its benefits in the more successful case villages, including

⁴⁷⁸ William W. Boyer and Byong Man Ahn, *Rural Development in South Korea: A Sociopolitical Analysis* (Newark: University of Delaware Press, 1991).

⁴⁷⁹ Dennis A. Rondinelli, "Administration of Integrated Rural Development Policy: The Politics of Agrarian Reform in Developing Countries," *World Politics* 31, no. 3 (1979).

those that have seen only modest success to this point. Rule changes such as the management of government finances by the next higher level of government has increased the risks associated with corruption, and when combined with financial incentives for cadres and officials based on achievements, rural leadership appears to be operating at a significantly more wholesome and transparent level than just a few years ago. In the more prosperous eastern rural communities, it was everywhere evident that prosperity is being spent on the right things, such as infrastructure projects, beautification, poverty alleviation, education, public health and social security programs. The spirit of self reliance and the satisfaction that comes with achievement has infected businesses that are now participating in and even leading development projects and footing the bill for improvements that are still difficult to fund officially. The donated police car is an example of this.

Peasants are no longer being displaced to second-rate accommodations, but relocated to attractive housing near shops and schools. The fruits of prosperity are thus standing in sharp contrast to post-war Japan, when resources were so poor that the entire program was fabricated around making do.

As in both Korea and Japan, rural China is the scene of a huge migration to the cities and industrial zones in search of work. Unlike the situation in either of those countries, some Chinese rural villages are so lacking in capacity that the government and in some cases industry and construction companies are cooperating to train farmers for better jobs elsewhere. Unlike the cases in Japan and Korea, China's

government is now assisting farmers with direct subsidies and with technology and equipment grants.

Unlike the situation in Japan, China's rural development has yet to extend its tentacles into many of its most remote and poorest areas, and in fact we have seen that many policies and programs appear to deliberately favor and reward areas that have reached higher levels of prosperity. Because much of the party's deliberations are held behind closed doors, it is not known whether skewing grants and programs to the better off is an intentional part of the improvement process, similar to the urbanization and industrialization that characterized much of China's early economic reform. By improving conditions where the task is easiest, the tax base continues to increase, making it possible to fund the much more difficult projects in China's poorest rural areas. Whatever the reason, cadres and officials in the poorest towns struggle just to solve basic problems such as the availability of good water, the construction of roads, electrification and sanitation.

China's development approach is comparable to Korea's plan to the extent that except for a few broad objectives there is no specific blueprint for what happens in the country. What is visible is a huge budget for the construction of highways and railroads to improve rural transportation in a big way, but the details appear to have been left to those doing the actual work in rural towns and villages. Again, it is not known whether it was part of the plan or a natural evolution, but Chinese rural communities are beginning to show signs of organization and cooperation comparable

to those seen in Korea and Japan. As the work progresses, villagers appear to be gaining more freedom: to choose what crops to plan, to organize, and even to leave their farms. Since they no longer owe agricultural taxes, their mobility is of less concern to local officials who once deplored the loss of tax revenues as the villages emptied. As rural villagers begin to succeed, they sometimes turn to the government for assistance, sometimes to business, and often take matters into their own hands. The lapse in education programs during the 1990s means there is a larger proportion of the population that is illiterate, however, so self-reliance takes on a different meaning depending upon the circumstances.⁴⁸⁰

We can see that the Chinese path is closer to the Korean than the Japanese in several ways. The program originated at the highest levels of government and was carried along with higher levels of financial and other kinds of support. In conversations with Chinese officials, there appears to have been a lack of respect for peasant skills and motives and an underlying assumption that any initiative would need to come from the top. As the fallacy of that proposition became evident in those areas that developed more quickly, it became more evident that the trust problem was actually worse in the other direction. The history of corruption and abuse meant that farmers had even less respect for their leaders than the leaders for them. Both of these attitudes are still visible in the poorer case towns. As work began in earnest, however, a more rational and pragmatic view, fueled by self-interest and meaningful assistance

⁴⁸⁰ Maureen Fan, "Illiteracy Jumps in China, Despite 50 Year Campaign to Eradicate It." *Washington Post* 2007, 19.

led to an improved atmosphere for the work of development.

There is much appeal in the Japanese post-war extension service approach that combined just a little government support and guidance with the natural abilities of neighborhood workers, and there is nothing similar in China. There are conditions even in the more successful towns that would be greatly helped by such lifestyle coaching. The state of public sanitation in the Liaoning village that has become a center for egg production, comes immediately to mind, but basic sanitation practices, water quality, food preparation and preservation, and cooking practices and implements are still in primitive condition in many rural households, as are the raising and care of children, home construction and maintenance, the maintenance of common areas and facilities, and the condition of roads, schools, irrigation facilities, and there are many other similar opportunities. A little paint would go a long way in rural Chinese villages. This difference between the Japanese and Chinese programs has left even many prosperous Jiangsu villagers just waiting to see what the government will do for them next.⁴⁸¹ This is the same experience seen in Korea during the last decade of their *saemaul undong* when rural villagers became “. . . passive recipients of the government programs and policies rather than active participants in their own affairs and decision-making”⁴⁸² This is a powerful lesson about sustainability that the Chinese should learn.

⁴⁸¹ "zuipan jinkuai zhifu zuipa xinzeng fudan" (Looking Forward to Being Rich at Most, Most Concerned About Burden" - from the Hearts of the Peasants in Jiangsu and Shandong About "Building a New Socialist Countryside) (XinhuaNet, March 29th 2006).

⁴⁸² Song.

A more subtle but important lesson the Chinese could learn from the Japanese experience is the set of very valuable communications links that were forged by the personal approach used by the extension services. The opportunity for mutual learning, for the dissemination of policy, the diffusion of technology and the real-time feedback from the people stands in stark contrast to the very impersonal government-people Chinese communications. The Chinese way is characterized by slogans and exhortation from the government, and only street demonstrations can stimulate communications in the other direction so that government understands the mood and needs of their citizens.

From Uphoff et al., we learn that if China's rural development is to be sustainable, the communities that are transformed must remain flexible and open to new information, ideas, and instructions. Economic, social, environmental and political dimensions of rural life are always evolving, sometimes for the better, but often not. For transformations to remain relevant and effective, they must be continually checked against new realities and updated appropriately. This makes learning both an essential short term goal as well as a long-term strategy.⁴⁸³ In the Japanese experience, extension workers as facilitators learned from local farmers; as teachers, they spread useful knowledge where it was needed most, and as intermediaries they were able to facilitate two-way communications between Japan's farmers and their government.

⁴⁸³ Norman T. Uphoff, Milton J. Esman, and Anirudh Krishna, *Reasons for Success: Learning from Instructive Experiences in Rural Development* (West Hartford, Connecticut: Kumarian Press, Inc., 1998). p.19.

