THE LOCAL STATE UNDER REFORM: A STUDY OF A COUNTY IN HAINAN PROVINCE, CHINA

by

Tao-chiu Lam

A thesis submitted for the Degree of Doctor of Philosophy of
The Australian National University
July 2000
Statement

I hereby declare that this dissertation has never previously been submitted for any degree, and is the result of my own original research and writing. The dissertation contains no materials previously published or written by another person except where due reference is made in the dissertation itself.

Tao-chiu Lam
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ABSTRACT

This dissertation studies a rural county in Hainan Province, China. It focuses on the transformation of the local state under chronic fiscal crises during the reform era. Unlike the existing literature, which largely argues that a relatively coherent state structure exists at the local level, this dissertation examines the forces that have rendered a coherent local state problematic in post-Mao China. Borrowing and adapting Duara's concept of state involution, the study argues that although the developments in this rural county do not entail replication and reproduction of the old patterns in state-society relations in imperial China, they do exhibit a loss of bureaucratic control, depletion of revenue, and decreasing efficiency of the local state. The main difference between state involution studied by Duara and what is presented in this study is that while in earlier regimes the revenue was lost to local brokers, today it is lost to state agencies that are part of the local state. Therefore, state involution in China today is unlikely to lead to a revolutionary situation of the sort that prevailed in the earlier decades of the 20th Century. Rather, it represents a more gradual and controlled process of institutional decay and political decline. This study also suggests that while the local state in this rural county is not developmental, neither is it predatory. Instead of arbitrarily imposing levies on the peasants, the local state in this county has experienced great difficulties in collecting legal taxes and levies. The county and township administrations therefore have resorted to more easily tapped sources of revenue by taxing the private lottery and gambling, and have pushed budgetary expenditures off-budget. This is explained in terms of the absence of strong institutions at the village (former brigade) level in this rural county.
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I would like to thank the many people at the Contemporary China Centre, ANU, for their support and encouragement. I am grateful to all the staff and students for their help. I would also like to thank the American Association of Asia Scholars for providing me with financial support. Finally, I would like to thank all my family members, including my parents, for their patience and understanding.

My research in Hainan has been made a lot easier and more fruitful as a result of the able help of two people there. For obvious reasons, I could not give their names, but they know who they are and how thankful I am to them.

I owe much to my parents, who have always given me the best of their love and never given me any pressure. I hope that they know how much I love them.

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My research in Hainan has been made a lot easier and more fruitful as a result of the able help of two persons there. For obvious reasons, I could not disclose their names, but they know who they are and how thankful I am to their helps.

I owe much to my parents, who have allowed me to pursue my own interests and never given me any pressure. I hope that they know I feel sorry for not having spent enough time with them because I have been obsessed with the study.

My greatest debt is to Pamela, my wife. She has given me enormous helps at several stages of my study. At one point she was caught by her own deadline, but like before, she responded enthusiastically and efficiently to my requests for assistance in putting together the tables and the tricky pinyin. However, my greatest gratitude to her is her constant encouragement and understanding. My life would have been very worse if not for her love and accompany.
Chapter One
INTRODUCTION

Whither the Chinese Local State?

The local state in China during the era of economic reform has attracted widespread attention. Research on it has addressed different sets of questions. One line of research focuses on the retreat of the local state from the lives of the rural populace as a result of de-collectivization and depoliticization. But despite the apparent reduction and retreat of government officials' involvement in rural economic, social and political life, scholars have continued to differ on such important issues as the roles and power of state cadres and local governments.

Some scholars have argued that state building at the grass-roots level has not stopped in the reform era amid the overall trend of the retreat of the state and politics in villages. They have focused on an increase of state functions and activities, and growth in the size

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of the party-state bureaucracy at the county and township levels.\(^4\) This view is supported by the observation that, despite repeated attempts to control its growth, the local state bureaucracy in China has grown at a fast rate both in the number of bureaux and cadres.\(^5\)

Another emphasis in research on the local state takes it as its starting point that the majority of the economic enterprises in rural China are still predominantly owned and managed by local governments.\(^6\) Three related issues have captured much attention. The first concerns the almost complete merger of state and economy at the local reaches (county, township and village) of the administrative hierarchy.\(^7\) The second major concern is the political foundation of a local state that not only has the incentives, but more importantly the capabilities to steer fast economic growth.\(^8\) Third, a core question is to explain why public enterprises in the reform era in China did not continue to engender

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\(^5\) For discussion on this question, see *Zhongguo xingzheng gaige daqushi*, Beijing, Zhongguo jingji chuban she, 1993.


soft budgetary constraints and bilateral bargaining between government authorities and public enterprises, as predicted in the analysis of Kornai.\(^9\)

Still another line of research sees the role and behavior of the local state and officials in a more negative light. In these studies, local officials do not play much of a positive role in local economic growth. Rather, they are viewed as preoccupied with their own survival and self-enrichment. In many poor regions, the bulk of government expenditures, much of them supported by subsidies from the central government and even illegal levies on the peasantry, are spent on the salaries of the overstaffed bureaucracies.\(^10\) In some regions, despite de-collectivization and the retreat of the local governments from agricultural production, local governments still require and force the peasants to engage in economic activities beneficial to the local governments but harmful to the peasants themselves.\(^11\)

Unlike these studies, which either have focused almost exclusively on state-society and state-economy relations or have viewed state building uncritically, this dissertation has a different focus and addresses a different set of issues. It examines what lies beneath the apparent growth of the local state and partly as a result of this different focus, this study.

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\(^9\) Walder, "Local Government as Industrial Firms."


presents a somewhat different image of the local state and the problems facing it. The main focus is on the local state itself, its structure and organization, its finances and the ways that revenue is collected and allocated. The study is built on the premise that, as Prasenjit Duara states in his research on rural North China in the early decades of the twentieth century, there are sufficiently complex processes going on within the state to merit a study that deals mainly with the state itself.\(^\text{12}\) It also falls into the analytical perspective of what Andrew Walder calls "the quiet revolution from within." In his analysis of political decline in China, Walder argues that instead of an image of society vis-a-vis the state, an emphasis on the processes and mechanisms occurring within the state is more appropriate.\(^\text{13}\) So far, many of these complex processes and issues within the local rural state have escaped systematic examination.

Local rural governments in China have been under tremendous pressure in the wake of de-collectivization, economic reform, and in particular fiscal reforms. On the one hand, although the implementation of the household responsibility system and the dismantling of collective agriculture have deprived local cadres of the means of direct economic and social controls, the political institutions established under communist rule have by no means been completely dismantled. With the abolition of the communes and the separation of economy and state administration in 1982-3, the township (the former commune) has been designated the lowest formal level of state administration, while at the former production brigade level, a system of village self-governing has been


gradually developed. At the township level, the state has continued to maintain a strong presence, which still stands in sharp contrast to the very thin and feeble presence of state administration at the sub-county level in pre-1949 China.


### Footnotes


15 Philip Huang notes that, under communist rule, "the administrative staffs of the township or the commune came to dwarf the Republican ward, and sometimes even the old imperial county yamen." Huang, *The Peasant Family and Rural Development in the Yangzi Delta*, 1350-1988, p.176.
study will show, the problems facing the local state in China today are not exactly the same as those that had long plagued the imperial state.\textsuperscript{16}

Added to these problems are fiscal decentralizations and contracting, which in many cases have been forced upon local governments against their will from above. While fiscal decentralization, as argued by Jean Oi, has been an important foundation for China’s rural industrialization and economic successes in some regions,\textsuperscript{17} in other places it has created problems and pressures on local governments and their constituent agencies. For example, Christine Wong traces the origins of the surge of locally imposed surcharge and levies to fiscal decentralizations and the higher expenditure obligations demanded by central policies.\textsuperscript{18}

In his analysis of political decline in post-Mao China, Andrew Walder emphasizes the impact of the existence of "alternative sources of revenue, income and career advancement to officials outside of the hierarchies of the party and the command economy."\textsuperscript{19} For many local governments and officials, these alternative opportunities are not just created by the dismantling of the command economy. Rather, as a result of fiscal decentralization and the hardened budgetary constraints, they are left with no alternatives


\textsuperscript{18} Wong, "Central-Local Relations in an Era of Fiscal Decline."

\textsuperscript{19} Walder, "The Quiet Revolution from Within," p.14.
but to actively seek revenue and income outside the formal budgetary system, very often even when this revenue is not legal or approved by the higher level authorities.

The chronic fiscal crisis faced by local governments has raised a number of issues relating to the internal cohesion and discipline of the local state. Some of these issues - such as the ability of the local state to control and discipline its agencies and functionaries, engrossment of revenue by intermediaries, and the existence of rampant corruption - are strikingly similar to some of the problems in local state administration that had plagued the rulers of earlier regimes in Chinese history.

This brings us to an important question: while the communist regime succeeded in bureaucratizing the local state down to the township level and even below this in its first several decades, in some poor regions in China this achievement has come under tremendous strains. This, of course, is not to suggest that the achievement of state building has been reversed, or that China is facing the danger of degenerating into the situation that prevailed before the communist revolution. As mentioned above, the reach of the state is still far deeper than the state in the past was ever able to accomplish, and the capabilities of the central leaders to exercise internal controls are obviously also much higher than those of the imperial rulers. Hence, we are still left with the challenge of understanding the exact nature of the problems confronting the Chinese local state in the reform era. We know that they are not a mechanical repeat of what existed in the past, but

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on the other hand we should not underestimate or ignore the pressures that have strained not only the local state bureaucracy itself, but also its relationship with the rural populace.

**The State Involution Perspective**

Based on research in a county in Hainan Province, this thesis studies the forces and issues confronting and transforming the local state at the county and township levels. Focusing on revenue collection and allocation, it shows how fiscal crisis and the originally fragmented structure of the bureaucratic structure have reinforced one another, and how scarce revenue has been depleted and flounders in a structure that encourages self-enrichment and even corruption.

To understand this, the dissertation borrows from and adapts Prasenjit Duara's concept of state involution.\(^{21}\) Duara coined the concept of state involution to capture the simultaneous expansion and extension of the state at the sub-county level, on the one hand, and the state's loss of control over this very process on the other during the Republican period. The attractiveness of this concept for understanding the local state in China today lies precisely in that it helps us to cope with the apparently contradictory processes occurring to the local state in post-Mao China. Of course, the original concept cannot be mechanically applied. Despite many similarities, the processes of local state development, its structures and problems are qualitatively different from what Duara defined as state involution during the Republican period.

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\(^{21}\) *Culture, Power, and the State*, pp.58-85, esp. 73-7. In essence, Duara's view is similar to Philip Huang's view of involution as growth without development. See Philip Huang, *The Peasant Family and Rural Development*, pp.11-8.
What I refer to as state involution in this study has three key characteristics, and shares some of the features of the state involution studied by Duara. First, the apparent growth of the local state has been accompanied by a simultaneous loss of bureaucratic control, a feature at the core of Duara's definition of state involution. Expansion and growth of the county and township governments have followed a pattern that undermines the internal unity and cohesion of the local state bureaucracies. Increasingly, more elements do not fall within the formal boundary of the local state, or even when they are nominally part of the state, they are not, and probably cannot be, adequately disciplined and controlled by local authorities.

Second, state involution also refers to the increasing inefficiency of the local state, particularly and most easily seen in the area of revenue collection. As a result of intensified efforts at revenue collection, the total revenue collected has increased (see Table 1.4 below for the fast rate of revenue growth in Wenchang, especially since 1993), but this growth in revenue has been achieved by an application of greater effort and resources. To use the words of Philip Huang in his discussion of agricultural involution in China, the marginal returns for each additional input have diminished although total output expands.22 This diminution of returns has occurred because of the abolition of the collective economic structure, the demise of supporting institutions in villages, and the increasing unwillingness of the peasants to pay taxes and levies. The increasing inefficiency in revenue collection also refers to increasing depletion and "pilfering" of tax revenue in the process of revenue extraction. As a result, while total state revenue has

22 Huang, The Peasant Family and Rural Development, p.11.
expanded, much of it is not available to the state to perform or improve its public functions.

Third, and this is where the state involution discussed here differs most from Duara’s original concept as he applied it to the Republican period, the disintegrating forces that have led to state involution have their roots in the local state itself. Whereas in Duara’s analysis state involution occurred because the local state had to rely on local brokers drawn from society to perform necessary functions, in China today the source of state involution is the state bureaucracy itself. This is particularly evident in state administration at the township level. The counterparts today of Duara’s brokers are the state agencies that gain authority from their functional superiors. Unlike the brokers who earlier in history wielded influence from their knowledge of local conditions, the sources of the authority of these agencies are their vertically defined jurisdictions. Like the earlier brokers, these agencies pilfer tax revenue and weaken the local state, but because their power comes from above, they are more restrained and circumspect in their dealings with the rural populace.

Like a host of other books on early 20th century China, Duara’s theory of state involution is part of a larger theory to explain the dislocation and breakdown of the cultural nexus of power in rural China that eventually built up to the communist triumph in 1949. Because of the critical differences just mentioned, state involution in China today is unlikely to lead to the kind of rampant coercion and corruption that had come to define the local brokers and that contributed much to the communist mobilization. The political impact of state involution in China today is likely to be more modest and different in
character, as central directives to reduce the burden of peasants in order to cope with peasant grievances have set some limits on local officials and their agents' behavior, and prevented extraction and predation from becoming truly unbearable. However, state involution as it is observed in this study does represent institutional decay and works to de-legitimize the regime and cadres among the rural populace. I will return to the implications of this state involution perspective in the conclusion.

The Research Site: Wenchang County

The county where the fieldwork was conducted contains a population of a bit more than half a million, which is about 25% more than the national average of about 400,000 people per county. Among Hainan's counties, Wenchang is the fourth largest in terms of population. Almost all of the county's populace are Han, with only about 1,500 members of ethnic minorities.24 The county is located at the northeast corner of the southern island province of Hainan, about 70 kilometers from Haikou, the provincial capital (Figure 1). Unlike counties in other provinces, Wenchang, as is true of all counties in Hainan, is placed administratively directly under the provincial level.

Despite official claims in recent years about rapid industrial growth, particularly since 1993 when Zhu Mingguo (party secretary during 1993-1998) took up the county leadership position, at the turn of the 21st century Wenchang remains an agricultural region (see Tables 1.1 and 1.2). In 1996, Wenchang succeeded in gaining "city" status,

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23 Duara, Culture, Power, and the State, pp.245-55.

24 Although more than one sixth of Hainan's population are members of ethnic minorities, most of them are concentrated in the counties located at the middle and southern parts of
but this did not change the fact that it was predominantly an agricultural area. The only part of it that properly can be labeled as urban is the county seat, which, with a population of some 42,000, accounts for about 9% of the county's population. The rest of the county is divided into 24 sub-county units, of which 21 are titled towns (zhen) and 3 are titled townships (xiang), but there is little genuine distinction between the two.
categories.\textsuperscript{26} In order to avoid confusion, therefore, throughout this study I will call both \textit{zhen} and \textit{xiang} (i.e. the administrative unit that includes both a market town and the villages around it) townships. A township in Wenchang consists of a market town (\textit{jizhen}) of 1,000 to 2,000 people and a large number of small hamlets.\textsuperscript{27} As can be seen in Table 1.5 below, the number of hamlets ranges from 26 in the small township of Baofang (population about 9 thousand) to as many as 236 in Chongxing township. But it should be noted that on the whole settlement in Wenchang is much more scattered in tiny hamlets, and as a result, village life and politics are likely to be different, than in the other parts of China studied by Chan, Madsen and Unger, Huang, Yan and Ruf.\textsuperscript{28} The villages in these studies are much larger in size; for example, Chen Village formed a production brigade and was divided into five production teams, each composed of about 40 households; the village studied by Yan Yunxiang had a population of more than 1,500; and Ruf's village was inhabited by about 350 families. In contrast, in Wenchang it is not uncommon that a hamlet contains only a dozen households and a few dozen people. As Table 1.5 suggests, it is the norm that an administrative village (formerly called a production brigade) is composed of as many as a dozen hamlets.