If anything, the need for this kind of collaborative and communicative environment is more critical in today's China than it was in post war Japan. China's reality is part of a global picture in which farm households continue to be the basic unit of agricultural production in most areas, facing the economic and social conditions imposed through WTO, global competition, international standards and sources of financial policy that can easily boost their abilities or submerge them in a sea of bureaucratic red tape. China's bureaucracy has often been characterized, including in the background chapters in this thesis, as bloated. From the perspective of a rural household, this translates to a government with a bewildering array of agencies, policies, practices and representatives, all of whom see their work as of the highest priority and some of whom are still known to not be trustworthy. Subsistence farming may have been a terrible way to live, but at least it was uncomplicated. Rural cooperatives and peasant organizations are in their early development stage, just now becoming useful in helping their members negotiate the new global setting in which they find themselves, and there is a great deal yet to be learned, and there are no experts to help. Under these conditions it is apparent that farm-government synergy can become a significant catalyst for progress.

In both the post-war Japanese rural life improvement project and the Korean *Saemaul Undong*, cooperative joint development projects and attitudes were supported and nurtured by their traditional culture. In both cases administrative and voluntary organizations were encouraged and developed rapidly to create a medium in which farmer-government collaboration could take root. From the government's perspective,

such groups are highly efficient, permitting agents to reach a greater range of people with the same effort. At the same time, group dynamics is known to foster personal growth among its members, and the program in Japan helped heal gender discrimination wounds of very long standing as a bonus.⁴⁸⁴ Both the Japanese and Korean experiences offer much that is useful in learning about communications, coordination and cooperation among and between engaged farm households and their local governments who share responsibility for the betterment of their communities and lifestyle.

In post-war Japan, agricultural coops were called NOKYO, an abbreviation of *Nogyo Kyodo Kumniai*. They were a reorganized version of a semi-governmental system for control of war time provisions during and preceding WWII. Those were disbanded by occupying forces at the end of the war, but re-established as general agricultural cooperatives with responsibility for marketing, farm insurance, technology diffusion, credit management and other helpful services. They were organized into prefectural and national federations. At the top of the federation was a loose governing body that included the National Federation of Agricultural Cooperatives, whose primary mission was marketing; the Central Bank of Agriculture and Forestry to handle credit; the National Insurance Agricultural Cooperative Federation that handled life and casualty insurance; and the Central Union of Agricultural Cooperatives which handled representation and lobbying on behalf of farm

⁴⁸⁴ Sato. p.43.

interests.⁴⁸⁵

Because of severe problems approaching famines immediately following WWII, NOKYO was used by the government to monopolize the distribution of food products – especially rice to government food industries, and also to handle the distribution of seeds and fertilizers and other government rationed farming supplies. The basic feature of Japanese agriculture today in terms of a large number of small-scale owner-farmers, organized by the NOKYO, was thus framed through the postwar-reforms.⁴⁸⁶

The NOKYO has become one of the most politically powerful organizations in Japanese politics. It is a mammoth economic entity that provides almost every kind of service to rural areas. Although there are no legal requirements for farmers to join the NOKYO, all Japanese farmers belong to the organization. The NOKYO has a hierarchical, nationwide network. It has strong ties with the Liberal Democratic Party, which has run Japan's government for most of the postwar period. For its support of the LDP at election time, the NOKYO has been able to ensure that farmers' interests are protected.⁴⁸⁷

The Republic of Korea National Agricultural Cooperative Federation (NACF)

The following section devoted to Korean farm cooperatives is revealing in its description of all the activities and services a strong cooperative organization can

⁴⁸⁵ Ibid.

⁴⁸⁶ Yujiro Hayami, *Japanese Agriculture under Siege* (New York: St. Martin's Press, 1988). p.46.

⁴⁸⁷ The Changing Economic Performance and Political Significance of Japan's Agricultural Cooperatives (Australia-Japan Research Centre of the Australian National University, August 2001).

deliver. In 1961 after the military coup that seated President Park, the government of the Republic of Korea first organized the National Agricultural Cooperative Federation (NACF) from the personnel and facilities belonging to the former Agricultural Cooperative and Agricultural Bank established during the 1950s.⁴⁸⁸ Starting in 1971, primary cooperatives like NACF developed into multipurpose cooperatives by taking over some of the key business areas of the city and county cooperatives, including farm credit lending services, supply of fertilizers, chemicals, and cooperative insurance services. In the late 1970s, efforts were also made to promote joint marketing groups and to expand product distribution facilities, including collection points, warehouses and processing facilities. Retail outlets were also strengthened to expand marketing opportunities such as supermarkets. Beginning in 1981, agricultural cooperatives streamlined their three-tier organization (primary cooperatives, city/county cooperatives, and the federation) into a two-tier system, by placing the city/county cooperatives as branch offices of the federation. The agricultural Cooperative Law was revised to provide the legal ground for the present two-tier system and for the transfer of the livestock-related services to the National Livestock Cooperative Federation.

After the declaration of national democracy in 1987, member farmers wanted to democratize agricultural cooperatives. Opinions from member farmers, staff members, scholars and specialists were sought. As a result, member farmers could elect the

⁴⁸⁸ The information of the *NACF*, the Republic of Korea is from the website of this organization, : www.nonghyup.com

presidents of the primary cooperative directly under the new law. In addition, the president of the NACF, formerly appointed by Korea's President in accordance with the recommendation of the Minister of Agriculture and Forestry (MAF), now was to be elected by the presidents of the primary cooperatives. Under the revised law, the agricultural cooperatives gained more autonomy eliminating clauses restricting their self-control. The revised law greatly expanded the business scope of the agricultural cooperatives to include the brokerage business related to the sales of farm land, the transportation business utilizing trucks owned by the cooperatives, the banking business of the special cooperatives, the direct investment in related corporations, the diversification of the investment of the NACF's surplus funds and the abolition of the limit on credit guarantee as well as bill discounting. The agricultural cooperatives tried to affect government policy by lobbying on behalf of member farmers, particularly after the Uruguay Round Negotiations at the end of 1980. During the 1990s, the NACF continued to expand its cooperative services. To prepare for the anticipated influx of foreign competitors and to strengthen its own cooperative marketing, the NACF focused its retailing marketing efforts on the "Agricultural Marketing Complex" and engaged in both wholesale and retail marketing. In 2000, the market share of the cooperatives was about 40 percent of the entire food sector. The NACF had become the second largest commercial bank in terms of the deposit volume in Korea as of the end of 2000. The cooperatives also work on the improvement of rural welfare services, such as medical services, legal services and funeral services for member farmers and participate in activities for environmental

protection.

Implications for the Chinese case

A half century ago, as the Japanese and South Koreans were at work on their rural development projects, we have seen that communist China had just completed a land reform which was expected to end privation by giving China's farmers the productive assets that would enable the peasantry to sustain itself, finally free of the bonds of the landed-gentry class.⁴⁸⁹ In the following two decades, the state took ownership of all rural property and organized the farmers into communes that took responsibility for all aspects of life and farming in "expanding organs of economic cooperation, slowly increasing in size, complexity, responsibility and degree of socialization."⁴⁹⁰ After decades of mixed successes and failures and a generalized weariness about the high degree of regimentation, Chinese peasants rejected the communes in favor of household farming. For 200 million smallholder farms, traditional patterns of agricultural production and marketing had become less and less viable. Carting small quantities of vegetables to a local market for a little cash was replaced by a battery of wholesalers, distributors, storage and transportation companies, specialized cleaning and packaging specifications, tighter control over the use of chemicals, complex legal requirements and a host of WTO and other global forces. Smallholder farms are at a

⁴⁸⁹ John G. Gurley, "Rural Development in China," in *Employment in Developing Nations : Report on a Ford Foundation Study*, ed. Edgar O. Edwards and Ford Foundation. (New York: Columbia University Press, 1974). p.389.

⁴⁹⁰ Benedict Stavis, *People's Communes and Rural Development in China, Special Series on Rural Local Government ; No. 2* (Ithaca, N.Y.: Rural Development Committee, Center for International Studies, Cornell University, 1977). p.48.

considerable disadvantage in this new agrarian model.

The most important basket of solutions to this kind of farming problem is likely to be found in the farm coop models seen in Japan and Korea. It is estimated that about 3 percent of all Chinese farmers were at least nominally members of some type of farm association by 2003. It is known that membership in such organizations has increased since that time. For example, by the middle of 2006, there were 6,260 different professional farm associations with a membership of 1.94 million peasants, accounting for nearly 20 percent of the total farmer households.⁴⁹¹ It is apparent that in this trend, Jiangsu is ahead of most Chinese provinces, so that total membership nationwide remains quite low. Additionally, we have seen that many Chinese farm associations are in their early stages of development and not yet functioning to the full benefit of their members. Many, such as the informal association that has sprouted to help Liaoning's chicken breeders, are doing little more than market networking.⁴⁹² These statistics suggest substantial potential for the future of Chinese farming, and the list of services that we have seen in Korean and Japanese associations aligns very well with what China's farmers need most. While China's communist party presents itself as representing all workers and peasants, it is difficult to estimate how long it would take to develop the expertise and resources to do for China's rural communities what dedicated farm organizations can provide.

⁴⁹¹ Zhou Jingwen, "Law of Farmer Professional Associations Evoke Strong Repercussions in Jiangsu Province," *Xinhua Daily*, Nov. 2nd 2006.

⁴⁹² Xian Yun, "*nongcun jingji hezuo zuzhi jidai wanshan*" (Rural Economic Cooperatives Urgently Need to Be Improved)," *Anhui Daily*, Aug. 9th 2006.

While farmer organizations are visible at the local level in nearly every case town in this research, and while such organizations have been formally sanctioned by both the party and the government, there is as yet no peasant association that is operating at the national level. There is certainly no organization in China that can compete on a level playing field with the Japanese NOKYO or the Korean NACF.

Whether China's peasants need a national organization is a matter of opinion, two of which are expressed as follows: there are Chinese scholars on record as having said that grassroots farm organizations are inadequate. Local organizations need external resources, and only when they arrive from higher levels of government can they operate at all. They are limited in their ability to maintain a competitive marketing presence at the national and global level, and they lack the kind of networking and financial resources that can support high level marketing effort. They are extremely limited in the services they can provide, and none can equal the menu of services available to Korean and Japanese farmers. These same scholars acknowledge that the prohibition of a national farm organization stems from the old party view of competing organizations and interests and antagonistic tendencies that can upset the political order.⁴⁹³ It is clear from the Japanese case that farm organizations have the potential to create a powerful political movement, fully capable of competing with the communist party in a meaningful way. It does not take a long memory to recall that there are 800 million peasants, and it is that peasant population that has repeatedly

⁴⁹³ Chen Sulan, Zhang Haiyang, and Fan Xiaoping, "*nongchan chanyehua yu zhengfu zhineng zhuanbian* (Agricultural Industrialization and Transformation of Governmental Functions)," *nongcun jingji wengao* (Rural economic essays), no. 9 (1999).

unseated emperors and governments throughout Chinese history. On the other hand, the Korean NACF is an example of how such an organization can work cooperatively with a national government, can remain professionally apolitical, and can become an important channel for communications between a large segment of the population and its government.⁴⁹⁴

A second view of national farmer organizations is well represented in a World Bank report. The report expresses the opinion that organizations aimed at promoting the interests of farmers will be most effective when all members share common interests and aspirations, and if they come together to solve problems faced in common. When organizations are made up of members with widely disparate or even conflicting interests the purpose and focus of the organizations becomes blurred, the weaker members of the organization fail to gain their equitable share of the benefits, and the organizations become unsustainable. Therefore, the development of farmer-owned and controlled organizations are best when they begin within small areas but can eventually lead to federations of organizations to promote the interests of members on a larger scale and at higher levels. The main point, however, is that such federations should be allowed to develop bottom-up, in response to the needs of the organizations and members themselves, rather than be imposed from the top down. Due to the nature of the contemporary rural society in China, the strong intervention of local government is inseparable from economic development. It is believed that one

⁴⁹⁴ Shi Lei, "*sannong wenti de zhongjie: hanguo jingyan yu zhongguo 'sannong' wenti* (The End of "Three Dimension Agricultural Issues: Experiences of South Korea and China) (Nanchang: Jiangxi People's Press, 2005).

of the key issues, and a matter of considerable debate in China, is the nature and extent of the role of government in the formation, development and operation of farm organizations.⁴⁹⁵

The research that supports this thesis has reported evidence that local farm organizations are performing important services for their members, at least on a local scale. They have provided research and links to higher-level markets, have created bridges to rural financing, and are showing signs of political influence. The manifestations of that growing power are better characterized as cooperative and collaborative rather than threatening to either party or government leadership. Whether higher level organizations or federations can sprout from the existing local organizations is a matter of conjecture. In contrast to the Korean and Japanese democratic societies, China still has a strongly centralized, hierarchical political system. Democracy is a difficult topic for the Chinese, and particularly difficult for Chinese peasants. In rural China, democracy means elections for village leader and sometimes opening of the accounting books for villager inspection. Even this limited exposure to democratic principles has left China's farmers with mixed feelings about the results, and uncertainty, or at times indifferent to the long term effects of an expanding democratic system. They simply do not have the kind of experience that would have prepared them for forming and managing their own independent organizations. In comparison with the democratic institutions in Korea and Japan,

⁴⁹⁵ China - Farmers Professional Associations Review and Policy Recommendations, (Washington, DC: The World Bank, 2006).

such as compulsory education and open media networks, Chinese society is in the very beginning stages of citizen involvement in government and is being led by a party still uncertain about whether it wants more, and often expressing the sentiment that it already has enough.