\textsuperscript{26} The national average is 21.5 townships/towns per county. See Christine Wong (ed.), \textit{Financing Local Government in the People's Republic of China}, Hong Kong, Oxford University Press, 1997, p.175.

\textsuperscript{27} It is therefore necessary to make a distinction between a market town (\textit{jizhen}) and a town as an administrative unit (\textit{jianzhi zhen}). The former is only a part of a latter, and has a much longer history. See Pu Shanxin, "Zhongguo jianzhi zhen de xingcheng fazhan yu zhanwang," in Wang Shanshu and Zhang Peizhi (eds.), \textit{Xiaochengzhen xingzheng tizhi yu jigou gaige}. Beijing, Zhongguo tongji chubanshe, 1999, pp.49-78.

In 1993-1994, riding the wave of the so-called "Hainan fever," Wenchang created six development zones (kaifa qu) to attract investment and to generate revenue (by selling land), and each of these zones is equipped with an administrative office. These zones enjoy the same status as townships, except that the administrative offices are more like the bureaux under a county government. As of 1999, with the exception of the Qinglan development zone, the development zones existed only in name.

Wenchang is, of course, far behind fast developing counties such as Wuxi in the lower Yangzi Delta, and Nanhai and Shunde in the Pearl River Delta. In terms of industrialization and economic development, it is even far behind more “average” counties such as Zouping and Shulu, two counties recently studied by western scholars. For example, in 1978 Shulu county already had 1,261 commune- and brigade-run enterprises, producing 81% of the total output value of the communes and brigades, while Wenchang had only 275 such enterprises in 1982. Although Hainan was included in the coastal open belt in the 1980s and was later designated a provincial-level special economic zone, Wenchang did not see significant industrial growth. Table 1.1 presents figures on the changes in the composition of the county's GDP from 1985 to 1997. As of

two types of villages communities and stresses the importance of their differences in The Peasant Family and Rural Development, pp.144-64.
1997, the primary sector still accounted for almost half of the county's GDP, only a change of a few percentage points over a period of more than a decade. The secondary sector almost doubled during this period, but as the initial base was extremely low, it was still insignificant in size.

Table 1.1  Composition of GDP, Wenchang, Various Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary Industry</th>
<th>Secondary Industry</th>
<th>Tertiary Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>55.2</td>
<td>13</td>
<td>31.7</td>
</tr>
<tr>
<td>1990</td>
<td>61.6</td>
<td>12.5</td>
<td>25.9</td>
</tr>
<tr>
<td>1995</td>
<td>48.6</td>
<td>26.1</td>
<td>25.3</td>
</tr>
<tr>
<td>1996</td>
<td>46.7</td>
<td>27</td>
<td>25.7</td>
</tr>
<tr>
<td>1997</td>
<td>48.2</td>
<td>25.8</td>
<td>26</td>
</tr>
</tbody>
</table>

Sources:
Wenchang shi 7.5 qijian guomin jingji he shehui fazhan zhuyao tongji ziliao (1991.6.), p.5.
Wenchang shi 8.5 qijian guomin jingji he shehui fazhan zhuyao tongji ziliao (1996.10.), pp.1-2.
Hainan tongji nianjian, 1997, p.24
Hainan tongji nianjian, 1998, p.25

Table 1.2. Rural Labour Force at Sub-County Level, Wenchang, various years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Labour Force</td>
<td>174,132</td>
<td>175,647</td>
<td>171,601</td>
</tr>
<tr>
<td>Agriculture</td>
<td>142,043</td>
<td>132,434</td>
<td>127,888</td>
</tr>
<tr>
<td>Industry</td>
<td>5,854</td>
<td>6,663</td>
<td>5,993</td>
</tr>
<tr>
<td>Construction</td>
<td>7,828</td>
<td>9,903</td>
<td>10,222</td>
</tr>
<tr>
<td>Industry as a % of Total Employment</td>
<td>3.4%</td>
<td>3.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Total Non-Agricultural Employment</td>
<td>32,089</td>
<td>43,213</td>
<td>43,713</td>
</tr>
<tr>
<td>Non-Agricultural Employment as a % of Total Labour force</td>
<td>18.4%</td>
<td>24.6%</td>
<td>25.5%</td>
</tr>
</tbody>
</table>

Table 1.2 presents figures on changes in the rural labour force in agriculture, industry and construction between 1990-1996, which is a more reliable measure of the level of rural industrialization in a locality such as Wenchang. Despite a 100% growth in the share of the secondary sector, the industrial labour force remained almost stagnant between 1990 and 1996. Opportunities for working in local factories were almost nonexistent for most of the peasants. While non-agricultural employment accounted for a quarter of the total rural labour force, most of this belonged to casual and unreliable types of employment. When I did fieldwork in Wenchang in 1997 and 1998, one of my strongest impressions was how scarce the employment opportunities were for both the agricultural and the non-agricultural population.

A yet more telling point about the level and pace of economic development in Wenchang can be made through a comparison of the changes in the ratio of its agricultural to industrial output value with those of Zouping (Table 1.3). Because Zouping is located at a middle level in terms of rural industrialization and per capita GDP,³² this comparison allows us to better gauge how our case compares with the average counties in China. An important point to note in this table is that in 1980, the ratio of agricultural to industrial output value in Zouping was even a bit higher than Wenchang's.³³ However, the pace of industrial development in Zouping was so fast in the 1980s that by 1990, agricultural output value was down to less than half the level of industrial output value and in 1993, it dropped to merely about a quarter of industrial output value. By comparison, changes in

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³² Walder (ed.), Zouping in Transition, pp.2-5.

³³ In 1982, Zouping had only 364 commune- and brigade-run enterprises, not significantly higher than the figure in Wenchang, but much lower than the 1978 figure for Shulu. See Jean Oi, "The Evolution of Local State Corporatism," in Walder (ed.), Zouping in Transition, p.37.
the ratio of agricultural to industrial output value was much slower in Wenchang, with the result that in 1993, agricultural output value was still higher than industrial output value.

Table 1.3 Ratio of Agricultural to Industrial Output, Wenchang and Zouping Compared

<table>
<thead>
<tr>
<th></th>
<th>WENCHANG</th>
<th>ZOUPING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industrial %</td>
<td>Agricultural %</td>
</tr>
<tr>
<td>1980</td>
<td>27.88</td>
<td>72.12</td>
</tr>
<tr>
<td>1986</td>
<td>30.09</td>
<td>69.91</td>
</tr>
<tr>
<td>1988</td>
<td>48.92</td>
<td>51.08</td>
</tr>
<tr>
<td>1990</td>
<td>48.16</td>
<td>51.84</td>
</tr>
<tr>
<td>1993</td>
<td>43.49</td>
<td>56.51</td>
</tr>
<tr>
<td>1995</td>
<td>55.80</td>
<td>44.20</td>
</tr>
</tbody>
</table>

Sources:
- Wenchang shi 7.5 qijian guomin jingji he shehuifazhan zhuyao tongji ziliao (1991.6.), pp.6-7.
- Wenchang shi 8.5 qijian guomin jingji he shehuifazhan zhuyao tongji ziliao (1996.10.), pp.2-7.

* The share of industrial output increases sharply in 1988, in part because the output value of enterprises at and below township level was calculated as part of industrial output, while previously this category did not exist, and therefore was hid by counted as agricultural output. Hence, this change probably reflects more a change of statistical method than a sudden growth of industrial activities in Wenchang.

Table 1.4 contains figures on Wenchang’s budgetary revenue and expenditures from 1985 to 1997. Throughout these years, Wenchang had remained a deficit county, being a recipient of some RMB10 million in quota subsidies and twice to three times that amount in earmarked subsidies from higher levels.34 While Wenchang’s revenue in 1993 (RMB64.89 million) was roughly at the same level as the national average (RMB57

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34 While in 1986 about two third of the counties received subsidies and one third turned over revenue, by 1989 the number of counties receiving net subsidies was reduced to about 55% of all counties. See Wang Bingqian’s article cited in Christine Wong, “Central-Local Relations in an Era of Fiscal Decline,” p.706, and Zhongguo xianzhen nianjian 1990, p.55.
million), its expenditures (RMB105 million) were substantially higher than the national average (RMB74 million).\(^{35}\) This in part reflects the fact that Wenchang was more populous than the average county in China, but it also probably suggests that government expenditure in Wenchang were higher than the national average. The figures in this table also suggest that although Wenchang continued to receive subsidies from the higher levels, it had become increasingly self-dependent. Subsidies were twice the size of the revenue collected by the county government in 1985. By 1997 they had come down to less than 40% of the budgetary revenue. This is due to the fact that subsidies from higher levels (especially quota subsidies, which had been fixed throughout the 1990s) had remained basically stable over the years, while budgetary revenue and expenditures had increased several fold. The rapid increase in revenue and expenditures, especially since 1993, was the result of intensified efforts at revenue collection and a reform of fiscal arrangements governing the relations between the county and township levels.

What is unique about Wenchang is its location in Hainan, China largest special economic zone and once a champion of economic reform, but also one of China's most backward regions. Being part of Hainan has significant implications for Wenchang's development and its government, which experienced and was shaped by the ups and downs and the excitement and despair of the province in the last decade. Like other parts on the island, cadres and ordinary people in Wenchang had been used to counting on preferential policies and treatment, and hoping that they would work miracles. At the same time, even though Hainan lies at the end of the coastal belt, being an island renders it less accessible to mainland and overseas investors and markets.

\(^{35}\) The national average figures are drawn from Christine Wong (ed.), *Financing Local*
### Table 1.4  Budget Revenue and Expenditure, 1985-1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Revenue</th>
<th>Budget Expenditure</th>
<th>Subsidies</th>
<th>Quota</th>
<th>Earmarked</th>
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<tr>
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<td>1,969</td>
<td>-</td>
<td>-</td>
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<td>2,282</td>
<td>-</td>
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<td>2,998</td>
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<td>-</td>
</tr>
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</tr>
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<td>10,509</td>
<td>3,528</td>
<td>1.058</td>
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<tr>
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<td>3,376</td>
<td>1.058</td>
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<td>1.058</td>
<td>2,767</td>
</tr>
<tr>
<td>1997</td>
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<td>17,322</td>
<td>4,332</td>
<td>1.058</td>
<td>3,274</td>
</tr>
</tbody>
</table>

Sources: Finance Bureau, Wenchang County.

Note:
1. A dash means that no data was available.
2. The total of budgetary revenue and subsidies since 1994 is not equal to budgetary expenditures because, following the implementation of tax sharing system, the central level each year returned about 10 million yuan of central taxes of Wenchang.

Being located on an island with an extremely weak industrial base means that Wenchang would not be able to benefit from the effects radiating out from big industrial centers. The locational factor put Wenchang in a uniquely disadvantageous position compared with localities more strategically located on the mainland. And as will be pointed out in Chapter Three, Hainan's approach to development did not benefit the counties on the island. Following the establishment of Hainan as a new province in 1988, most of the resources went to the three cities of Haikou, Sanya and Yangpu, while the counties were neglected if not completely abandoned.
Among Hainan's counties, Wenchang was originally seen as having a good potential for economic growth. It has a long coastline of 207 kilometers, and is blessed with two relatively good ports, Qinglan and Mulan (Figure 2). Compared with most other counties on the island, Wenchang is located closer to Haikou and therefore more accessible. Another favourable factor is that the families of more than one million migrants from Wenchang now live in Hong Kong and overseas. Remittances from relatives have long been an important source of income for the people in the county.³⁶

Compared to other counties on the island, Wenchang stands out for the quality of its schools and the importance its people give to education. Wenchang Middle School is among the best middle schools on the island. It is also blessed with a college that in the past was responsible for training primary school teachers for the county but is now asked to train teachers for the whole province. Due to Wenchang's advantage in education, a research team led by economist Liu Guoguang suggested in 1987 that Wenchang should be one of the five areas in Hainan to be given priority for development.³⁷

³⁶ In 1992, it was estimated that each year the remittances from the emigrants in Hong Kong and overseas amounted to around RMB200 million. See Hainan ribao, 2 May, 1992, p.3.
Figure 2  The Administrative Map of Wenchang County

- Proposed Haikou - Wenchang Expressway
- Existing main roads in Wenchang

About the Fieldwork

I chose Wenchang as the site for fieldwork largely because of practical considerations. It was
However, over time the disadvantages of the county compared with the more strategically located counties on the island (such as Qiongshan, Qionghai and even Wanning) have become increasingly clear. As in other places in China, development in Hainan is heavily affected by access to major economic and administrative centers. Although Wenchang lies close to Haikou, it has not benefited from the island's two major transport arteries, one linking Haikou and Sanya and the other linking Haikou and Yangpu. Since the county is located at the northeast corner of the island, the north-south highway entirely bypasses Wenchang and runs straight to Qionghai, the county to its south. Cadres in Wenchang are keenly aware of the need to improve its road access to Haikou, but because Hainan has adopted a more centralized system of collecting petrol taxes, not much initiative and resources are left for the county. Since the early 1990s, the county leadership has lobbied hard to build an expressway between Haikou and Wencheng, the county seat, but as of 1999 not much progress had been made. The county seat is still only linked by the old two-lane road to Haikou. Before 1997, almost all of the roads connecting the county's townships were not paved, and transport conditions had been deteriorating quickly. To tempt the provincial highway department to pave the fast-deteriorating roads, Wenchang agreed to pay for a share of the expenditures. Hence, in 1997 the road connecting the county seat with the townships around it was finally paved. However, it was only covered with a very thin layer of asphalt. When I did fieldwork in Wenchang in 1997 and 1998, the thin layer of asphalt often melted under the sun.

About the Fieldwork

I chose Wenchang as the site for fieldwork largely out of practical considerations. I was
interested in examining up close whether local state corporatism or a very high degree of integration in a county, as described by Jean Oi, really existed, and to investigate the tensions and cleavages within a county's political economy, both between the county government and its constituent agencies, and between the county government and lower level authorities. And I was also interested in delineating the extent to which a local government was developmental and entrepreneurial, and the tensions between these two orientations. I started to explore whether I could do fieldwork in Panyu county, an initial laggard but one of the fastest developing counties in the inner Pearl River Delta in the 1990s. After a few months' research and exploration, I became convinced that, if I wanted to better understand the typical workings of the local political economy in a county, I needed to consider a more "average" research site where reliable interviews and fruitful research opportunities could be arranged.

Since I lived in Wenchang during my childhood and had many acquaintances there, very fruitful research arrangements could be made. Through a senior county cadre who is my distant relative, I was able to gain cooperation from officials at both the county and township levels, and secured a great deal of good information. Throughout the entire process of fieldwork, I was very lucky to have the assistance of a very able and informative cadre who initially worked at the county seat and later was posted to a township as head of township government and deputy party secretary. He not only provided me a lot of useful information during countless discussion sessions, but also helped me to arrange numerous interviews and accompanied me when I visited county and township officials.
As my fieldwork in Wenchang progressed, I gradually moved away from the original focus of studying the nexus between the local state and local industrialization, Jean Oi's main theme. In a locality with a very low level of rural industrialization, this issue was not particularly interesting or even relevant. County and township governments in Wenchang were not as involved in economic activities as the local governments were in Jean Oi and other scholars' studies in other parts of China. On the other hand, I immediately found that issues relating to the financing of the local state, revenue collection and distribution, and their impact on the transformation of the local state structure were at once important and interesting.

I did the fieldwork for this thesis in 1997 and 1998, visiting Wenchang four times, each trip ranging from two weeks to one month. As my research focuses on the county and the township levels, during my fieldwork I stayed in the county seat and five townships. These townships are highlighted in Table 1.5. The amount of time that I spent at one or another of these townships depended mainly on whether fruitful research arrangements could be made. The townships were not purposively selected for comparison, and in this analysis, in fact, little comparison is made among townships. Although the townships in the county differ in some ways, in this study I stress their common characteristics rather than their differences.

I spent the most time in two townships – Dongjiao and Wenjiao - and interviewed more people there than in other townships. Since the main focus of this research is on the county and township levels, I did not spend much time in villages or hamlets, but I did visit some hamlets and had interviews with peasants and village cadres while staying in
the townships. Moreover, in 1993 I lived for two weeks in a hamlet in Baoluo township for personal reasons. Although at that time I was not doing research for this study, that experience enabled me to gain some ideas of village life, the peasants' livelihood, and the relations between the peasants and the local state.