From their beginnings after WWII, young Koreans and Japanese were educated and encouraged to follow the advice of their government, but were also encouraged to think for themselves, and the open dissent often seen in both these countries provides strong evidence that it has become acceptable to criticize government and actively work for improvement. Young people in both countries are extremely conscious of their own autonomy, their distinctiveness, and their ability to make big changes. In Japan “Most of the opinions . . . expressed in speeches or in newsletters were broadly in accord with official policy, but the potential for a more critical stance toward the government of the day and toward village politics was being created and, with it, one of the bases for the up-welling of ‘rice roots’ democracy in rural Japan in the 1920s.”⁴⁹⁶

The case of the Republic of Korea provides another useful historical experience. The Republic of Korea experienced substantial economic growth without widespread sharing of its benefits among the rural populace and without decentralization of power to local government. Before *Saemaul Undong*, the NACF was just a bureaucratic

⁴⁹⁶ Tsutsui Masao, "The Impact of the Local Improvement Movement on Farmers and Rural Communities," in *Farmers and Village Life in Twentieth-Century Japan*, ed. Ann Waswo and Nishida Yoshiaki (New York: RoutledgeCurzon, 2003). p.74.

institution under highly centralized political regime. Its policy-making and organizational operation had almost no voice in local and grassroots farmer associations. Although the NACF aimed at increasing agricultural productivity, improving farmer households' socioeconomic situation and improving farmers' education and scientific knowhow, it often performed as a governmental agent and served primarily the interests of government. Its bureaucratic way, especially official corruption and abuse of power, upset the farmers. With the emplacement of the *Saemaul Undong*, the NACF administration was greatly improved, and official corruption was quickly curtailed. The reason for success is obvious; because the *Saemaul Undong* was a mass movement, farmers all over Korea helped to supervise the operation.⁴⁹⁷

Turning back to the case in China, in this field research, the party and government intervention is everywhere, and the results are often positive. Under such a highly centralized political system, even if an independent farmer association were to develop at the national level, it is difficult to imagine it could work unless it becomes integrated into the government. Whether it emerges from the top-down or the bottom-up will not matter unless the political culture changes to accept a greater flow of bottom up information. Just as is true for the rest of China's civil society, education and information are keys to creating a readiness to participate, and also key to transforming a government that no longer considers itself to be the fount of all useful knowledge and ideas. In the meantime, local farm organizations have been learning

⁴⁹⁷ Boyer and Ahn. p.22.

how to link themselves with other operations, agencies and institutions from which they can seek help for their membership. This is a need that exists in China, as we have seen, and a need that cannot likely be well managed by the party or the government.

Both the post-war Japanese rural life improvement program and the Korean new village movement have provided solid evidence that the Chinese new socialist countryside can become a reality but cannot be built overnight.

Chapter Nine

Conclusions

This last chapter summarizes the analyses and arguments that have emerged from this research project. The binding theme of this project was a search for the specifics of how China's rural transformation is being managed – today. China's farmers have been essential to all of the regime changes in its long recorded history, and the communist takeover in 1949 was no exception. The promises of that revolution were a just and egalitarian society, an equitably shared prosperity, and an end to the oppression of China's vast worker and peasant classes. The promise is yet unfulfilled. It's not that China's Communist Party has not been trying to deliver – it's that in a land with such an enormous population and an overwhelming backlog of work to be done, there have been missteps, new external and internal challenges and priorities, and changes in strategies and plans along the way.

The Peoples' Republic of China is now nearly six decades old. After the first three decades of mass programs, a fixation on ideological inundation and a mix of

progress and stumbling, a second revolution took place in the form of a major economic shift. Accomplished without bloodshed, this reform has nevertheless cast the nation and its people in an entirely new mold – the Chinese Communist Party took the historical step of leading the way to a market economy. Part of the plan was a very conventional policy of extraction from hundreds of millions of farmers to drive the industrialization essential to China's progress. Contemporary China is a product of that strategy. Industrialization has created an economic miracle of unprecedented proportions. China has a large and growing middle class that has achieved moderate prosperity. And 800 million Chinese farmers have been left in the dust on the side of the road.

For nearly six decades, China's party and government have tried to lessen the burden for the rural sector, and there have been significant victories along the way. The problem is that for hundreds of millions conditions have never been worse than they were at the end of 2003. The only good thing that could be said of that disadvantaged class is that they were not dying in large numbers due to either internal strife or international war. They were otherwise an oppressed group in every sense of the word, and with little or no social services, including public health and welfare, with the costs of farming increasing faster than the market prices of their produce, there was little reason for optimism. Their station had been institutionalized, and institutions are notoriously difficult to change. To add to their misery, China's farmers had been subjected to increasingly aggressive tax collections, to land seizures, and to the corruption of their local officials as a result of mismanagement out of Beijing. The

misbehavior of local officials can probably be said to have been an important step toward change, because it finally became so bad that rural Chinese began taking to the streets in large numbers to protest. Public protests led the party and the government to address the need for change, and it was not difficult to identify the root causes of the problem. The combined effects of decades of extraction stood naked in the light of new studies. Impoverished farmers led by impoverished local governments were behaving exactly as could have been anticipated. New policies were needed and new programs to counter the effects of previous policy and to rebuild a healthy rural society.

China's new leaders took the reins of government in the spring of 2003, determined to accomplish what had been impossible up to that time. This determination and all the commotion it generated in both Chinese and world media became the central issue of this research project with the question that all Chinese and many in the rest of the world were asking: Could the party and the government succeed in creating a fair, balanced society? It was not only a matter of justice – Hu and Wen recognized it was an issue of overarching importance to the future of the country. If China could wrest economic prosperity with only 30 percent of its population being productive, what could be accomplished by 1.3 billion *productive* Chinese?

With this background in mind, this research project emerged in a series of explorations. The picture necessarily had to include an understanding of new policy. Policy development in China is not easy to study as it takes place behind closed doors

and is revealed only in sound bites. What was really going on behind the rhetoric about harmonious societies and a new socialist countryside? What is the grand strategy, and how will it be deployed? Since mass programs had not worked, will the new programs acknowledge and work with individual community environments to create prosperity? Would the inequities of past incentives be altered so that the farmers who had been shouldering the burden for all of Chinese society could now become net recipients of development resources? Could the policies that led to rampant government abuse be altered to stimulate an attitude of public service? Taken together, these and other variables would enhance or diminish the probability that this time the government could effect real change – the final chapter which cannot be written for years or even decades to come.

Policymaking in China

Our look at China's recent history showed that for our purposes, we can separate the last 60 years into two roughly equal periods, the first of which was characterized by the ill-fated communes, and the second of which began with the farmer household responsibility system. Both periods represented massive economic, social, and political adjustments from previous periods; and both had their successes and difficulties. Whatever happened in both periods was not an accident, they were the product of careful planning and a very strong display of centralized power from China's communist party and government. Both periods were also woven into the fabric of Chinese society, so that at least in the early stages, there wasn't plenty, but

what was available was equitably distributed. Both periods also had in common a strong policy of extraction to support urbanization and especially industrialization, an approach to modernization that was entirely conventional and undertaken in the full knowledge that China's farm households would face difficult circumstances until industrialization created sufficient wealth to reverse the flow of revenues to the farms instead of away from them. From those examples of success and also from the failures, China's first sixty years provided important lessons for China's leaders and scholars as they readied their newest plan for its unveiling.

After sixty years of aggressive extraction, China's latest Five Year Plan (2006 – 2010) was developed in an environment where the Beijing coffers are comfortably full and there is widespread agreement that this time the government can approach an integrated view of Chinese society – adjusting practices to begin balancing the wealth. The goal is to guide China to the achievement of a harmonious society. Because of past policy, this new direction necessarily must improve conditions in rural China – in the Government parlance, that's building a new socialist countryside.

In order to achieve these lofty goals, we have seen that the government is willing to spend real money and dedicate its considerable resources to the task. We have also seen that the new policies have been reaching rural communities where the range of results include the full spectrum from little change and little hope for change all the way to significant improvements in reducing the income gap, in improving living conditions, and in the availability of important public goods. These changes have

come at the hands of many different actors, and the players are different in every town, but have variously included local party members and leaders, local governments, government agencies, businesses, new farm organizations and the farmers themselves. Although progress seems terribly slow in many of China's poorest rural communities, it has seemed a blur in those with greater development capacity, whatever the nature of that capacity.

This round of policy changes has been seen to follow different trajectories in different areas during the implementation process, which is indicative of a decentralization of sorts, and an integrating interaction between what is happening at the street level with what is being written at the policy level. Because they are interactive and integrated, we did not find much of the policy-implementation dichotomy of which Laswell writes.⁴⁹⁸ Although the process is not instantaneous policy adjustments are made as a part of the implementation process indicating some functioning level of collaboration and coordination during the implementation process.⁴⁹⁹ The reason implementation works this way in China is because the

⁴⁹⁸ Harold D. Lasswell, "The Decision Process: Seven Categories of Functional Analysis," in *Politics and Social Life; an Introduction to Political Behavior*, ed. Nelson W. Polsby and Paul Alan Lawrence Smith (Boston: Houghton Mifflin, 1963), Harold D. Lasswell, *The Decision Process; Seven Categories of Functional Analysis* (College Park, Bureau of Governmental Research, College of Business and Public Administration, University of Maryland, 1956).

⁴⁹⁹ Michael Lipsky, *Street-Level Bureaucracy: Dilemmas of the Individual in Public Services*, Publications of Russell Sage Foundation (New York: Russell Sage Foundation, 1980), Lipsky, Dennis J. Palumbo and Donald J. Calista, "Opening up the Black Box: Implementation and the Policy Process," in *Implementation and the Policy Process: Opening up the Black Box*, ed. Dennis J. Palumbo and Donald J. Calista (Westport, Connecticut: Greenwood Press, Inc., 1990), Dennis James Palumbo and Donald J. Calista, "Introduction: The Relation of Implementation Research to Policy Outcomes," in *Implementation and the Policy Process: Opening up the Black Box*, ed. Dennis James Palumbo and Donald J. Calista (New York: Greenwood Press, 1990).p.11; F. Lazin, "The Study of Policy Implementation: Lessons from Israel's Project Renewal," *Governance*, no. 8 (1995).

government and party are cautious about major changes, and therefore experiment in some areas and gradually expand programs to the extent they appear to be working. This is how the household responsibility system came about, and it is how the zero burden tax policy was implemented. By the time Beijing was ready to drop the agriculture tax altogether, decision-makers had the benefit of opinions from scholars, think tanks, local governments and grass-roots party organizations in addition to the street marches that called attention to the problem to begin with.

Although improvement has yet to reach into rural China's poorest corners, we must acknowledge that something good must be said for a program of policies and actions that is having such profound positive effects in places it has touched. That the matrix of policy provisions permits the growth of the kind of community engagement and collaboration that is visible in some places is either good evidence of a sound program or a testimony to the abilities and will of the people it has touched. In either case, the effects are heartening.

Implementation process

Another example of policy adjustment on the run is the poverty relief program in which China's poorest receive subsidies. The early versions of that policy had the money descending through the hierarchy, with everyone handling it siphoning off a little. In the current version, the money goes directly to the peasants in a process that is quite transparent and easy to manage. To assure the correct outcome of policies such as this one, the government publicizes them on every available media, assuring

that policy targets are aware of their rights and benefits and knowledgeable about where to complain if the results do not match the promises. As a result of measures like this one, many policies have dropped out of public consciousness and are now simply taken for granted.

This doesn't mean that all programs are fair and equitable. The dark side of the picture is visible in the program allocation process, where vestiges of the days of rampant corruption are still in the picture. Programs arrive on the scene in China from many different sources – many from different Chinese government agencies, but also from international development aid agencies. In order to influence the allocation of resources, many jurisdictions have offices in the capital to compete, and often the decisions are based not only on the grant qualifications but also on “contributions.” In fact the decisions still take place in a “black box” and no one is quite sure where the money really ends up. The Chinese have a saying to describe the situation: “*shangbian xiayu huahua de, xiabian yishan gangan de*” which means it's raining hard at the top but here at the bottom our clothes are still dry.⁵⁰⁰

On the other hand, observations in the case towns reveal that assisted self-reliance is working. Peasants have shown the initiative and aptitude to organize themselves to identify opportunities for the improvement of livelihoods, homes and villages, and are able to open discussions with governments and businesses that have the resources to help. Local governments have learned where to look for resources

⁵⁰⁰ Source is an interview with a farmer in Gansu, but there were similar stories in other locations.

and how to use their contacts to best advantage. It is a good sign that local governments defer to the capable management of business persons in many cases.

In the poorest case towns, there is an air of abject dependency. They lack the resources upon which to build: they lack the support and encouragement of the government: and they lack the vision and initiative to identify their own opportunities. These are the ones who leave for the cities, factories and mines where they can forget about their farms. In all fairness, the impression one gets in some of these areas is that no amount of creativity could make a difference, and it's a wonder people still occupy that space. Visible everywhere is the detritus of wasted lives – homes built of scrap materials, no water or sanitation facilities, no public health services and because there are still no schools, there are no prospects for their progeny. It's possible there are formulas to transform that landscape, but the inescapable conclusion that comes from a first hand look at some of these places is that they are simply not habitable. There is nothing upon which to build a civic society, and even if one sprouted unbidden, there wouldn't be much for it to do. It is clear that without government investment nothing will change. What we are left to ponder is whether a top-down intervention, the only feasible kind, can make a difference among a population in this condition – illiterate, unhealthy, and demoralized. The evidence tells us that among the indicators of capacity, human capital is one of the essential ingredients. What the research does not reveal is under what conditions it is possible to develop human capital. There is another Chinese saying that even if the roast duck flies in front of you, you will still need to reach out and bite it.

Another factor with which this research cannot help is how much of rural China is in such desperate condition. For China's most remote rural villages, the day of mass programs is over. Each will need to be evaluated for capacity, village by village, and decisions will need to be whether and how capacity can be enhanced.