Table 1.5 presents a list of the county's townships, and their basic characteristics. This table enables us to see how the townships in which I did research compare with other townships in the county. It can be seen from the table that Dongjiao, the township where I spent the longest time, is unique in several ways. First, with a population of close to 40,000, it is the largest township in the county, although one of the smallest in terms of the size of arable land. The settlement pattern in Dongjiao is different from most other townships in that its hamlets are bigger: on average, a hamlet in Dongjiao had a population in 1994 of 344 people, which was substantially larger than the hamlets typical of other townships, which normally contained less than 100 people. Dongjiao is also unique in that it is blessed with a popular tourist destination, Jianhua shan, and lies just a short ferry away from Qinglan, the county's fastest developing township. Another unusual characteristic of Dongjiao is that many of its people do not work in the fields: many hamlets that lie along the coastline do not have any arable land at all, and the villagers mainly rely on income from fishing and coconut trees for a living. The abundance of coconut trees enabled Dongjiao to develop quite a few small factories that focus on processing coconut products (coconut candies and souvenirs made from coconuts, for example).
<table>
<thead>
<tr>
<th>Township</th>
<th>Populations (0,000)</th>
<th>Size (km²)</th>
<th>Villages</th>
<th>Hamlets</th>
<th>Areal Land (0,000 mou)</th>
<th>Distance from county seat (km)</th>
<th>1996 Revenue (0,000 RMB)</th>
<th>Per Capita Revenue</th>
<th>1996 Expenditure (0,000 RMB)</th>
<th>Per Capita Expenditure Approved in 1995 (0,000 RMB)</th>
<th>Per Capita Approved Exp. (RMB)</th>
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<td>564</td>
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<td>137</td>
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<td>92</td>
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</table>

¹ 1994 figures.
² xiang, all others are zhen.
The other townships where I did research are more typical of Wenchang, although Touyuan and Tanniu lie close to the county seat and Tanniu lies along the road connecting the county seat and Haikou (Figure 2). Although Dongjiao was considered a relatively well off township for this county, it received subsidies from the county level. As a matter of fact, during 1996-1998 all townships except the county seat and Qinglan received subsidies from the county level.

In its total revenue and expenditures, Dongjiao township was among the highest in the county, and another research site, Touyuan, collected the least revenue among all townships (excluding those three xiangs, i.e. Baofang, Longma and Hushan) but its total expenditures were not particularly low. However, Dongjiao's per capita revenue and expenditure was among the lowest in the county.

I interviewed a total of 59 informants in these four visits. These informants came from a wide spectrum of backgrounds and positions: some were county and township officials, and others were village cadres or ordinary people. A list of the informants and their "backgrounds" is presented in the Appendix. Some of the interviews were formal interview sessions. Others, particularly those conducted in the townships, were more informal in nature. During these informal interviews, I just chatted with the informants in a casual fashion. On quite a few occasions, I also joined the township officials and tax collectors when they went to the markets to collect taxes or went to the villages to enforce birth controls. In many cases, I simply stood aside and watched how cadres dealt with other cadres and peasants, and how they solved their problems and did their work.

Since I visited Wenchang four times during a period of one and a half years, I was also
able to come back to different interviewees numerous times to clarify issues which were not clear from previous interviews.

While all of the informants were interviewed in 1997-1998, I also had several opportunities to ask about more recent developments and changes in 1999 when some of them visited Hong Kong or Shenzhen, the special economic zone bordering Hong Kong's New Territories. These opportunities allowed me to keep up with the latest developments in the one and a half years following a change of county party secretary and the promotion of the former county party secretary to deputy provincial governor in early 1998.

While interviews provide the bulk of information for this research, the analysis for the study is also based on documentary data collected during the fieldwork. On several occasions, I also asked the cadre who helped me throughout the fieldwork process to find out or estimate figures and information on specific aspects of my research.

**Organization and Summary of the Thesis**

This thesis is divided into seven chapters. This introductory chapter has set out the research problems, a general background of the research site and has discussed how the research was done. Chapter Two reviews the literature on the local Chinese state and state-building during the reform era. It argues that the existing literature on the local state has taken internal cohesion and discipline of the local state for granted and that previous authors have focused upon the benign impact of fiscal decentralization almost to the neglect of their negative impact on state organization and structure. It also points out that
the literature on state building, which does focus on the local state, has failed to note the disorganizing and disintegrating strains being built into the local Chinese state. Against these criticisms, this chapter has turned to Prasenjit Duara's theory of state involution and discusses the extent to which it is appropriate for studying the transformation of the local state during the reform era. Both the usefulness and the limitations of Duara's theory are examined.

Chapter Three will detail the tortuous path of Hainan's development in the reform era. The chapter will provide the broader context for understanding the difficulties and problems experienced at the county level. The main arguments of this study are presented in Chapters Four, Five and Six. Chapter Four examines the county and township governments' structures, their growth and increasing differentiation both horizontally and vertically, and finally the problems relating to effective state administration at the township level and below. It will be shown that the settlement pattern in this rural area, coupled with the almost complete demise of a governing institution at the former brigade (now the administrative village) level created tremendous challenges for effective revenue collection and other state functions. These problems were reinforced by the very cynical view that local people held of state cadres and local governments. The element of voluntary compliance, which Margaret Levi considers to be necessary for effective and efficient revenue collection, seemed to be lacking, resulting in further difficulties in financing local state functions and activities.

Chapter Five discusses the local state in Wenchang in light of two key images: the local developmental state and the predatory state. This chapter studies the major initiatives
under Zhu Mingguo, the party secretary and county magistrate from 1993 to 1998, and discusses whether these initiatives can be viewed from a local developmental state perspective. The chapter shows that while the developmental state image is certainly not appropriate for the local state in Wenchang, the predatory state image is not suitable either. Township officials and tax collectors had experienced great difficulties collecting revenue (most of it legal) from the peasantry in Wenchang, so much so that they often needed to link payments of taxes to the granting of essential government services. The chapter discusses the local state's increasing dependence on revenue from private lotteries and gambling, and views this both as part of the explanation for the absence of direct levies on the peasants in Wenchang and as a symbols of the weak local state.

Chapter Six will describe the chaotic pattern of state growth at both the county and township levels, and the struggles and dynamics behind the intensified efforts to increase revenue. It is shown that the growth of the local state has not been in an orderly fashion, and the growth of revenue was also marked by fragmentation in its use and pilfering. How these developments resemble, and differ from, what Duara describes as state involution under the Republican era will be discussed.

The concluding chapter discusses what this study contributes to the field of contemporary China studies and addresses its broad theoretical implications. It first returns to the contextual features of Wenchang that are relevant to questions of regional variations about the shape of the local state and issues in revenue collection in China. Wenchang is seen as belonging to one of the several patterns of development that have emerged under different circumstances in reform-era China. The conclusion also discusses the broader
problems of state administration at the county level and below. The third and last issue discussed in the conclusion is the nature of the state involution developed in this study, and how this is relevant to understanding broader issues of political development in China.


2 The apparent continued rise in the extraordinary duration of the communist regime in state building explains why the question of local administrative control in the post-1949 period has not received much attention. As an example, the two volumes of The Cambridge History of China on the contemporary period do not have even one article on local government and control. This provides a sharp contrast to the volumes on the Late Qing and the Republican periods. In those volumes on the earlier regimes, local control received substantial attention. The disappearance of this topic in the volumes on the contemporary period perhaps reflects the view that it had ceased to be a problem in Communist China. Vivienne Shue, however, has some reservations about this view. See Shue, The Reach of the State: Sketches of the Chinese Body Politic. Stanford, Calif., Stanford University Press, 1983, pp. 75-81.
Chapter Two
ON THE CHINESE LOCAL STATE

Following the 1949 revolution, the Chinese communist regime ultimately extended state building beyond what earlier regimes in Chinese history had achieved. In the countryside, the new government extended the reach of the state beyond the county seats and established a system of local government at the sub-county levels that was subject to the bureaucratic controls of the rulers in Beijing. This accomplishment, and the larger political order of which it is a part, was tied to a command economy and a collectivized agricultural system that facilitated effective political controls and mobilization of resources for the service of state goals. Departures from the command economy and from collectivization in the reform era, however, have brought significant changes in economic


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and social foundations, and therefore raised questions about the continuing viability and tenacity of this political order.  

How have economic reforms affected state building in rural China? Have these reforms reduced or enhanced the capacity of the local state to maintain its long reach into Chinese society? If state building has continued unabated, as evidenced in the proliferation of state functions and expansion of local state agencies, how has this been achieved? And more importantly, how should we characterize the patterns of state growth at the local level, and what do they hold for our understanding of local state building and the nature of political changes in China?

The academic literature about the Chinese local state has grown rapidly in recent years, and divergent perspectives on the local state have emerged. The differences in the researchers' understanding of the local state in large part reflect regional variations, which are in turn shaped by the level of economic development and rural industrialization. But these differences also reflect different theoretical assumptions about the structure and capacity of the local state, and how it has interacted and coped with the forces unleashed by economic reform and fiscal decentralizations. This chapter reviews this set of literature, discusses their strengths and weaknesses, and sets the theoretical context for the empirical study of Wenchang and the proposition that the local state has undergone an involutionary mode of development.

This chapter first discusses the main arguments and deficiencies of three competing and contradictory conceptions of the roles of the local state in the reform era, namely the local developmental state, local entrepreneurial state, and the predatory state. I suggest that while these theories offer important insights, they tend either to take a coherent state structure and high state capacity for granted or fail to pay adequate attention to the impact of the entrepreneurial imperatives on state organization and behavior. The second section of the chapter examines the literature on state building in post-Mao China. Unlike the literature discussed in the first section, this set of literature does focus on the inner workings of the local state, noting the proliferation of state functions and expansion of state organs and personnel at both the county and township levels. The problem with these studies, as I will point out in this section, lies mainly in their failure to go beyond the formal structures and to note the complex strains and pressures building up within the local state. The weaknesses of the current literature that will be discussed in these two sections underscore the relevance of the theory of state involution, which will be discussed in the chapter’s final section. That section will discuss in greater detail the original arguments of Prasenjit Duara and will examine how his conception might be relevant to understanding the major limitations of the local state in post-Mao China.

Perspectives on the Chinese Local State during the Reform Era

Local state administration had been a chronic issue in Chinese history. Not only did government administration rarely go beyond the county seats, but even at the county level the administration was feeble and problematic. In *The Religion of China*, Max Weber described county administration in traditional China as a prebendal system, and viewed the problems in local state administration, corruption and an explosion of fees and surcharges, for example, as a natural and inevitable outgrowth of this peculiar administrative structure.

More specifically, Weber said,

"the government formally gave salaries to its officials, but only a fraction of the forces actually engaged in administration were so paid. Often the salaries formed but a small, indeed an insignificant part of their income. The official could neither have lived on his salary, nor have covered the administrative costs which it was his obligation to cover. What actually happened was this. The official ... was responsible to the central government ... for the delivery of certain amounts. In turn, he financed most of his administrative expenditures from fees and taxes and retained a surplus. Though not recognized de jure, it was de facto the case and was among the lasting consequences of the tax quota system."  

Likewise, Prasenjit Duara assigned primacy to the structural characteristics of state administration at the local level in explaining official corruption and exploitation of the peasantry:

"The familiar litany of evils associated with clerks and runners should therefore not be seen as acts of corruption but understood in terms of the state-brokerage model. In a bureaucratic organization... clerical tyranny becomes a feature of the system itself."}

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State administration at the county level in traditional China was also weak and ineffective in that the magistrates were transient (as a consequence of the avoidance system) while the other sub-administrative personnel and the local gentry often held the real power. The imperial bureaucracy of course issued rules to regulate the sub-administrative personnel, but as clearly pointed out by Chu Tung-tsu, these were not always very effective.\(^7\)

Subsequent state-building efforts in the first half of the twentieth century did not have much success, because, as evident in the discussion of state involution below, the penetration of the state into the sub-county level during this period was not accomplished by success in establishing a bureaucratic structure. Instead this penetration of the state was carried out through reliance on local strongmen who acted as state agents but were not adequately controlled by the state. Not only did this weaken the state; it also did much to destroy the protective community structure of the villages.\(^8\)

The post-1949 regime was a culmination not only of a change in political power but also, and more importantly, a social revolution.\(^9\) With the local gentry completely destroyed as a result of the social revolution, the new regime was able to embark on the task of state building at the local level that the earlier regimes had tried but failed to achieve. The collectivization beginning from the mid-1950s further extended the reach of the state and strengthened state control. Although the three-tier structure below the county – the system of communes, production brigades, and production teams - was nominally locally collective in nature, it was in fact closely integrated into the bureaucratic structure running


\(^8\) Duara, *Culture, Power, and the State*. 

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from the national capital to the county seats. From a historical perspective, the state building achievement of the post-1949 regime is nothing but epochal. While in the past state administration stopped at the county seats, it now extended several levels below the county level. In place of the weak county magistrates of earlier times who often had to count on outsiders to carry out their functions, now there is a large and regular bureaucratic establishment. Nowhere has this institutional difference been reflected more clearly than in taxation and revenue collection. The earlier regimes had to rely on individuals and agencies outside state administration to collect taxes and revenue, and to live with the corruption and depletion of revenue inherent in this system, whereas by the mid-1950s taxation and revenue collection had become basically bureaucratic undertakings.¹⁰

The degree of state penetration and power vis-a-vis the peasants in rural China during the Maoist period, however, has been a point of disagreement. In *The Reach of the State*, Vivienne Shue advanced a view that in Mao's China, the state's reach was effectively inhibited by a cellular structure of the Chinese peasant economy and society (this protective cellular structure, she contends, was unintentionally strengthened by many of the Maoist policies during the first three decades of Communist rule); that the local cadres were as much, or even more so, representatives of the peasant society as they were agents

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of the state.\textsuperscript{11} This provocative argument stands in sharp contrast to a host of empirical research on village life during the collective era.\textsuperscript{12}

Shue's view of the hobbled state in Maoist China has shaped her view of state-society relations in the reform era. The argument that the state's penetration had been inhibited by the cellular structure of Chinese rural society in the Maoist era has, for Shue, a contemporary extension: the advance of market forces help to destroy the cellular structure and make it easier for the state to penetrate into rural society. This view is also at the core of the debates about the role and influence of local cadres in the wake of rural reforms and de-collectivization. However, the influence of local cadres and the local state seems to have been preserved in many parts of China, but not for the reason (market expansion reducing a rural protective structure) proposed by Shue. Rather, the local state has continued to exercise a lot of influence because rural industrialization based on collective enterprises has bestowed new resources to local cadres. This is most clearly evident in the theories of a developmental local state and local state corporatism. However, there is by no means a uniform pattern to the role of the local state. It has varied greatly from one locality to another.\textsuperscript{13} The studies discussed in the following pages attest clearly to this point.

\textsuperscript{11} Vivienne Shue, \textit{The Reach of the State}, p.79.
\textsuperscript{13} Jonathan Unger and Anita Chan, "Inheritors of the Boom."
The Local Developmental State

The local developmental state conception owes its origin to the works of Chalmers Johnson, Robert Wade, Alice Amsden and others about the state's guiding role in the economic miracles of Japan and the East Asian NICs. While in Japan and the East Asian NICs "developmental state" refers to the central state, in China it usually refers to the local states in the writings of its proponents - particularly the local governments at county level and below. In the first place, the appeal of the developmental state conception stems from the important reality that as a result of fiscal decentralizations and economic reform in the post-Mao period, local autonomy has increased substantially and economic development has become primarily the responsibility of local governments.

The developmental state theory, as formulated by Chalmers Johnson in his study of MITI of Japan, has a number of inter-related elements: a strong commitment to long-term economic growth and international competitiveness, specific industrial and sectoral

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policies to realize long-term economic rationality, specific policy instruments to implement these policies, and a number of institutional and sociopolitical characteristics to the state-society relationship and within the state itself that support the pursuit and achievement of long-term economic growth and international competitiveness. In this formulation, the developmental state model means not just a set of specific policies to pursue economic growth and national competitiveness in the international arena; more importantly it refers to a set of political and institutional structures for the successful implementation of such policies. As pointed out by Ziya Onis, these structures are the political and institutional bases of a state-led development strategy. By implication, if the same set of strategies and policies is pursued in the absence of these structures, it will be counterproductive or at least will not have the same outcomes as in the East Asian countries.