Development capacity

China's current rural policy appears to work in integrating top-down and bottom up efforts in some towns but not in others. What is argued in this concluding chapter is that we can account for the difference through an assessment of development capacity. Towns and villages such as those in Jiangsu that were on the road to prosperity just a short time following the unleashing of market forces were characterized by a high development capacity. There was a combination of good soils, nearby markets, industrial complexes, and transportation facilities that made progress virtually spontaneous. We have seen that farmers could organize, could work with governments and businesses and could make full use of their endowments to attract investment, find alternative work, consolidate their lands, develop alternative farming techniques and crops and very quickly create a comfortable environment in which to live and work. There is work to be done in caring for the environment, reducing energy dependency, managing water resources and controlling air and water pollution, but in this kind of prosperous environment, the combined forces of government, business and a civic society can make progress and has been doing so.

Obviously development capacity is variable, and when it became evident that a

bottom up approach to rural development had stagnated after improving the lives of a small percentage of China's farmers, the government became involved to work on an integrated approach. With additional guidance and resources, towns and villages were able to pull themselves out of poverty. The task was not as easy in these cases, but the programs carried sufficient resources to permit real progress. The successful case towns in Liaoning, Gansu, and Sichuan are examples of that, as they responded well to technological improvements and some creative experiments with crops and/or farm animals. Once again, however, the starting point was a level of capacity that could sustain an improvement drive, as long as it was well led and supported. This second wave was driven by new links – between peasants and their local governments, businesses and both domestic and international aid sources. At this level of capacity, the case towns demonstrated organization as being of great importance. It is organization that provided a foundation upon which leaders can act, linked the actors, disseminated technological advances, learned and spread market information and lobbied banks, agencies, international aid groups and anyone else who would listen to the benefit of their membership. Where development progress was more difficult, organization made it possible.

What was not seen in the case towns and villages was a deliberate attempt to evaluate and improve capacity. There were attempts to improve motivation, for example with grain subsidies, but those subsidies did nothing for those attempting to farm on arid hillsides. There were attempts to improve productivity by supporting equipment purchases and developing new and inexpensive machinery, but those

initiatives, while well intended, did nothing to improve capacity in small rice paddies where the machinery doesn't work. If you ask farmers in those kinds of areas what they need, they are at a loss to answer. Things are today the way they always have been – why would anyone decide now to call that a problem? It is very clear that for several hundred million farm families, their situation requires careful examination and expert diagnostics. It is also clear that only government and a very few international aid agencies possess the resources to make a significant difference. Even if there were talented leaders still available in the hill towns of Sichuan and Gansu, whom would they lead, and what would they lead the people to do?

Ups and downs in Chinese government

We have seen that administrative reform at the local level appears to be helping local leaders to become public servants, and the government has been attempting to deal with its top-heavy structure with reductions and consolidations. Unfortunately, the CCP still has a robust hierarchy within which communications flow out and down but where feedback is very strongly filtered. China's poorest farmers are well represented at the top of the pyramid, but largely disenfranchised within all the other layers and agencies within which decisions are still made inside of black boxes.

For better or worse, peasants who want to be heard have only public demonstrations as a reliable channel through the ranks and to the top. This approach often has tragic consequences for the demonstrators, but works as a communications tool because the CCP government prizes stability above nearly all other national

values. Since the cadre evaluation system places a high premium upon the ability to prevent public unrest, and also attaches strong disincentives to cadres who lose control, the mere threat of demonstrations has a measure of power with local governments. This source of power can be very effective to deal with local issues; and if problems continue and the unrest reaches the streets and captures media attention demonstrations also become a wedge into higher levels by seemingly calling into question the legitimacy of the party...

There was enough history of self-serving cadre behavior in the case villages to have left a residue of mistrust among the farmers; but it was also the case that peasants knew how to manipulate and milk the system to their own advantage, also in full disregard of the law. There is the example of peasants signing away their lands in frustrated surrender to poor farming conditions and high taxes, and then returning to reclaim the property when taxes went down. The intent and meaning of contract law certainly resides in the heart of the contracting parties in China. The returning farmers created legal chaos when their former farms had already been leased to commercial farming enterprises or developers. This kind of clash meant that mistrust continues to work in both directions within farming communities. Several officials expressed the opinion that things will only get better when peasants change their ways to become more cooperative and understanding. Interviews also made it evident in many cases that when farmers become cadres they cross a line that affects their attitudes and loyalties toward the people who were formerly neighbors but have become adversaries.

In the mid 1980s, the CCP organizations in the countryside were strengthened to provide direction and control over a population that sometimes seemed restive. The strengthened rural party had an inhibiting effect on peasant self-organization. While party members played an important, positive role in promoting rural change, the results varied greatly from one location to the other, as we have seen, and there is no denying that the party's heavy-handedness during the era of the communes and mass movements left a trail of cynicism and sometimes fatalism in its wake. When coupled with the reality that there is no tradition of participation among China's farmers, (chapter five), and since the party still wields a great deal of power, the social capital dimension of development capacity remains a difficult challenge in many parts of rural China. Even where leadership and organization have a chance to emerge in a rural town or village, the patriarchal style of the party-government often stifles or ignores them. The end product of this collection of forces has led peasants in many areas to become very passive, simply awaiting the government's next programs. China's experiences with public participation and dependency are not unique, as we have seen in the literature that describes rural development in Korea. What we saw in Korea, however, was that even in areas where public spirit emerged and did well, a renewed top-down paternalism quickly smothered it. It seems as though social capital is as easily repressed as it is difficult to engender.

A key difference between China's rural development experience to date and the experiences of Korea and Japan is the very powerful role of farm organizations. In both of China's neighbors, farm cooperatives have played a vital role in every aspect

of farm life, including political representation, marketing, finance, insurance, and other important contributors to rural success. They represent their members in international organizations like the WTO in addition to speaking for farmers and farming at all levels of government. These coops are a part of the picture of integrated top-down and bottom-up communications and collaboration that is still missing in China where the party still claims it can represent everyone.

The question that still looms is whether and to what extent Chinese farmers can push for national level organization. The need is apparent, but in the spirit of choosing one's battles, it is perhaps prudent to stick to local issues for the present. Even if farmers succeeded in creating a national farmers' cooperative organization any time soon, under the current political climate, such an organization would quickly become a branch of government, badly compromising its ability to serve, as we have seen in Korea.

Much of what is essential to real progress in China must await a shift in political culture. Without change, we have seen that Chinese administrators will continue to face difficult and sometimes impossible conditions that affect their ability to serve the people. Without change at the top layers of government, change in the lowest levels will not mean much. Without change, the voice of the farmers is not effective in collaborative communications, neither through the hierarchy, nor through the media. Without change, China's officials who continue to manifest a negative bias against the rural population will not have the opportunity to open their eyes to new realities.

Without political change, there is little chance that officials will be held accountable, both to their upper levels of government and to the Chinese farm communities. These are conclusions that are wearying for anyone hoping for a good outcome. With enough might and sufficient resources to throw at the problem, China's government may create a veneer of prosperity, but we must still question its sustainability if it remains as strongly paternalistic as it seems today. The rigid control and trigger-happy suppression of criticism is a constant reminder to Chinese scholars not to become too optimistic about China's development prospects.