The institutional and sociopolitical structures that the developmental state model entails are demanding, mainly because they encompass much more than state autonomy. State autonomy, of course, is central to a developmental state, as a state captured by special interests would not be able to pursue wise strategies oriented to growth and long term competitiveness. However, what is more demanding is that the state should not only be insulated from social forces and interests; it should also have the capacity to effectively undertake state intervention. Such a capacity would require the state to possess such structural features as the capacity to attract and keep the best talent, but it is more


importantly a function of the existence of extensive networks of public-private cooperation. To be sure, state autonomy and public-private cooperation are always in a state of potential conflict in the developmental state model, but it is precisely the ability to keep in check this potential conflict that makes the East Asian developmental states historically unique. Peter Evans labels this uneasy relationship "embedded autonomy", which, while sounding like a contraction in terms, captures the inherently precarious balance between embeddedness and autonomy.18

Another noteworthy feature of the developmental state model is that it has been primarily formulated to examine the role of the state in economic growth and industrial transformation in capitalist economic systems.19 In a capitalist economy, the majority of economic activities are conducted by the private sector through the market. This is an important point to note in the context of the present discussion, in that China is emerging from a socialist economic system. After two decades of reforms, in many places in China, the economy remains dominated by public ownership and this may render the developmental state model less applicable to the Chinese case.20 However, as more state enterprises are privatized, the Chinese state may increasingly assume the roles associated

18 Peter Evans, *Embedded Autonomy*, pp.12-3. Evans argues that "only when embeddedness and autonomy are joined together can a state be called developmental."
19 In *MITI and the Japanese Miracle*, Johnson distinguishes among the liberal economic system, the socialist economic system which he refers as plan ideological, and the Japanese system he refers as plan rational.
with the development state, as Jean Oi's recent article about Zouping suggests.\(^{21}\) Similarly, the developmental state model may be more applicable to regions such as Wenzhou, Jinjiang and Nanhai where public ownership is not very pronounced, and the roles of local governments are limited to providing indirect guidance and support.\(^{22}\)

Marc Blecher and Vivienne Shue have explicitly applied the developmental state concept in their study of Shulu, a county in Hebei Province in north China.\(^{23}\) Noting that the concept of the developmental state was originally formulated for the states in a capitalist economy and "therefore cannot be applied without some serious caveats to the workings of state socialist systems," they nevertheless find the concept useful for framing the roles of the county government in local development both before and during the reform era in Shulu. They argue that Shulu's county officials "adopt a certain posture of distance from the specific enterprises and administrative organs within its purview - that is, it can confine itself to creating the conditions for them to engage in the productive, the entrepreneurial, and in the 1980's, the profit-seeking activities that actually create economic growth, rather

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than directly taking up productive, entrepreneurial, and profit-seeking activities itself.\textsuperscript{24}

Blecher and Shue emphasize that in Shulu the county government falls short of direct control and intervention, and in this way, it should be viewed differently from the roles played by local governments in other parts of China where local governments are directly involved in a major way in managing enterprises and entrepreneurial activities. This emphasis provides an interesting and telling contrast to the emphasis when the developmental state model is argued for Japan and other East Asian NICs. When Chalmers Johnson and other scholars argue for the developmental state theory, they always find it necessary to confront the neoclassical economic models which favor a minimal role for government in the economy, and to argue instead that the state beneficially steps into the scene by setting and enforcing sectoral policies.\textsuperscript{25} Another interesting way to see the unique context of the Chinese case is that in Japan and the East Asian NICs, the developmental states distorted the markets to achieve long-term economic rationality and international competitiveness. However, a key task and in fact the definition of the local developmental state in Shulu county, according to Blecher and Shue, was to foster "the development of markets."\textsuperscript{26}

There are certain problems in extending the developmental state conception to study the local state in China. First, to suggest that the local state during the Maoist period was a developmental state runs into considerable conceptual difficulties, because under a

\textsuperscript{25} Johnson, \textit{MIT and the Japanese Miracle}; Wade, \textit{Governing the Market}.
\textsuperscript{26} Tethered Deer, p.212.
command economy the local state not only owned all state enterprises, but also directly managed them and tightly controlled other economic activities. Here the strain of applying a concept originally formulated for a totally different context is manifested most clearly.

Second, even for the reform period, this problem does not disappear. It is problematic to extend this conception to local governments that not only own the majority of economic enterprises, but also are directly involved in the management and operation of these enterprises. As a result, exactly how these local governments in China resemble the developmental states in Japan and the East Asian NICs still requires considerable conceptual clarification. The developmental state conception is probably more appropriate for those regions where public enterprises are not dominant and local governments have a more indirect involvement in economic activities.

However, the main problem is that this perspective seems to run counter to the institutional logic of the reforms implemented in China in the past two decades. Fiscal reforms have not only assigned clearer property rights to local governments, which have created strong incentives for local governments to develop industrial enterprises. At the same time, they have also made it imperative for many of the local governments to focus on immediate revenue gains. As Christine Wong suggests, "in response to fiscal pressures

27 Note that Chalmers Johnson draws a distinction between plan ideological and plan rational.
and incentives, local governments have vigorously promoted industrial development in
their attempt to build new and profitable industries to offset declining revenue and to
finance growing expenditures." 29 The institutional arrangements in the reform era did not
seem to leave much room for the local governments to stand aloof and focus on long term
gains, particularly in the first phase of reform, though this has started to change more
recently. As reform deepens, market competition intensifies, and the macroeconomic
environment changes, the benefits of public enterprises to local governments have
gradually disappeared, which is one of the reasons behind the support for privatization of
some local governments. 30

The weakest link of the theory of the local developmental state is the failure to examine
whether China's local state really possesses the institutional features that lie at the core of
the East Asian developmental states. The theory claims that local governments in China
are committed to long-term economic goals and possess the organizational capacity to
achieve these goals. 31 Oi attributes the capacity of the local state to the legacy of the
Maoist system. The local state under Mao had developed an elaborate network of policy
quotation from p.198. See also Barry Naughton, "Implications of State Monopoly over
29 The disregard for cost to environment in many localities also reflects this imperative for
short-term revenue gains.
Case of Wuxi County," in Jean Oi and Andrew Walder (eds.), Property Rights and
Economic Reform in China, pp.106-7. Barry Naughton links the advantages of township
and village enterprises over state-owned enterprises to the specific macroeconomic
environment in which they initially operated, and predicts that they would soon face the
same problems confronting the traditional state sector. See Naughton, "Implications of the
State Monopoly."
31 Jean Oi, "The Role of the Local State in China's Transitional Economy," in Andrrew
Walder (ed.), China Transitional Economy, pp.170-87,
instruments and a high level of organizational capacity. The bureaucracy also exhibited a high degree of discipline. This system did not work well during the Maoist period because of ideology and the absence of the right incentives.³² When economic reforms started in China, the organizational capacity was already in place. When provided with the right incentives, the same political and bureaucratic structure and even the same cadres started to serve developmental goals. Therefore, notes Oi, "for China the issue was not whether its bureaucracy was capable of generating economic growth but whether it had the incentive to do so."³³ The message is clear: the political and organizational foundation inherited from Mao is sound; it has not changed much during the reform era (only the incentives have); and it has served local economic development well.

Two simple but important points can be summarized from the local developmental state conception. First, the Leninist party-state is viewed as possessing the organizational attributes for state-led development. Second, in post-Mao China the Leninist party-state inherited from the Maoist era has remained largely intact, and it has been skillfully adapted to steer state-led development.³⁴ Both points need to be viewed with caution. For one thing, whether the Leninist party-state shares the essential features of the developmental state should not be taken for granted. The former surely possesses a high capacity for mobilization, but we should also bear in mind Charles Lindblom's apt metaphor that communist systems have strong thumbs but weak fingers, and we should note, too, the ubiquity of mutual dependency in Chinese organizations and the bargaining between

³² Jean Oi, "The Role of the Local State;" Jean Oi, Rural China Takes Off, pp.3-10.
³³ Rural China Takes Off, p.6.
governments and enterprises as well as among government agencies.\textsuperscript{35} Moreover, it is by no means certain that the Leninist organizational features have continued to prevail in the reform era. It is true that China has not carried out structural political reform and the Communist Party of China is still at the helm,\textsuperscript{36} but the economic reforms have produced significant unintended consequences for the regime. What Walder characterizes as "the quiet revolution from within" has undermined the internal discipline and cohesion of the party-state and led China onto a self-reinforcing path of political decline.\textsuperscript{37}

The local state in China is highly autonomous from society, but state autonomy is not equal to a high capacity to orchestrate and guide local development.\textsuperscript{38} In Japan and the East Asian NICs, state-led growth strategies are managed and implemented by prestigious bureaucratic agencies. These agencies are not only adequately insulated from society, they are also able to attract the best talents in society, which is made possible either by the glory associated with service for the country (as in Japan and South Korea) or by attractive pay and benefits (as in Singapore).\textsuperscript{39} As Evans' notion of embedded autonomy suggests, the states in these countries possess a multiplicity of policy instruments and


\textsuperscript{36} Susan Shirk, \textit{The Political Logic of Economic Reform in China}, Berkeley, Calif., University Of California Press, 1993; Jean Oi, "The Role of the Local State."


\textsuperscript{38} Linda Weiss, \textit{The Myth of the Powerless State}, pp.24-40.
resources to achieve their goals. It is difficult to argue that China's local states possess all of these features. For example, government officials in China are known for receiving a paltry salary. For some periods, service in the government was regarded as insufficiently attractive, and many cadres chose to leave the government to "step into the sea of business" (xiahai). During the Maoist period, the recruitment and promotion of cadres were based on political criteria. In the reform era, political criteria have become less important, but other considerations such as corruption and patronage continue to affect the quality of the state bureaucracy, especially at the local level. A civil service code that institutionalizes open and competitive recruitment examinations and seeks to develop a more rational pay structure for the state service, became effective only as late as in 1993, and even after that, important problems remain. For example, although the central government decided to substantially raise the overall pay of the civil service in 1993, many local governments did not pay or only paid a portion of the adjusted salary to their employees because of revenue shortages or other reasons, as described later in this thesis.

The civil service code proposes to adjust the overall level of civil service pay every two years, but this similarly has been held back by the fiscal shortages of local governments and a concern for overall political stability.

It may be countered that the actual incomes of government cadres in China are much higher than their formal salaries, and that government service is still attractive to many

39 Charlmers Johnson characterizes the MITI as "without doubt the greatest concentration of brainpower in Japan." MITI and the Japanese Miracle, p.26.
40 I discovered during fieldwork in the late 1990s that in Wenchang, bribery was a necessary, although not necessarily a sufficient, condition for entry into local bureaucracy and promotion.
talented people. These arguments are correct, and they point to issues that are crucial to
the nature of the local state. First, officials do not rely sorely on the state for income. Second, because of revenue shortage government bureaus and agencies are compelled to engage in activities and undertakings that could help solve their revenue problems. In these ways, the local state has developed many features that deviate from conventional bureaucratic principles, which are considered to be crucial to effective state intervention and responsible and coherent state behavior.\footnote{Dietrich Rueschemeyer and Peter Evans, "The State and Economic Transformation: Toward and Analysis of the Conditions Underlying Effective Intervention," in Peter Evans, Detriech Rueschemeyer and Theda Skocpol (eds.), \textit{Bring the State Back In}, NY, Cambridge University Press, 1985.}

At present, there is still precious little research to support the claim that the Chinese local state actually possesses the attributes crucial to the success of the developmental states. It appears, in fact, the institutional environment in post-Mao China does not provide the right incentives for local governments as a whole and for individual officials to seek long-term goals at the expense of immediate gains.\footnote{There are now abundant examples of officials pursuing short-term targets or achievements (\textit{zhengji}) at the expense of the long-term interests of the community or regions in which they serve. See, for example, Kevin O'Brien and Lianjiang Li, "Selective Policy Implementation in rural China," \textit{Comparative Politics}, Vol.31 No.2 (January 1999), pp.167-86. Chapter Five below discusses how Zhu Mingguo, Wenchang’s party secretary and county magistrate during 1993-1998 abused scarce revenue in Wenchang to advance his own career.} In any case, a revenue-starved local government is hard to square with an image of a local developmental state. There may be great variations across regions, and for the more industrialized and prosperous localities, the revenue pressures may be sufficiently moderate that local governments may be able to exchange short-term gains for long-term benefits. Such a relatively healthy revenue
situation also allows a local government to maintain a semblance of organizational cohesion. However, in many localities that are locked into chronic revenue shortages, local governments are more likely to grasp whatever means become available to generate additional revenue to support their expenditures, which are not very elastic.

Before moving to the local entrepreneurial state, it is germane to point out the conceptual linkage between what Jean Oi describes as local state corporatism and a local developmental state. Albeit one of the most vocal advocates of the theory of local developmental state, Oi coined the concept local state corporatism to capture the almost complete fusion of state and economy at the local level. However, local state corporatism entails much more than a local state that restricts itself to the roles associated with the capitalist developmental state. Her conception suggests that the local state in China is more entrepreneurial, more assertive and involves itself more deeply in the operation of the local economy.43 For purposes of analytical clarity, local state corporatism should best be viewed as a variant of local state entrepreneurialism.44

Local State Corporatism and the Entrepreneurial State

The entrepreneurial state conception is not as prominent and rigorously developed as the developmental state model in the comparative and theoretical literature, because until recently the practice of state agencies engaging in entrepreneurial economic activities was

44 Andrew Walder draws a distinction between these two kinds of state involvement in "The State as an Ensemble of Economic Actors: Some Inferences from China Trajectory of Change," in Joan Nelson, Charles Tilly and Lee Walker (eds.), Transforming Post-
almost considered abnormal. In recent years, entrepreneurial government has become increasingly popular in Western countries as a result of the rise in popularity of new public management concepts, but, despite its apparent appeal and deceptive truth, entrepreneurial government is still a marginal phenomenon, an appendage to the main body of Weberian bureaucratic organizations.\textsuperscript{45}

Thus, unlike the local developmental state conception, the entrepreneurial state conception does not originate full-blown from an established model in the comparative and theoretical literature. This concept is developed specifically to describe the singular importance of entrepreneurial behaviour by the local state and its agencies in China.\textsuperscript{46} It posits that local government authorities are directly and deeply engaged in profit-making activities, much like entrepreneurs. At the local level, Oi argues, there is a merger of state and economy, very much like their merger during the Maoist period. The spectacular economic growth in China during the reform period is largely a result of local government entrepreneurship, she suggests, which has flourished when local governments are provided with the right incentives and given relatively secure property rights.\textsuperscript{47} All these benefits flow from fiscal reforms, which is undoubtedly one of the most significant institutional changes in post-Mao China. For all the variations across regions and times, the core element of fiscal reforms has been the granting to local governments of rights to fiscal surpluses or

\textit{Communist Political Economies}, Washington, D.C., National Academy Press, pp.432-452.\textsuperscript{45}


\textsuperscript{46} Marc Blecher, "Development State, Entrepreneurial State."

\textsuperscript{47} Jean Oi, \textit{Rural China Takes Off}.
residuals. Through this, local governments have a direct stake in the growth of revenue. This incentive has been translated into entrepreneurship in rural industrialization because, compared to agriculture, at least in the first decade of the reform era, industrial development is particularly lucrative.

Fiscal reforms have also led to local state entrepreneurialism (and predation, as discussed below) in yet another way: the revenue shortages experienced by practically all local governments and even by the functional agencies. China's budgetary system in the reform era has operated in a way that typically leaves a large gap between budgetary revenue and actual expenditures, regardless of whether a local government is required to turn over revenues to higher levels of government or receives subsidies.\(^48\) While this is a less central theme to her analysis, Oi also notes how the revenue shortfalls have pressed local governments toward engaging in entrepreneurial activities.\(^49\) This gap is a serious concern for the local government because expenditures not only are very inelastic, they have also risen fast as a result of bureaucratic expansion and other increasing demands for expenditures. The value of extra-budgetary revenue for the local government lies not only in its role in bridging the gap between budgetary appropriations and expenditures, but also in the fact that it is less stringently controlled by the upper levels.

\(^{48}\) Why this is the case has not been seriously studied. Obviously, it has something to do with the inherent rigidity of fiscal arrangements and the fiscal crisis in the reform era, but why it has become a systemic feature is still not fully understood.

As a result, local governments have become, as stated by Oi, "fully fledged economic actors, not just administrative-service providers as they are in other countries." However, Oi's theory of local state corporatism entails more than a conception of the local state heavily drawn into entrepreneurial activities, and this sets it further apart from the capitalist developmental state. According to Oi, "local governments have taken on many characteristics of a business corporation, with officials acting as the equivalent of a board of directors." Public enterprises that come under local government jurisdiction are like branches and subsidiaries of the government. Just as a business corporation shifts resources among different branches and subsidiaries, a local government moves resources among enterprises and even among different subordinate governments. Extraction from enterprises by a local government is not considered predatory, because it is a mechanism by which the local government gathers resources and capital for reinvestment and corporate growth. Apart from this redistribution of revenue among different subsidiaries, the local government also exercises other forms of direct intervention in the operation of public enterprises. While some of the local government's roles resemble the roles of the capitalist developmental states, many others are not very different from the direct control of economic enterprises by local governments in Maoist China. Therefore, drawing on Chalmers Johnson's distinction between a "plan ideological" and a "plan rational", Oi argues that similar structures and state-enterprise relations in the post-Mao period have produced different results largely because officials now have the right incentives to pursue economic growth.

50 Oi, "The Role of the Local State," p.175.
This explanation obviously leaves much to be desired. The main problem is that it is not enough just to emphasize the change in the incentives of local governments because, according to Walder, this does not address explicitly the key concern in Kornai's analyses of the failure of market reform in the former Eastern European countries. According to Walder, Kornai's analyses

"found the failure of past market reform not in the lack of financial incentives for either firms or governments, but in the relationships among them, specifically in the unavoidable bilateral monopoly that leads to a regime of bargaining, which in turn softens budget constraints and weakens financial performance." 53

Like Oi, Walder views local governments as industrial corporations, and the relations between governments and their enterprises as the relations between a corporation headquarters and subordinate branches. However, he goes beyond the fiscal incentives of local governments and places emphasis on the varying characteristics of governments and enterprises at different levels along the multi-level administrative hierarchy. While government jurisdictions at the upper end of the hierarchy are plagued by bilateral monopoly and soft budgetary constraints, those at the bottom (county, township and village) are largely free from these problems. They have a hardened budget constraint, fewer or no non-financial interests to bother with, and have a greater capacity to monitor and control the enterprises under them. These factors are closely related to the small scale of local governments and their less diversified industrial bases. These features are crucial

52 Oi, "The Role of the Local State," p.178.
53 Walder, "Local Government as Industrial Firms."
to the superior performance of the public enterprises controlled and managed by lower level government authorities in the reform era.\textsuperscript{54}

There is a subtle but important difference between local state corporatism and Walder's arguments. Placing emphasis on the right incentives given to local governments, Oi's analysis allows greater room for non-financial interests, re-allocation of revenue among different subsidiaries, and therefore bureaucratic bargaining within the local corporate setting. To Walder, these mechanisms should no longer exist. Non-financial interests and re-distributions of revenue among enterprises, to the extent that they exist, are harmful to economic performance and financial discipline.

Another noteworthy point is that, to Walder, the capacity of local governments in monitoring and disciplining enterprises is a function of the size and diversity of the local industrial base. Hence, a less diversified industrial base and a small number of enterprises should be sufficient to explain the capacity of county, township and village governments to monitor their economies effectively. Hence, the internal features of the local governments do not figure much in this analysis. These features, however, are important to the theory of the local developmental state.

State entrepreneurialism is also the main theme of Jane Duckett's research in Tianjin.\textsuperscript{55}

Like Oi and Walder, Duckett observes that during the reform period urban governments

\textsuperscript{54} Compare Oi, "The Role of the Local State," pp.1140-1,1142; "Fiscal Reform and Economic Foundations," p.117-118, 123 with Walder "Local Governments as Industrial Firms," p.281-286. On the question of budget constraint, Walder seems to retract from the distinction between soft and flexible but hard budget constraint he tried to make earlier.

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have been very much involved in economic activities, and have become increasingly entrepreneurial in their orientations and pursuits. Where she differs from the studies on rural China is that she focuses not on the local governments as a whole but on individual bureaux, which "have become entrepreneurial, independently engaging in profit-seeking, risking-taking business that can be economically 'productive' by increasing economic activity, producing goods and providing services." In Duckett's analysis, individual bureaux in Tianjin established a large number of business entities to take advantage of opportunities available to them and to meet rising revenue needs. The first condition enables the government bureaux to participate in commercial and profit-making activities, and the second imperative means that they need to do so. The entrepreneurial spin-offs of the bureaux help them to cope with streamlining, accommodate surplus staff, and alleviate revenue shortages.

Duckett's analysis holds important implications for our understanding of the local state in China. Focusing on the interests and activities of individual bureaux, she challenges whether it is possible to view the local government as a unitary actor. Although Duckett does not make a distinction between the local developmental state and local state corporatism, she does challenge the image of a relatively coherent and unified state

56 Ibid., pp.13-4.
57 Walder points out that the participation of state agencies in revenue earning activities is "one of the most underresearched dimensions of China's economy." Andrew Walder, "The State as an Ensemble of Economic Actors," p.446. Two recent interesting articles on this dimensions are, Yi-min Lin and Zhanxin Zhang, "Backyard Profit Centers: The Private Assets of Public Agencies," in Jean Oi and Andrew Walder (eds.), Property Rights and
implied in the literature. As Duckett states, the entrepreneurial activities of the spin-offs of bureaux have "resulted not only in competition among the businesses of different state bureaux, but also in rivalry between local government enterprises and those of the individual bureaux."\(^{58}\)

However, Duckett's analyses have several weaknesses. First, she does not pay much attention to the extent that the entrepreneurial drives of the individual bureaux not only create a rivalry between their enterprises and those of the local governments, but also undermine the internal unity and cohesion of the local state.\(^{59}\) Second, she traces the origin of the entrepreneurial activities solely to the emergence of market opportunities created by the reforms. This explains why she thinks that the engagement of state bureaux in business activities would not compromise their administrative functions. However, because state bureaux can and do make use of their administrative powers to help their business spin-offs, their business opportunities are probably not created so much by market reform as by its absence or distortion.

Third, because Duckett focuses mainly on the business undertakings of state bureaux and the opportunities created by market reform, she maintains that the administrative functions and business activities of state bureaux are separated, and they do not abuse their administrative powers to the advantage of their business operations. She does not pay any attention to whether the entrepreneurial drive of the bureaucrats is found not only in the


business spin-offs of state bureaux, but also in their core functions as well. This problem is particularly relevant to bureaux in less developed parts of China where, unlike Tianjin, there are not many business opportunities. And even in regions where plenty of business opportunities exist, it is hard to believe that state bureaux would voluntarily keep their business undertakings entirely separate from their administrative functions. After all, administrative bureaux could not easily be prevented from using their administrative powers to place their spin-offs in an advantageous position in market competition. Either way, the administrative functions of state bureaux are likely to be shaped and even distorted by the upsurge of entrepreneurialism. An implication for understanding the Chinese local state is that entrepreneurialism in the functions of state bureaux can have wide-ranging consequences.

To Duckett, state entrepreneurialism suggests the state can adapt to marketization in ways which contribute to continuing processes of market reform.60 To support this benign interpretation, she argues that the business undertakings are not replicas of traditional state enterprises in that they have fewer employees, have a simplified administrative structure, and operate under hard budget constraints, because the investment comes from the bureaux, not from the state. And these business undertakings of state bureaux do not represent rent-seeking, because they do not take the form of setting tariffs on trade but rather take the form of direct business activities by the state.61 However, Duckett has a very narrow definition of rent-seeking behavior. Rent is certainly found in a tariffs system,

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59 One of Duckett's main concerns is to reject the thesis that state agencies will resist reform and market. Ibid., pp.5-11.
60 Ibid., p.159.
but it is more common in a situation when the state bureaux themselves are direct entrepreneurial players in the market. For example, if a particular state bureau accords special treatment to its business spin-offs and distorts market competition, some of the revenue earned by the bureau from these business undertakings certainly should also be viewed as rent.

Duckett's analysis stands in sharp contrast to other scholars' findings from fieldwork in other regions of China. David Wank, for example, points out that in Xiamen local cadres were given shares (called power shares, \textit{quanli fen}) in companies for their patronage of these companies.\(^{62}\) Ole Bruun finds systematized exchanges of benefits between private entrepreneurs and local bureaucrats in Chengdu, Sichuan Province.\(^{63}\) While these observations are not directly about the business undertakings of state bureaux, they do suggest that local officials are easily tempted to exchange their powers for benefits when getting involved in entrepreneurial activities. A more relevant example comes from the conflict in the policy roles and the entrepreneurial aspirations of the grain bureaux, local governments and banks. As a result of such conflicts, earmarked funds for grain procurement were diverted into entrepreneurial activities, resulting in the notorious IOU crisis of 1992.\(^{64}\)


The Predatory State

The thesis of a predatory state, in its characterization of the fundamental nature of the local state, stands in sharp contrast to that of the local developmental state and local entrepreneurial state, although the predatory state thesis emphasizes the same underlying forces that are at the core of the two latter theses. One of these forces entails the revenue shortages that follow fiscal reform. In post-Mao China, there have been extensive reports of predation against the rural populace by local governments that are strapped for revenue to meet their ever-growing expenditures.65

Like the developmental state conception, the predatory state is an important “ideal” type in comparative analysis, because it appears to describe a number of states in the Third World.66 According to Peter Evans, there are two almost completely opposite explanations of why a state should be predatory. One explanation, from neo-classical economics, argues that state activities are inherently predatory, that the state is a necessary evil, and that the smaller the state, the better. In this view, a big bureaucracy and more state intervention are nothing but prescriptions for a predatory state. Another explanation, which turns the former explanation on its head, claims that a predatory state arises not from the prevalence of bureaucracy in a Weberian sense, but rather from the absence of it.

More specifically, a state easily becomes predatory when the "invisible hand of the market" is allowed to dominate and guide administrative conduct, and when there are not adequate rules to govern the behavior of officials, and a low level of corporate cohesion. In short, a state becomes predatory when it is not adequately bureaucratized.  

A predatory state is one that extracts much but provides little service, and "plunder[s] without any more regard for the welfare of citizenry than a predator has for the welfare of its prey." A predatory state is also best viewed in terms of a particular form of state structure and state-society relations. This approach enables us to give prominence to an important question: what kind of state structure permits or even facilitates state predation or, to pose the question somewhat differently, is there any relationship between a particular form of state structure and state predation? It is possible that a predatory state could be a strong or a weak state, if strong or weak only refers to the capacity of the state to extract from society. However, almost by definition, an extremely weak state is not predatory because it would not have the power to extract much from society.

These conceptual considerations are highly relevant to the study of the local state in post-Mao China. Although the predatory local state image has become increasingly influential,

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68 Although Evans at times gives the impression that a predatory state is defined in terms of developmental outcomes (*Embedded Autonomy*, p.44), his main focus is on the internal structures of a state: "It is not just poor developmental performance that defines the predatory state. Internal organization and the structure of its ties to society mark it just as clearly" (*Embedded Autonomy*, p.47).
69 It is often suggested that in many regions local governments and officials live on subsidies from above and arbitrarily imposed local taxes and levies. More than half of
we have just begun to understand the deeper structural processes leading to undiscriminatory predation by local officials. Most studies emphasize the impact of fiscal decentralizations and the resultant fiscal starvation of local governments.  

Few studies have, however, focused on whether and how the rise in predation by the local state is related to changes in the structures and processes of the local state.

A notable exception is Andrew Wedeman's study of institutional corruption in rural China. Institutional corruption is based on the institutions of the state, and it is distinguished from individual (and more conventional types of) corruption by its collective character and also by its partially legal status. Wedeman states, "whereas private corruption involves the illegal pursuit of gain by individual officials or groups of officials acting in their own self-interest, institutional corruption involves the pursuit of gain by institutions acting collectively and relying on the authority or resources of the organization to generate or extract income improperly." 

Institutional corruption means the corruption of the institutions of the state and results in a loss of state integrity and cohesion, and a weakening of internal control and discipline. It

China's 2,000 plus counties received subsidies, and in most of these counties, an increasing proportion of their revenue went to support the expenditure of the local state bureaucracy. See Zhongguo xingzheng gaige da qushi, Beijing, Zhongguo jingji chuban she, 1993, pp.73-77.


Ibid., p.806.
fits nicely with the predatory state image conceived in structural terms in a lack of bureaucratic rules and discipline. It represents "the perversion of the mechanisms of control and the conversion of an institution from a means to prevent illicit behavior to a means of organizing illicit acts." As a result, little (except directives from central government) is available to prevent state agencies and officials from extracting too much from society. 

State agencies and officials go their own ways to raise revenue and line their own pockets on an institutional basis. Second, in pursuit of their own monetary gains state organizations rely on their controls of administrative powers to extract revenue from the helpless people. Hence, institutional corruption is closely associated with the so-called three disorders (sanluan): arbitrary fees (luan shoufei), arbitrary fines (luan fakuan), and arbitrary levies (luan tanpai). Third, institutional corruption often leads to predatory behavior because very often it is not entirely illegal. Rather, state institutions have become corrupt because they have to, and therefore their many apparent irregular and even illegal behaviors are approved or at least tolerated by the central authorities. In this way, the central authorities need to strike a precarious balance between allowing state institutions to generate adequate revenue to finance their activities and protecting the populace from being exploited too much by local state agencies and officials.

As Wedeman's study suggests, institutional corruption in China could become so outrageous as to involve clear-cut violations of central regulations and a collusion of parties. This has

73 Therefore, the central authorities have found it necessary to safeguard the interests of the peasants.

74 Wedeman, "Stealing from the Farmers," p.809.

75 Kevin O'Brien and Lianjiang Li, "Selective Policy Implementation;" Christine Wong, "Central-Local Relations in an Era of Fiscal Decline."
resulted in major crises such as the crisis of IOUs owed to farmers in 1992. However, in most cases, institutional corruption represents a more gradual process of institutional decay. The central rulers still have considerable ability to prevent the institutions of the state from becoming entirely out of control, but out of necessity they also have to allow these state institutions to engage in activities that are either illegal or run counter to central policies.

The predatory state, thus, should be viewed as closely linked to the problem of state institutions engaging in activities to raise revenue for themselves. These state institutions are not just local governments, which in a decentralized fiscal system have been compelled to be concerned with how to raise adequate revenue. The problem runs deeper than that. The functional state agencies have also been encouraged (or allowed) to collect revenue for themselves. This not only creates rivalry among different state agencies, but also strains the relationship between state agencies and local government authorities, and undermines the cohesion of the local state. This process certainly originated from revenue starvation, but once started it acquires its own momentum and has proved difficult to tame. When different state agencies go out to collect their own revenue, it not only leads to predatory behavior, but also results in revenue depletion and unfair allocations of revenue, and reinforces the decline of the organizational integrity and cohesion of the local state.

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76 Wedeman, "Stealing from the Farmers."