Contribution of the research

Although it was hoped at the outset that the wide variations in local conditions in China would provide cases of international value, what is evident from the case studies is the overriding importance of the unique characteristics of China as a nation, and of those towns and villages being studied in particular. An important variable affecting generalizeability is the structure of political institutions, which are unique to China.⁵⁰¹ According to Putnam, institutions shape politics "The rules and SOPs that make up institutions leave their imprint on political outcomes by structuring political behavior."⁵⁰² In the same context Ashford asserted that governments will neither enact nor implement policies contrary to the interests of their "political constitutions."⁵⁰³

⁵⁰¹ Merilee Serrill Grindle, *Politics and Policy Implementation in the Third World* (Princeton, N.J.: Princeton University Press, 1980). p.15.

⁵⁰² Robert D. Putnam, Robert Leonardi, and Raffaella Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, N.J.: Princeton University Press, 1993). p.7.

⁵⁰³ Douglas Elliott Ashford, *Comparing Public Policies: New Concepts and Methods* (Beverly Hills, Calif.: Sage Publications, 1978).

China is ruled by a unitary party in a stoutly centralized authoritarian regime. The party's paramount role in leading the Chinese in overall political, economic, and social change is confirmed by the Chinese constitution. This tradition goes beyond the Wilsonian Policy-implementation dichotomy, because party and government constitute one governing body. Today the Chinese are holding well-publicized public hearings on some topics, though with the party's lack of transparency it isn't clear to what extent participation is affecting policy development. Lack of transparency at the legislative end of the process also denies us the ability to determine whether the discretion left in policies and regulations are a genuine attempt to become less rigid, or are simply points upon which legislators could not reach agreement. This is not a fine point – intentions matter in policy implementation.

In China's system which contains virtually none of the Madisonian defenses⁵⁰⁴ against the centralization of power, the forces of localization still strain the bonds of authoritarianism. There is a long history of policy manipulation at the local level, and the peasants have also demonstrated the ability to push, pull, and twist policy to their own ends. That's the problem with top-down implementation as Pressman and Wildavsky reported it,⁵⁰⁵ and also demonstrates the chaos that exists in the Lipsky

⁵⁰⁴ Barbara Ferman, "When Failure Is Success: Implementation and Madisonian Government," in *Implementation and the Policy Process : Opening up the Black Box*, ed. Dennis James Palumbo, Donald J. Calista, and Policy Studies Organization. (New York: Greenwood Press, 1990). p.39-50

⁵⁰⁵ Jeffrey L. Pressman, Aaron B. Wildavsky, and Oakland Project., *Implementation: How Great Expectations in Washington Are Dashed in Oakland; or, Why It's Amazing That Federal Programs Work at All, This Being a Saga of the Economic Development Administration as Told by Two Sympathetic Observers Who Seek to Build Morals on a Foundation of Ruined Hopes*, The Oakland Project Series (Berkeley,: University of California Press, 1973).

view of the street level bureaucrat.⁵⁰⁶ Out of all the vectors at work on policy implementation in general, both the literature and this research reinforce the idea that end results remain difficult to predict, and can be expected to vary wildly from place to place.

Beyond politics, market economic reforms have led to some areas of significant decentralization, (such as land management, local tax structures, and business investment regulation), but always cautiously and always following localized experimentation accompanied by continuous adaptation and adjustment.⁵⁰⁷ In this implementation process, where our case studies turned up evidence of citizen participation, the studies affirmed the importance of such engagement to the possibility of significantly improving living conditions. As we have seen, however, it was not clear whether prosperity was a cause or an effect of such engagement. While local actors may not have had a great deal of initiating power, they demonstrated considerable input as adjusters and coordinators in these more prosperous communities.

The effect of public engagement on policy implementation calls into question the divide articulated by Pressman and Wildavsky and others between policy formulation

⁵⁰⁶ Lipsky.

⁵⁰⁷ Lazin.

and policy implementation.⁵⁰⁸ Their model accepted a paradigm that came from Harold Lasswell⁵⁰⁹ that described a gap between policymaking and implementation that does not necessarily occur in the real world.⁵¹⁰ Yanow⁵¹¹ rejects the idea that there is one best way to study implementation, and Elmore also said “it is less important to agree on a single framework for analyzing implementation problems than it is to be clear about the consequences of adopting one framework over another.”⁵¹² This research into China’s development policy adds several important dimensions to the views of those authors. The top-down and bottom-up models and problems⁵¹³ may work to describe some policies, but they do not provide adequate explanations for development policy in China; so the question is not: should China’s government and party employ its authoritarian regime to impose policy, as they did from 1949 until

⁵⁰⁸ Robert T. Nakamura and Frank Smallwood, *The Politics of Policy Implementation* (New York: St. Martin's Press, 1980), P.A. Sabatier, "Political Science and Public Policy," *Political Science and Politics* (1991), P.A. Sabatier, "Top-Down and Bottom-up Approaches to Implementation Research: A Critical Analysis and Suggested Syntheses," *Journal of Public Policy*, no. 6 (1986), P.A. Sabatier, "Toward Better Theories of the Policy Process," *Political Science and Politics* (1991).

⁵⁰⁹ Lasswell: "The Decision Process: Seven Categories of Functional Analysis."

⁵¹⁰ Fred Lazin, *Methodological and Substantive Issues in the Policy Implementation Process*, ed. Stuart S. Nagel, The Policy Implementation Process in Developing Nations (Stamford, Con: JAI Press INC., 1999). p.152

⁵¹¹ Dvora Yanow, "Tackling the Implementation Problem: Epistemological Issues in Implementation Research," in *Implementation and the Policy Process : Opening up the Black Box*, ed. Dennis James Palumbo, Donald J. Calista, and Policy Studies Organization. (New York: Greenwood Press, 1990). p. 41-61

⁵¹² Richard F. Elmore, "Backward Mapping: Implementation Research and Policy Decisions," in *Studying Implementation*, ed. Aaron B. Wildavsky, (Chatham, NJ: Chatham House Publishers, 1982).

⁵¹³ The implementation literature that has emerged since the early 1970s formed a lively debate between the “top-down” and the “bottom-up” perspectives. There are some major contributors such as Jeffrey Pressman and Aaron Wildavsky, Donald Van Meter and Carl Van Horn, Eugene Bardach and Paul Sabatier and Dainel Mazmanian as the classical top-down writers; Michael Lipsky, Benny Hjern, Susan Barrett and Colin Fudge as the bottom-up challenge. There are also other authors like Richard Elmore, Fritz Scharpf, Randall Ripley and Grace Franklin, Paul Sabatier, Jan-Erik Lane, Malcolm Goggin and Laurence O’ Toole, Dennis Palumbo and Donald Calista and Robert Stoker, etc. followed on the initial arguments between the top-down and bottom-up perspectives and developed approaches building on those original theories, while largely synthesizing them.