77 As Walder argues, local governments have faced increasingly hardened budgetary constraints, and this is a necessary precondition for local governments to impose financial discipline on their subordinate enterprises. See Walder, "Local Governments as Industrial Firms," 283-4.
Summary

The three conceptions of the local state reviewed above differ greatly in their understanding of the roles of the local state in the post-Mao era. These differences in part reflect the great variations across regions at different levels of economic development and rural industrialization. In that sense, they are equally appropriate conceptions for the local states in different parts of China. However, each of them has its own conceptual confusion and analytical weaknesses. The conceptions of the local developmental state and local entrepreneurial state differ in their understanding of the nature of the local state's involvement in economic activities, but they both view the local states as possessing a high level of bureaucratic capacity and coherence. These qualities have allowed local governments to engineer and steer economic successes. As discussed above, whether the local states in post-Mao China really possess these qualities has not been a main focus of research. In the local developmental state conception, the local state is simply assumed to have inherited strong bureaucratic capacity from the Maoist era. Walder's analysis that likens local governments as industrial firms views government capacity as varying in terms of the size and diversity of the industrial base, and the structural relationship between local governments and enterprises. Duckett's study of the entrepreneurial state does differ from other studies in that it focuses on the individual bureaux and their business undertakings, and view the local state as fraught with considerable internal conflicts and strains, but it does not give adequate attention to the impact of these entrepreneurial activities on the local state itself.
Although the predatory state conception presents a rather different view of the local state, it is equally silent on the question of the internal structure of the local state. A notable exception is Wedeman's study of institutional corruption. Wedeman's analysis suggests that economic reform and fiscal decentralizations in post-Mao China have infused state organizations with attributes that work to "undermine the integrity and cohesion of the state and exposes it to the negative consequences of dysfunctional behavior by state agencies." A focus on the changes in the internal structures and processes of the local state would put us in a better position to understand the proliferation of predatory practices of state agencies, and why they has been so difficult to be contained. Institutional corruption is not only irreconcilable with the local developmental state image, it is also at odd with the argument that state building has been strengthened in the post-Mao era. This is discussed in next section.

**Building the Local State in Post-Mao China**

At first glance, the state building argument is at odd with the apparently overall retreat of the state in the post-Mao era. Compared with the Maoist period, it is patently true that the local state has been involved much less in the livelihood of the people and the functioning of society. Against this broad context, however, the state building perspective proposes two arguments, one theoretical and the other empirical. The theoretical argument, advanced by Vivienne Shue in her provocative book on the reach of the state, speculates that the advent of market forces works to weaken the rural community structure, and

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enables the state to penetrate the rural community more deeply than it had been able to do under Mao. On the other hand, there is substantial evidence that the local state bureaucracy has expanded despite frequent calls for streamlining from the central level. In particular, as a result of the increase in the regulatory functions of the local state, state agencies responsible for these functions have witnessed rapid growth in the reform era. As a result, state building has not only involved an overall growth of the local state, but also a considerable reorientation of state functions and a reorganization of state bureaucracies. This interpretation is in line with a key official principle governing administrative reorganizations in post-Mao China, which emphasizes that streamlining does not mean shrinking all bureaucracies across the board. Rather, some bureaucracies need to be substantially enlarged and strengthened, although the overall size of the state bureaucracy needs to be cut.

The areas in which state building is viewed as most evident are taxation and finance. As the old mechanisms of profit and revenue submission linked to the command economy and

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80 Vivienne Shue, *The Reach of the State*.

81 Blecher and Shue, *Tethered Deer*, pp.29-45, pp.205-9. They point out the Shulu county government grew considerably in all the relevant absolute indicators: number of personnel on the state payroll, number of offices, size of administrative budget, and so on. p.205. Christine Wong also notes that county has become more complex and differentiated in the reform era. Wong (ed.), *Financing Local Government*, p.170.

82 For official documents and discussion elaborating the principles governing administrative reorganizations in the post-Mao era, See Zhongguo xingzheng gaige daqushi.

83 Remick defines state building as a process in which the state organization grows in size, extends its reach, and increases its functions, and studies the expansion of state agencies in
collectivization were dismantled or simply have become ineffective, it has become obvious that the machinery needs to be expanded to strengthen tax collection.\textsuperscript{84} In her dissertation covering both the Republican and the post-Mao periods, Elizabeth Remick compares the growth of taxation and finance bureaucracies during the Republican era and the post-Mao period. She argues that while the apparent expansion of taxation bureaucracies was marked by a heavy reliance on non-bureaucratic means of tax collection during the Republican period, the growth in taxation and finance bureaucracies in post-Mao China represents state building, as it was accompanied by enhanced bureaucratic control. This difference is attributed to widely different state-society relations and social structures during these two periods.

Similarly, Blecher and Shue argue that "the rapid growth of the local state in Shulu after 1978 was a fairly direct result of the reforms and of the attendant spiraling demands of administering, regulating, and planning a swiftly growing economy and a society that was increasingly on the move."\textsuperscript{85} In other words, state growth is seen as a consequence of rational and justifiable bureaucratic responses to increases in functions and responsibilities. This explanation is a sharp contrast to Chinese authors' analyses of the same phenomenon, which often attribute the causes for the bloated bureaucracy to a failure of streamlining, a lack of alternative careers for cadres, and a loss of control by the central state over bureaucratic expansion. Rather than suggesting better bureaucratic control, this explanation of bureaucratic growth suggests precisely the opposite.

\textsuperscript{84} Christine Wong (ed.), Financial Local Government, p.324.

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Whether there has been state building in post-Mao China or otherwise hinges less on the absolute size of the local state than on the nature and character of the growth. Whether bureaucratic growth has been due to the self-serving motivations of officials or to increases in demands for government services is also beside the point. Certainly, the local party-state has not been hollowed out. The most common complaints about the bureaucracy in China are that it is bloated and resistant to changes and reforms. Repeated attempts to streamline it in the past two decades have had little success. However, bureaucratic expansion should not automatically be equated with state building. Growth of the local state might well be a result of justifiable responses to meet increased demands for government services or increased requirements from above, but whether this growth has been accompanied with enhanced bureaucratic control is another matter.

We have strong reasons to expect that bureaucratic control has become an acute problem in the reform era. Fiscal decentralizations and fiscal contract system (caizheng baogan) in post-Mao China, for all their contributions to enhancing the financial incentives of local governments to promote local economic growth, have also brought with them many negative consequences. One of these, noted by a number of scholars, is that the central government issues policies or sets targets without providing adequate funding, a situation local officials label as the central government treating the guests and leaving local

85 Blecher and Shue, Tethered Deer, p.205.
governments to pay the bills (zhongyang qingke, difang naqian). As Christine Wong points out, "fiscal decentralization has bestowed more responsibilities than resources or formal powers on local government."88

Local governments and officials have been forced to adopt a number of strategies to cope with this situation. In addition to bargaining with the higher levels for more favourable fiscal arrangements and setting up more local industrial enterprises, local governments (especially those in regions without a strong economy) have been forced to rely more on alternatives which have a great impact on both the relations between local governments and the rural populace and the organizational integrity of the local state itself.89 Not only have they resorted to arbitrary fees and levies to raise necessary revenue to cover government expenditures, they also push government organs and personnel "off budget" by requiring them to become self-financing, meaning that they are required to raise revenue for their expenditures and salaries. For example, in Xuzhou, Jiangsu Province, Christine Wong discovered that the salaries of the majority of the staff in the township-level fiscal departments are paid from off-budget funds, and only 160 of the 660 personnel in the city's fiscal hierarchy have been put on the payroll for administrative personnel (xingzheng bianzhi).90

89 Ibid., pp.708-9.
90 Ibid.
Local state organizations in China have undergone amorphous developments that pose considerable difficulties for an attempt to figure out the scope of the local state. It is useful to distinguish the practice of pushing state agencies off administrative establishment \textit{(xingzheng bianzhi)} from that of pushing administrative establishment off budget. In some cases, local governments are under great pressure to push state agencies and officials funded by budgetary revenue off administrative establishment. This is a strategy to cope with the attempt of the central government to control the size of administrative establishment. State agencies and officials are put outside the administrative establishment in order to make local government organizations conform with the requirements set by the central government. Hence, although the administrative establishment is reduced, administrative expenditures remain at the same level or even increase.\footnote{For instances of this, see \textit{Zhongguo xingzheng gaige daqushi}, 229-55.}

In other cases, as reported in this study, the pressure of pushing state agencies and officials out of the administrative establishment is not as high as pushing agencies and officials within the administrative establishment off budget. This development is exactly the opposite of what is just discussed above. In this practice, although the state agencies and officials still formally fall within administrative establishment, they are not necessarily financed entirely or even at all by budgetary revenue. This practice is most common in the undeveloped regions, but even in prosperous regions many of the state agencies are also partially pushed off budget in that they are required to raise revenue to pay for the bulk of their administrative expenses and organizational welfare.
What is most common in post-Mao China is that some essential state functions are pushed both partially outside of administrative establishment and off budget. An example of this involves the security officers (zhian yuan) recruited by the public security bureaux and police offices across China. Again, this phenomenon is not restricted to the backward regions, nor is it restricted to rural China. In Shenzhen, the thriving special economic zone bordering Hong Kong, the number of security officers in a police office is often equal to the number of policemen (jingcha or gongan). Although the security officers are often sent to administer the laws on their own or together with policemen, they are neither part of the civil service nor paid by budgetary revenue. Recruited by the public security bureau and individual police offices, these security officers are funded by the revenue raised by the municipal public security bureau.92

When the local state grows in the ways described above, not only does the central government lose control over the local governments, but the local governments also lose controls over their functional agencies. A state building perspective is, hence, misleading for the amorphous changes occurring to the local state in China during the reform era. The absolute size of the state may have grown and its reach extended, but this is not necessarily a process with enhanced bureaucratic control. To come to grip with these complex changes, we need a more nuanced perspective.

State Involution: The Original Concept and Its Relevance to Post-Mao China

92 I gained the information about the public security establishment in Shenzhen from a visit to a police office in the city’s Lowu District in April 1999.
In contrast to the state building perspective just discussed, state involution does not view increases in state functions, growth of the state's size, and extension of its reach as necessarily representing state building. The concept was coined originally by Prasenjit Duara to make sense of the complex developments in the local state in Republican China. This term involution owes its roots to Clifford Geertz's study of agricultural involution in Indonesia. According to Geertz, involution refers to "the overdriving of an established form in such a way that it becomes rigid through overelaboration of detail." In such a process, agricultural production expands but the established social and economic pattern reproduces rather than transforms itself. Hence, agricultural involution denotes underdevelopment even though there is an increase of total output.

This term has been used to examine developments in different spheres in China in recent centuries. Philip Huang views the pattern of agrarian growth in recent centuries in China as an involutionary process without an increase in labor productivity. For Huang, agricultural involution in China persisted well into the collective era after the 1949 revolution, and was stopped only after the process of rural industrialization started in the reform era.

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Duara defines state involution as a process "when state organizations expand not through the increasingly efficient use of existing or new inputs, which in this case refers to personnel and other administrative resources, but through the replication, extension, and elaboration of an inherited pattern of state-society relations." The focus in this definition, following Geertz's definition of involution, is on replication and elaboration of the old pattern, and the failure of transformation. The old pattern refers to the centuries-long practice of relying on state brokers to perform essentially state functions. However, another emphasis in the theory of state involution is inefficiency and loss of bureaucratic control during the process of state and revenue growth. Inefficiency refers to the depletion of state revenue and loss of bureaucratic control to the inability of the state to exercise adequate control over the new elements nominally belonging to the state. Replication and elaboration of old patterns, and inefficiency and loss of bureaucratic control, of course, were closely related, and it was precisely because of the former that the latter consequences occurred during the Republican era. However, they should be treated as two separate analytical dimensions of state involution. While the replication and elaboration of established patterns will inevitably lead to inefficiency and loss of bureaucratic control, these consequences may occur with or without the reproduction of old patterns.

Duara uses the concept of state involution to understand the complex and paradoxical pattern of simultaneous state growth and loss of control during the Republican era. While commercialization and collectivist involution to refer to the unique patterns of involutionary developments in China in different periods and regions.

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the state extended its reach and intensified revenue collection to finance the modernization efforts initiated by the state, it failed to enhance its controls over both the increased revenue and the agents who belonged only nominally to the state.

The two analytical dimensions of state involution noted above are relevant to understanding the pattern of local state expansion in post-Mao China. The background for state expansion in the post-Mao era is, obviously, fundamentally different from that of the Republican period. While during the Republican era the state was too weak at the sub-county level and had to rely on state brokers drawn from society to perform state functions and roles, the local state in the contemporary era had long firmly established itself well beyond the county level. Hence, while state involution in the Republican era involved the replication, extension and elaboration of the established patterns in Chinese history, in the post-Mao era the local state has evolved from a fundamentally different base. Hence, the first dimension of state involution - the replication and elaboration of an established form - is unlikely to appear in the post-Mao era.97

However, it is still worthwhile to retain the concept of state involution. First, it serves as a useful alternative to the concept of state building. As noted above, the state building perspective has great difficulties accounting for the amorphous developments occurring to the local state in the reform era. State involution is a valuable alternative as it enables us to accommodate the complex processes and strains building within the local state. Second,

97 However, the analyses of He Qinglian suggest that at the village level, much of the historical problems plaguing village administration has returned. See He Qinglian, "Nongcun jicheng shehui ershili de xingqi - yu wangxu shangque," Ershiyi shiji, No.41 (June 1997), pp.129-34.
the mode of state growth in the post-Mao era still shares the characteristic of the original concept that there has been an expansion of the local state without enhanced bureaucratic control and efficiency in revenue collection. While revenue was lost in the Republican era to the state brokers, it was lost in the post-Mao era to functional state agencies, with the same consequence that scarce revenue was not available to the local state for more enlightened goals. Third, like the state involution studied by Duara, the amorphous growth of the local state in the post-Mao era emerged in a situation where the local state was required to perform more functions. And the state agencies in the post-Mao era also faced many of the same problems confronting the local state during the earlier period. Fourth, despite important differences, there are also significant similarities in the consequences of the respective modes of state development during the Republican and the post-Mao periods: officials did not rely entirely on the state for income, which reinforced the decline in bureaucratic control and increased the tax burdens of the peasantry.

Precisely because the state involution in the post-Mao era does not involve the replication and elaboration of the given patterns in history and emerged from a completely different basis, its political implications are also likely to be different. It is suggested above that there has been a loss of bureaucratic control over the amorphous developments within the local state, but the nature of this lack of control is qualitatively different from the inability of control over the state brokers. Unlike the old local state, the local state in the reform era still possesses considerable capabilities to prevent state involution from entirely getting

98 Compare, for example, the problems facing the county government discussed in *Culture, Power, and the State*, pp.81-3, with the discussion in Loraine West, "Provision of Public Services in rural PRC," pp.213-82.
out of control. This is due in no small measure to the fact that the disorganizing agencies derive from within the local state, and therefore are more amenable to bureaucratic controls. As this study shows, the central and local state has tried repeatedly to arrest the involutionary mode of development or to prevent it from getting worse. These efforts have not been entirely successful, but neither have they failed completely. What has emerged is a precarious and dynamic balance between some bureaucratic control and constraints on the one hand, and continuing involutionary growth on the other.

A focus on state involution and the efforts to arrest it brings us to a key area of reform in recent years: bringing the revenue collected and appropriated by functional state agencies under control.99 To achieve this objective, the central state has introduced numerous measures to contain the proliferation of administrative fees and to extend budgetary control over this revenue. Contrary to common beliefs, these central government measures are often supported by local governments, as the measures would substantially increase their control over local revenue vis-à-vis functional agencies. In many localities, the revenue-starved local governments in fact moved to "centralize" the revenue collected by functional agencies even before the central government encouraged them to do so.100

Concluding Discussion

This chapter has reviewed two sets of literature on the local state in the reform era: one on the nature and roles of the local state, and the other on state building. It is suggested that

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the existing conceptions of the local state – the local developmental state, the local entrepreneurial state, and to a lesser extent, the predatory state - have largely been silent on the internal structure of the local state, which has been thrown into disarray by fiscal decentralizations and the resultant fiscal crisis in the reform era. While the pressures on the local state are likely to be the greatest in the underdeveloped regions, they also exist in the more prosperous localities. Exactly how great these pressures are, how they have shaped the local state, and what their implications are for our understanding of the local state in post-Mao China have not received adequate attention in the literature.

The state building literature, on the other hand, has neglected the informal dimension and the amorphous developments of the local state during the reform era. It has taken for granted the growth in state functions and organizations as representing state building. However, the tremendous pressures on the local state and their impact on the mode of state growth point in very different directions.

Against these theoretical backgrounds, the theory of state involution developed by Duara to understand the mode of state expansion during the Republican era has been discussed. While noting that a key element - replication and elaboration of the established pattern - is not present, I argue that state involution is still useful to recognize and acknowledge the complexity in state expansion in the post-Mao era. State involution also has significant implications for the theory of the local developmental state, but it is consistent with the local entrepreneurial state and predatory state conceptions.

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100 See Lu Xin, Zhun yuxuan guanli.
Opening (kaifang) and development (kaifa) were two main themes in Hainan during the past decade. On the eve of the reform and before Hainan became a province in 1988, Hainan was at a low level of economic development and had a weak industrial base (see Table 3.1 below). As a result of many decades of neglect during the Maoist era, Hainan had become one of China's most backward regions. In 1983, when Zhao Ziyang visited Hainan, he reportedly exclaimed, "I thought that Africa was the most underdeveloped region in the world, but now I see that it's Hainan." When Chinese leaders decided to give Hainan a try, they saw a close relationship between opening and development, inasmuch as the central level was not to pour in the huge amount of resources needed for preparing the island for economic take-off. Opening to outside countries was seen as an instrument for developing Hainan.

What is special about Hainan is not that opening was at the centre of economic reform and development. The development of the special economic zones and more generally Guangdong and Fujian provinces also stress opening to the outside world. What makes Hainan unique and interesting is that the process of opening in Hainan was much more tumultuous than in any other place in China; and there was a weak linkage between opening and development in Hainan. Hainan was at the cutting-edge of China's opening and reform, enjoying the most special preferential policies. But it was thrown into a deep recession in recent years, and much of the province is still

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locked in chronic underdevelopment and poverty (see below). After a decade of searching for a strategy for faster opening and development, Hainan is now facing the danger of becoming just another ordinary Chinese province.

There are few scholarly studies on Hainan, and some of these do not go much beyond the surface. Partly because they are based on what was going on at the provincial level, they paint too biased and rosy a picture of the island province. In a few other scholarly writings on Hainan, the focus is on the central state's hostility to and suspicion of localism in Hainan and what is aptly described as the "internal colonial relationship with the mainland" and Hainan's struggle for political autonomy.

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3 Two books on Hainan came out recently, one in 1997 and the other in 1998. Both are products of research teams from Chinese Academy of Social Sciences. Each of them bears the name of a deputy director of CASS as its editor. The volume edited by Wang Luobin focuses mainly on the economic aspects, and the other volume, edited by Ru Xin, was written by sociologists and political scientists, and examined Hainan's political and social institutions. As the research was sponsored by Hainan provincial committee (see a review of these two volumes in Hainan ribao, 21 April, 1998, p.2), they should be regarded as propaganda as much as objective analysis. See Wang Luobin (ed.), Hainan jianli shehui zhuyi shichang jingji tizhi de shijian, Beijing Shehui kexue chuban she, 1997; Ru Xin (ed.), "Xiao zhengfu da shehui" de lilun yu shijian: Hainan zhenghi tizhi yu shehui tizhi gaiye yanjiu, Beijing, Shehui kexue wenxian chuban she, 1998.

4 Brodsgaard's article on "small government, big society" in Hainan is a case in point. There was almost no reference to what is actually going on in the government and society. The article also attaches too much a theoretical importance to the idea of "small government, big society." Brodsgaard, "State and Society in Hainan: Liao Xun's Ideas on 'Small Government, Big Society'," in Kjeld Erik Brodsgaard and David Strand (eds.), Reconstructing Twentieth-Century China, Oxford, Clarendon Press, 1998, pp.189-215.

5 Feng Chongyi and David Goodman, China's Hainan Province, Perth, University of Western Australia Press, 1995.

The focus of this chapter on this provincial scene and its relationship with the central level as it went through the remarkable ups and downs of the last two decades. Apart from following the dramatic turns in policies, in the political and economic environments affecting Hainan and in the overall problems in its development, the chapter addresses the much-neglected question of how opening up Hainan has contributed to development, in particular of the rural counties. The issue is pertinent to this dissertation as it provides a broader context in which to understand the crisis and decay in Wenchang that will be documented in the following three chapters. The conspicuous absence of development and industrialisation in the rural counties in Hainan calls into question Hainan's strategy of development. Hainan stands in a sharp contrast to the experiences in other coastal regions of China where development first arose in the rural areas and spread to cities, a phenomenon aptly described as "the second encircling of cities by rural areas." Nobody visiting Hainan and the inner Pearl River Delta region in Guangdong province would fail to notice the huge contrast. While in the inner Delta the rural areas are changing beyond recognition as a result of rapid industrialisation and urbanisation, in Hainan beyond the outskirts of Haikou and the tourist spots around Sanya, not much seems to have occurred after

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two decades of reform and a decade after gaining provincial status.\(^8\) Worst still, in Hainan the gap between cities and rural areas has not narrowed but widened.\(^9\)

There are of course complex reasons for this pattern of development. To some extent this is just the consequence of the free playing of market forces. Many rural counties started from too low an economic and educational base to take advantage of the opportunities available.\(^10\) Moreover, Hainan's strategy of development since gaining provincial status has had an element of unbridled urban biases. Some of the biases are blatant (such as diverting more earmarked subsidies to Haikou, discussed below), while others are implied in measures touted as pioneering in China. The very generous and positive assessment of Hainan's development experience by the Chinese news media should be viewed in connection with this unbridled urban bias.\(^11\) However, even with the blighted scenes today of rust-streaked, half-finished buildings after the collapse of its property bubble, Haikou's changes over the past 15 years are still nothing less than spectacular.\(^12\)

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\(^8\) I am in a position to say this because I lived in Wenchang for my childhood. I also spent a year in Haikou to attend secondary school before migrating to Hong Kong in 1974. I went back to see relatives many times since then. After travelling to Hainan many times and spending many weeks in Wenchang in 1997-1998 for fieldwork, I totally disagree with Feng and Goodman's description that a pattern of countryside being integrated into urban areas through the urbanisation of towns had already emerged in Hainan. See Feng and Goodman, 1995, p.37.

\(^9\) Liao Xun, "Hainan jingji fazhan zhong de er yuanhua wenti," in Ye Kongjia and Tang Daibiao (eds.), Hainan xiandaihua yu Taiwan fazhan jingyan yantaohui lunwen ji. Division of Social Sciences, Hong Kong University of Science and Technology, 1995, pp.131-46.

\(^10\) Ibid.

\(^11\) For an example of this kind of generous assessment, see Renmin ribao, 22 November, 1997, p.1.

\(^12\) Feng and Goodman provided a vivid description of the contrast between Haikou in the 1990s and a decade before, in Feng and Goodman, 1995, p.37-9.
Opening Up Before Gaining Provincial Status

The watershed of Hainan’s development in the reform era is 1987, when it became a separate province and China’s largest special economic zone. This decision to boost the island’s development, however, was by no means a sudden departure from the past strategy of seeing Hainan as unworthy of investment. Rather, it represented a culmination of a series of efforts starting as early as 1980, when the State Council released a document urging faster growth in Hainan.13

During the Maoist period, Hainan had suffered heavily as a result of its location on China’s border as well as its designation as a base to grow tropical plants. As such, Hainan was seen as a region requiring political consolidation and military protection, not new investment. The limited investment that did go to Hainan went into the development of state farms that focused on rubber and other tropical crops. Mao’s slogan for Hainan was "jiaqiang fangwai, gonggu Hainan" (strengthening defence and consolidating Hainan). In the period between 1952 and 1978, Hainan’s industrial and agricultural production value grew at an average rate of 6.9% annually, 1.3% lower than the national average. On the eve of reform, Hainan’s per capita income was just 80.6% of the national average.14

While Hainan’s overall average growth rate was lower than the national average during the Maoist period, its agricultural production value had grown faster than the national average.15 Hainan’s reliance on rubber was so heavy that some analysts

14 Hainan sheng shijie yinhang daikuan bangong shi (ed.), Hainan moshi de tezhen, wenti he qianjing, Beijing, Shishi chuban she, 1991, p.3.
15 Ibid., pp.138-141.
suggested that economic development in Hainan in the three decades under communist rule was predominantly the development of rubber. As a consequence, economic development in Hainan in the three decades under communist rule was predominantly the development of rubber. As a consequence, economic development in Hainan in the three decades under communist rule was predominantly the development of rubber. 

As a consequence, on the eve of reform Hainan had a very weak industrial base, with agriculture accounting for a much higher share of the economy than the country as a whole. The salience of agriculture in Hainan, among other things, reflected the fact that state farms occupied a uniquely important position in Hainan's economy.

The emphasis on rubber and the rapid growth of state farms not only created an economic structure tilted preponderantly toward agriculture but also engendered a serious tension between the state farms and the surrounding peasants. By their nature, state farms were established on lands originally occupied by native communities. They dovetailed with the native villages, resulting in unclear property rights over lands and what was planted. The conflict stemmed from the fact that the state farms and the villages were structured in completely different ways. Originally organised along military lines, the state farms gradually changed to resemble ordinary civilian units. The workers of state farms received a fixed amount of grain and a regular salary, while the surrounding villages, like other villages across China, depended for income and food on the harvests of their collectives. The peasants of the surrounding villages sometimes illegally tapped the rubber trees planted by the state farms, and the tensions between the state farms and peasants under Mao had erupted

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16 Ibid., pp.149-152.
17 For a discussion of the origin, growth and problems of state farms in Hainan, see Ezra Vogel, One Step Ahead in China: Guangdong Under Reform, pp.278-88. In 1991, the state farms system still had 470,000 workers, supporting a total population of close to one million. The total area of land under the state farms was one quarter of total land. See Hainan tizhi gaige bangong shi, "Guanyu chongfen fahui nongken xitong zai jiakuai wosheng xiandai nongye fazhan zhong de zhongyao zuoyong de baogao," in Hainan shehui zhuyi shichang jingji tizhi de jiben shijian, Vol.7, p.233.
18 Vogel, One Step Ahead in China, pp.283-4; Hainan sheng shijie yinhang daikuan bangong shi (ed.), Hainan moshi de tezheng, wenti he qianjing, p.148.
occasionally into armed fighting. The situation almost ran out of control during the initial years of reform and attracted considerable central attention.

The conflict between state farms and peasants was one of the main reasons prompting the central leaders to organise a lengthy conference in Beijing in 1980 and to decide on a policy to develop Hainan. The central government was also to provide direct financial support to Hainan to improve its poor infrastructure. The emphasis was on developing agriculture, but the plan also provided a host of preferential measures to help Hainan develop its non-agricultural economy. It was decided that, in keeping with the measures granted to the Shenzhen and Zhuhai special economic zones in Guangdong, Hainan was to enjoy greater autonomy in export and import activities and was to be allowed to retain a greater portion of foreign exchange earnings. Guangdong province was instructed to grant fiscal flexibility to Hainan. In response to complaints that the central government and Guangdong commandeered Hainan's valuable resources, the document suggested that the enterprises belonging to the central ministries and Guangdong should leave some profits in Hainan for local use, though it stopped short of decentralising to Hainan the control of all these enterprises.

However, it turned out that most of these measures were not actually implemented, in large part due to the lack of consensus at the central level. The State Council document only laid down the broad principles and left the details for future negotiations. For example, the document decided that while Hainan should possess the same kinds of powers given to Shenzhen and Zhuhai, exactly what these powers entailed were not specified. Unlike Guangdong's cadres, Hainan's officials did not fully exploit the opportunities to their advantage.
Hainan’s development attracted further attention from key central and provincial leaders in 1982 and 1983. In August 1982, Lei Yu, a close aide to Ren Zhongyi, the Party secretary of Guangdong Province, was sent to head the government of Hainan.19 This coincided with the granting still more autonomy to Hainan. After several months of visits of key central leaders and negotiation with central ministries, in March 1983 the central level issued a document setting out in greater detail the type of autonomy and support to be given to Hainan to speed up its development.20 In 1982, there was a suggestion to give Hainan the status of the special economic zone, but this was rejected by Zhao Ziyang.21 Zhao was very sceptical of the high level of anarchism in Hainan during the first several years of the post-Mao era and did not have much confidence in the ability of the local government to maintain adequate control over society. In addition to the endemic armed conflicts between state farms and peasants, there was also widespread deforestation. The central leaders were also concerned that Hainan officials did not have adequate management experience to cope with the problems in a special economic zone.22 As a result, Gu Mu, a State Councillor instrumental in mediating between the special economic zones and central ministries, suggested that Hainan’s autonomy should lie somewhere between the level possessed by Guangdong and Fujian provinces and that enjoyed by the four special economic zones.23

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21 Ibid., p.42.
23 Ibid., p.50.
The 1983 document was yet more specific about the autonomy and support to be given to Hainan. According to this directive, both the central level and Guangdong province should provide greater financial and other kinds of support to Hainan, Hainan was to be listed separately in the state plan, and Guangdong was to increase its subsidies to Hainan. The central level would place a number of projects in Hainan to improve its infrastructure. The People's Bank of China and Bank of China would extend low-interest loans and foreign exchange loans to Hainan. However, of all the measures designed to boost Hainan's economic growth, the most important one was to give Hainan comprehensive authority over foreign-oriented economic activities. The State Council directive in 1980 had called for giving Hainan this type of power, but as noted above, this was never fully implemented. This time, due to adequate preparation and negotiation with the central ministries and Guangdong leaders prior to the final decision, the central and provincial levels were more ready to give Hainan real autonomy. Moreover, Hainan leaders like Lei Yu were more determined to press the relevant central and provincial bureaucracies to implement the measures promised by the central government. Gu Mu also played an important role in serving as a middleman between Hainan and the central bureaucracies. For example, in October 1983, he asked the representatives of more than twenty central bureaucracies to work out measures to help Hainan.  

Hainan was to enjoy several types of powers in its foreign economic activities. First of all, subject to central approval it was allowed to jointly develop with foreign companies some of the island's mines. Hainan was to enjoy greater freedom in organising exports and retaining foreign currency. And most important of all, Hainan

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was allowed to import commodities that were subject to tight import controls elsewhere in China. Although it was stated that such commodities should be used only on the island, later developments proved this was not the case.

Ren Zhongyi also suggested that Hainan be provided with a full-fledged government.\(^\text{25}\) This became a reality in 1984 when the National People's Congress passed a resolution to establish the People's Government of Hainan Administrative Region (\textit{Hainan xingzheng qu renmin zhengfu}).\(^\text{26}\) Before that, Hainan's government was constitutionally a dispatched organ (called an administrative office, \textit{gongshu}) of the Guangdong provincial government. While this change was more nominal than real, it was part of the larger effort to grant more autonomy to Hainan.

An infamous "car incident" in 1984-1985 proved that Zhao Ziyang and other central leaders' initial reservations about granting autonomy to Hainan was not unfounded.\(^\text{27}\) The central government's permission for Hainan to import controlled commodities for use on the island included automobiles as well as TV sets, VCRs and motorcycles, which were in great demand on the mainland of China, and there was no effective mechanism to stop them from flowing to the mainland. This was partly because there


\(^{26}\) But Hainan did not form its own People's Congress. A preparatory group was appointed to prepare for the formation of the people's congress in January 1984, but for unknown reasons it did not successfully convene the people's congress. As a result, the leaders in government did not have formal titles. Lei Yu, for example, was the director of the administrative office of Hainan Administrative Region before the organizational change. After the establishment of the people's government of Hainan Administrative Region, he became the major responsible person. See \textit{Dangdai Zhongguo de Hainan}, Vol.2, pp.477-480; Feng Chongyi and David Goodman, 1998, p.351.

was no customs controls between Hainan and the mainland, and partly because Hainan officials were eager to take advantage of this policy loophole. In a few months during 1984-1985, Hainan imported close to 90,000 cars and, when the central crackdown fell in early 1985, had resold many of them to the mainland. The investigative report of the Central Disciplinary Committee revealed that of the 94 agencies under Hainan’s government, only 6 were not directly engaged in the business of importing and reselling automobiles. More than 850 companies were set up in Hainan to profit from the automobile business, many of these run by party-state agencies, schools or even kindergartens. For example, Hainan ribao (Hainan Daily) the mouthpiece of local party committee, made a profit of RMB4.3 million in the automobile business and was able to hand out a generous bonus to its staff.\(^{28}\) In Wenchang, both the county Party committee’s general office and its Propaganda Department were engaged in importing and reselling automobiles.