1978 (top-down approach), or should they rely on bottom-up forces, as they did from 1978 until 1999. The right question is: what does current capacity in each community tell us about what needs to be done? In our cross region case studies, there is substantial evidence that in some communities, top-down guidance and resources were necessary; while in other places development was virtually spontaneous, and all the government needed to do was get out of the way. The real question is “What is needed?” The best answer is *capacity*. If a community has substantial capacity, bottom-up development will work; and if a community has little or no capacity, top-down intervention, including capacity building, will be critical to success.

Capacity is an integration lens that helps us capture all of the vectors that influence development, from all directions. Capacity helps us to understand

- The need for and role of flexibility in policy and implementation
- The flow and effectiveness of authority
- The systems view of development (e.g. social programs improve human capital which improves social capital)
- The need to work with and not on the market
- Political, social and economic factors affecting policy deployment
- The conditions that foster developmental synergies – dynamic professional alliances and relationships between and within state bureaucracies and various actors in civil society

With the “capacity” approach to policy study, Elmore’s focus on issues surrounding how best to study implementation takes on new meaning.⁵¹⁴ This was the primary motivation that led this project into rural communities to watch implementers and implementation in action. Studying implementation after the fact serves a different purpose, revealing the combined effects of all the forces at work in a rural community. This project was undertaken to witness those forces as they were interacting with a view to observing what is working and what is not.

Under conditions of ambiguous policy goals (e.g. a new socialist countryside), examining capacity serves pragmatic purposes. We discover there is no fixed universal actor who is destined to serve a pivotal role, that leadership and ideas are apt to come from any direction. States, companies and communities alone rarely possess the resources to promote and manage broad-based, sustainable development, and partnerships within and between different actors are required.

Most top-down implementation studies pay very little attention to the target-group behavior. Bottom-up scholars naturally watch the target population, but they tend to focus on the behavior of clients as it is affected by many other factors in addition to those of a particular program. To demonstrate the pitfalls of this approach, Mazmanian and Sabatier argued that the probability of implementation success decreases as a consequence of the amount of behavior modification required. Behavior modification is dependent upon the number of people in the target group and

⁵¹⁴ Elmore.

the degree of change required. This convinced Sabatier that things need to be shaken up in order for people to get excited enough to get things done.⁵¹⁵ Studying capacity freed us from the need to meander through the swamps of behavioral uncertainty as Sabatier did. Capacity assessment identifies those major dimensions that are working for and against policy success in any given area, including social capital. As an example, the primary advantage of a history of civil participation is its contribution to social capital formation.⁵¹⁶ China is a land without such a tradition, which reveals an important policy and implementation direction.

Future Research

The rural development issue is too big to be ignored, and the results address important aspects of many concerns. The policy shift towards integrated rural development reflects the complex linkages and interactions within the system of overall rural development. This research represents only an early stage of exploration that merits further attention.

Out of the case studies came many issues awaiting scholarly attention, including such tantalizing prospects as

- An impulse to measure capacity

⁵¹⁵ Soren Winter, "Integrating Implementation Research," in *Implementation and the Policy Process: Opening up the Black Box*, ed. Dennis James Palumbo and Donald J. Calista (Westport, Co: Greenwood Press, 1990). p.34

⁵¹⁶ Norman T. Uphoff, "Understanding Social Capital: Learning from the Analysis and Experience of Participation," in *Social Capital*, ed. Ismael Serageldin and Partha Dasgupta (New York: Oxford University Press, 1998).

- Ethics and public management and performance measurement
- Environmental concerns for sustainable development
- Human resource development – especially the role of rural women and youth
- Future of the party and grass-roots democracy linking to local capacity-building

Unlike most third world countries, China's modernization is not only challenged by the migration of rural human capital to the cities, factories and mines, but also by a shortage of qualified workers for the well-developed coastal region and urban areas. In other words, China has its own internal "world system." Current policy seems on the right path as it proceeds with an integrated development approach: on the one hand, building a better legal and fair urban world for people who move in; and on the other hand, building better living conditions for those who choose to stay on the family farms. However two-thirds of the rural population consists of women and young people, and the incomplete development of these human resources represents a drag on social and economic progress instead of representing a potential doubling of Chinese productivity. The problems are evident today in the mass migration that is hollowing rural China. The predictable consequence is an enduring, institutionalized poverty – one that may well remain the natural end point of rural development in many areas. Even if the government injects money and management into that system, the loss of human capital will make sustainability very difficult.

We have seen that in some of China's more remote regions, development capacity is so low that continued migration, even to the point of abandonment, may be the best answer. In other areas, however, migration is more of a problem than a solution. Many of China's urban areas are always close to the limits in available housing, jobs, energy and water supplies, and many of China's rural villages have the resource capacity to grow needed produce and breeding industries, but are losing human capital that would make it possible to develop agriculture or rural industry along with badly needed jobs. It would appear prudent to study programs from other developing countries and also from China's own recent history that included training and sponsored internships for women and young people to develop leadership and technical skills that matter greatly in rural transformation programs.

In one of the Gansu case sites, a friend took a picture of a group of farmers working together in a large field. It wasn't noticed until later that out of the approximately twenty five people at work, all were women except for one. The men were away trying to earn enough to support their families, and the women were doing the farming.

In a visit with farmers in the hill town in Sichuan, seven very curious and friendly elementary school children surrounded the author, full of questions and also brimming with answers about their home lives. Most of these eight year olds had not seen their fathers for years, and several had not seen either parent for more than a year. These children are being raised by their grandparents who are also doing their best on

the farms. It seems a formula for serious problems as these children become young adults on the loose in China's cities. It is self-evident that the tearful messages from absentee parents that are played for the children on national television are not a substitute for parental love and supervision.

Rural women are paying the highest social price for this period of economic growth in China, choosing between their husbands and their farms and children. The Japanese model that employed women in rural extension work should be studied for its applicability to the Chinese situation. Importantly, programs from the Mao era also attempted to reverse centuries of gender discrimination and are worth further study. In the early days of the communist regime, Chairman Mao's administration liberated Chinese women, ending old traditions like foot binding and promulgating images of "iron girls" and a world in which "women carry half of the sky." Unfortunately there hasn't been much progress since those days, and interviews with rural women disclosed a continuing pattern of gender discrimination.

With respect to the youth issue, rural conditions mean that in most of the western towns and villages, large numbers of China's rural youth leave their homes with only a junior high school education or less. They are repelled by the harsh life on the farms and drawn to China's cities, blindly searching for something better; but they will only find themselves competing without qualifications for scarce jobs. Most will end up in arduous, low paying and dangerous work in construction or industry, and too many will end up in gangs or in prison. Even those who find good work will find

themselves discriminated against, separated from their wives or husbands, and out of touch with their children.

The case studies repeatedly demonstrated the importance of social capital, including human resources and leadership, and the forces that are bleeding rural villages and depriving them of their capable women and young people merit further study with an eye to reversing them. Success stories from today, from China's past, and from successful outside programs like that found in Japan following WWII offer promises that cannot be ignored by a developing state and its scholars.

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