Lei Yu and other Hainan leaders actively encouraged the massive reselling of imported commodities for profit. Witnessing the early growth experiences of the special economic zones and inner Pearl River Delta regions of Guangdong,\(^{29}\) he understood very well that these localities relied on reselling imported commodities to other parts of China for capital accumulation and financing local development, and had not been punished.\(^{30}\) This was particularly important to Hainan because it started

\(^{28}\) Shi Hua, "Hainan shijian dajie ju," Jiushi niandai, September 1985, p.58.
\(^{29}\) He was deputy director of Guangdong party committee’s general office and deputy director of its policy study office before being sent to Hainan. See Who's Who in China: Current Leaders, pp.282-283.
\(^{30}\) For the importance of reselling imported commodities in the inner Pearl River Delta region in the initial years, see Vogel, Guangdong: One Step Ahead in China. It is a common knowledge that almost all the special economic zones and the inner Delta counties were involved in resale of imported goods, but they did it not as openly as in Hainan. It is an interesting question why this turned into chaos in Hainan and attracted
from a very low base and, compared with the inner Pearl River Delta localities, did not have any advantage in attracting foreign investment.\textsuperscript{31}

Hainan suffered heavily as a result of the crackdown by the central level. The central government forced Hainan to sell all of its imported cars at a set price and at the official exchange rate. Because Hainan had imported the cars using foreign currency purchased on the black market, it lost heavily. Second, the central government rescinded the powers to import granted to Hainan. Third, Lei Yu, who had earned tremendous respect from Hainanese cadres and people, was removed from office.\textsuperscript{32}

All of this added up in Hainan to a loss of momentum for development. Following the central crackdown, everything came to a standstill. In the words of a local cadre, Hainan's opening up and development were plunged into a depression.\textsuperscript{33}

On the other hand, there was no large-scale purge. Lei Yu was removed from office and received a demotion, but in Guangzhou he started a new political career. Yao Wenshu, the party secretary during the "car accident", only received a warning and retained his position as party secretary. Chen Yuyi, an official involved directly in the national attention and crackdown, while in Guangdong's localities had escaped suppression.

\textsuperscript{31} According to a report in \textit{Jiushi niandai}, a Hong Kong megazine, this was exactly the thinking behind the central decision to give Hainan power to imported controlled commodities. What went wrong was not that Hainan did engage in reselling imported commodities, but the immense scale of it. See \textit{Jiushi niandai}, June 1985, p.53.

\textsuperscript{32} But this did not mean the end of Lei's political career. He was appointed deputy party secretary of Hu county and party secretary of Zengcheng county in 1985 and 1987 respectively. In 1988, he was promoted to be vice mayor of Guangzhou. In 1992, Lei received another promotion, this time in his native province of Guangxi, as deputy provincial governor. See \textit{Who's Who in China: Current Leaders}, pp.282-3. When the central government investigated the car incident in Hainan, it was found that Lei Yu was not involved in any corruption. He did not get any benefits from the reselling of automobiles. His mistake was just to push the policy to its extreme to benefit Hainan. In other words, he simply did the wrong thing not to enrich himself but to help accumulate capital for Hainan. See \textit{Jiushi niandai}, September 1985, p.57; \textit{Dangdai Zhongguo de Hainan}, p.154.
"car incident", was removed from his position in the government and as head of the foreign economic commission, but two years later was appointed again to important positions in Hainan's party-state machinery, becoming deputy party secretary of Hainan Province in 1993. After the "car incident", with the exception of Lei Yu and Chen Yuyi, the old leadership (headed mainly by native Hainanese) was not replaced. This reflected the centre's attempt to pacify the hostility of the local community to the crackdown and the punishment of Lei Yu. The central government also adopted measures to reduce Hainan's loss when it was forced to sell all the imported automobiles to the central government. For example, in addition to paying for the autos according to the official price, the central government compensated Hainan with RMB10,000 for each automobile handed over the central government. If the car was from a minority region, the central government paid RMB11,000.

The withdrawal of autonomy from Hainan following the "car incident" in 1985 was a setback, but it did not mean the end of reform and opening in Hainan. As Hainan's economy plunged into great difficulty in the aftermath of the car incident, central leaders quickly found it necessary to give a new boost. Hu Yaobang visited Hainan in early 1986, followed by visits of Zhao Ziyang, Hu Qili and Tian Jiyun. During his visit, Zhao Ziyang promised that the central level would provide further assistance to pay for half of the RMB400 million debts resulting from the forced selling of imported cars at fixed prices. Zhao also promised to ask the People's Bank of China to consider extending additional bank loans to Hainan, and a decision was also made to list Hainan separately from Guangdong in the state's economic plan.

33 Zhong Yechang, Hainan jingji fazhan yanjiu, p.401.
Behind the "car incident" lies the issue of how to develop Hainan. Given Hainan's poor infrastructure and weak industrial base, a large amount of investment was needed to enable the island to compete with other regions in China. But where could the initial capital come from? Although the central government had repeatedly pledged support by extending loans and undertaking construction projects, it acknowledged that Hainan could not count too much on direct central financial support. What the central government could do, central leaders often said, was to give Hainan preferential policies. This was exactly what the central government did to the special economic zones, Guangdong province, and other coastal open regions. However, unlike these other regions where central preferential policies had been used to power rapid industrial development in the rural areas, in Hainan central preferential policies did not seem to have much of an impact in the first decade of reform.

Between 1978 and 1987, Hainan's economic growth rate was roughly the same with that of the whole country, but during this period Hainan did not have much industrial development. Instead, the share of agricultural output value rose from 54.8% in 1978 to 62.3% in 1988. The share of primary sector in GDP rose from 53.17% in 1978 to 59.29% in 1983 before decreasing to 50.05% in 1987 (Table 3.1). Correspondingly, the share of secondary sector declined to 14% in 1982 from 22.26% in 1978. While the secondary sector had risen since 1982, as of 1987, it (at 19.01%) was still several percentage points lower than the level in 1978. The declining importance of secondary sector was obviously due to the very disappointing industrial growth, in particular in rural areas. Starting from a very low base, collective industry in Hainan

37 Hainan sheng shijie yinhang daikuan bangongshi (ed.), Hainan moshi de tezheng, wenti he qianjing, p.4.
not only did not grow but even contracted in a number of years. Only in 1984-1986 did collective industry experience any growth (Table 3.2). Hainan's development during this period not only deviated from the trajectories of the rapidly industrialising provinces such as Guangdong and Jiangsu, but also from those of the country as a whole. In terms of rural industrialisation Hainan fell far behind the national level (Table 3.3). In 1988, of the total output value in rural China, 53.2% came from non-agricultural activities, representing a substantial increase from the 36.5% in 1984. In Hainan, the share of non-agricultural activities was 15.48% in 1988, representing a slight decrease from 16.15% in 1984. As of 1988, of all China's provinces, only Tibet had a higher share of agriculture in total output value.

The continuing importance of agriculture was in part the result of the deliberative strategy to develop Hainan's comparative advantage in tropical agriculture. In the 1980s, Hainan was again encouraged to develop its agricultural sector and increase the production of tropical crops such as rubber, sugar cane and coffee. This was consistent with Hainan's initial comparative advantage. Over these years, though, Hainan managed to diversify its agricultural production and reduce to the sole reliance on rubber plantation. Production of other crops increased much faster than rubber: between 1978 and 1987, coffee increased 19 fold, pepper more than 6 fold and

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38 Hainan sheng shijie yinhang daikuan bangongshi (ed.), *Hainan moshi de tezheng, wenti he qianjing*, pp.4-5.
40 I am less inclined than Feng Chongyi to interpret the emphasis on developing agriculture as a deliberate strategy of underdevelopment or exploitation. See Feng Chongyi and David Goodman, "Hainan Province in Reform," p.344. It is interesting to note that, after the traumas of what occurred in the early 1990s, Hainan began to turn back to emphasise agriculture. The new strategy is to turn Hainan into "yisheng liangdi" (a newly industrialised province, and a base for tropical agriculture and a base for tourism). See *Hainan ribao*, 25 April, 1998, p.2.
cashew nuts more than 5 fold, while rubber increased only 131%. However, rubber still accounted for a large share of Hainan's agricultural output value: in 1985, as much as about 50% of agricultural output was from rubber. However, the heavy reliance on rubber soon became a disadvantage. In the past, rubber was regarded as a commodity crucial to China's national economic well being in a hostile international environment, and all rubber were purchased by the state under a unified purchase system. As China opened up to the outside world, it could buy cheaper rubber from the international market. As a result, Hainan's strategic role in rubber plantations was no longer necessary. The cheaper imported rubber from the international market threw Hainan's rubber industry and the state farms into a profound crisis.  

Table 3.1 Composition of GDP, Hainan, 1978-1987

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary Industry</th>
<th>Secondary Industry</th>
<th>Tertiary Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>53.17</td>
<td>22.26</td>
<td>24.57</td>
</tr>
<tr>
<td>1982</td>
<td>59.00</td>
<td>14.00</td>
<td>26.23</td>
</tr>
<tr>
<td>1987</td>
<td>50.05</td>
<td>19.01</td>
<td>30.94</td>
</tr>
</tbody>
</table>


41 Hainan sheng shijie yinhang daikuan bangongshi (ed.), Hainan moshi de tezheng, wenti he qianjing, pp.152-3.
42 Ibid., pp.155-6. From the second half of the 1980s, due to competition from rubber in the international market and decentralization to the provincial level of the power to import rubber, Hainan's state farms had accumulated considerable excess stock and financial losses. To ease the impact on the state farms, Hainan lobbied the central government to set a limit on imported rubber. See Hainan shehui zhuyi shichang jingji tizhi de jiben shijian, Vol.7, pp.241, 244-5.
Table 3.2  Growth Rate of Industrial Output, Hainan, 1978-1987

<table>
<thead>
<tr>
<th>Year</th>
<th>Industrial Output Value</th>
<th>Output Value of Collective Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>-8</td>
<td>-5</td>
</tr>
<tr>
<td>1979</td>
<td>-2.4</td>
<td>-6.7</td>
</tr>
<tr>
<td>1980</td>
<td>-7</td>
<td>-0.9</td>
</tr>
<tr>
<td>1981</td>
<td>-2.4</td>
<td>-5.5</td>
</tr>
<tr>
<td>1982</td>
<td>7.8</td>
<td>-9.2</td>
</tr>
<tr>
<td>1983</td>
<td>14.5</td>
<td>-7.7</td>
</tr>
<tr>
<td>1984</td>
<td>29.5</td>
<td>31.5</td>
</tr>
<tr>
<td>1985</td>
<td>31.2</td>
<td>16.7</td>
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<tr>
<td>1986</td>
<td>6.2</td>
<td>8.9</td>
</tr>
<tr>
<td>1987</td>
<td>24.2</td>
<td>-11.1</td>
</tr>
</tbody>
</table>


Table 3.3  Comparison of Composition of Rural Output Value in China and Selected Provinces

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Jiangsu</th>
<th>Guangdong</th>
<th>Hainan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Output Value</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Agriculture</td>
<td>63.5</td>
<td>45.6</td>
<td>31.74</td>
<td>83.85</td>
</tr>
<tr>
<td>Industry</td>
<td>22.9</td>
<td>41.5</td>
<td>43.76</td>
<td>7.05</td>
</tr>
<tr>
<td>Others</td>
<td>13.6</td>
<td>12.9</td>
<td>24.5</td>
<td>9.1</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Output Value</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Agriculture</td>
<td>46.8</td>
<td>28.97</td>
</tr>
<tr>
<td>Industry</td>
<td>38.1</td>
<td>57.89</td>
</tr>
<tr>
<td>Others</td>
<td>15.1</td>
<td>13.14</td>
</tr>
</tbody>
</table>

Source: Hainan moshi de tezheng, wenti he qianjing, p.144.

A Provincial Special Economic Zone in Search of Development

As a result of this failure to promote fast growth in Hainan, in 1987 Zhao Ziyang initiated a more radical move: separating Hainan administratively from Guangdong, and making it not only China's newest province but also its largest special economic zone. Hainan was to be given policies more "special" than the policies found in the existing special economic zones. In the words of the reformers, Hainan was to achieve
extraordinary development \((chao\ changgui\ fazhan)\) through extraordinary means \((chao\ changgui\ banfa)\). This implied a departure from past emphasis on agricultural development.

The decision to try more radical reforms in Hainan was affected by Hainan's geographical isolation and its marginal importance to the national economy. If anything went wrong, the experiments in Hainan would not have much of an adverse impact elsewhere. Moreover, there were suggestions that the reform experiences in Hainan might generate useful lessons because, with agriculture accounting for a prominent portion of its economy, Hainan was believed to be a more accurate microcosm of the rest of China than the coastal regions on the mainland.\(^43\)

Another line of analysis traces the decision to implement radical reforms in Hainan to the political agenda of achieving peaceful unification with Taiwan. Some leaders thought that if Hainan succeeded in developing an institutional framework similar to Taiwan's, Taiwan would find it easier to accept China's "one country, two systems" solution to unification. How much of this was wishful thinking is a question to be discussed, but both before and after Hainan achieved provincial status, this line of thinking was popular.\(^44\)

A Special Customs Zone or a Free Island?

As part of the decision to give provincial status to Hainan and make it the most special "Special Economic Zone" in China, it was proposed that Hainan was to become a special custom zone, or what was popularly called a free island, and then

\(^{43}\) Feng Chongyi and David Goodman, \textit{China's Hainan Province}, p.12.

\(^{44}\) As late as summer 1998 when I was doing fieldwork in Wenchang, I often heard it said that the central government would make Hainan a free island or put it under the management of the KMT in Taiwan.
cut off from the rest of China. To many people, this was implied by the policy of being more special than the preferential policies in existing special economic zones. Hainan was obviously an ideal site to undertake such a plan. Being an island, Hainan could be cut fairly easily from the mainland, and imposing a second customs barrier would not be too difficult. Moreover, Hainan did not have too many state-owned enterprises, which had proved to be obstacles to reform in provinces with a stronger industrial base. As a new province, Hainan could also escape the daunting task of having to prune a bloated bureaucracy. However, the idea of making Hainan a special customs zone appeared to be too radical.

Soon after deciding to give Hainan provincial status, the central level sent a group of economists from the Chinese Academy of Social Sciences, led by Liu Guoguang, a famous economist, to study Hainan's economy and to propose a development strategy. In its report, the group acknowledged that there was a sharp contradiction between Hainan's low base and high targets, and given that, a normal means of development would not be adequate. Instead, extraordinary means were required to achieve extraordinary development. From then on, "extraordinary development" became a key word in Hainan. While the meaning of extraordinary development and extraordinary means of development were subject to different interpretations, when they were first proposed they entailed the proposition that Hainan should be insulated in some ways from the rest of China and should develop a unique political and economic system. The group led by Liu Guoguang used the term free economic zone,

45 "Hainan jingji fazhan zhanlue yanjiu baogao zhiding qianhou" in Liu Guoguang (ed.), Hainan jingji fazhan zhanlue, p.239.
which they said incorporated the international practices variously associated with such entities as free ports, free trade zones and export processing zones.\textsuperscript{46}

It was exactly because of this prospect that tens of thousands of people were attracted to Hainan in 1987 and early 1988, and contributed to what was called Hainan fever (\textit{Hainan re}). According to one calculation, more than 150,000 people came to Hainan to look for jobs and opportunities, and 85\% of them had a college education.\textsuperscript{47} Rumours ran wild that a boundary would soon be created between the mainland and the island. Many people were desperate to arrive before the island was closed to the mainland (\textit{fengdao}).\textsuperscript{48}

Interestingly, the idea of making Hainan a special customs zone was not supported by the officials appointed to prepare for the establishment of the province.\textsuperscript{49} They were afraid that if Hainan was cut off from the mainland, it would face steep rises in prices and economic chaos.\textsuperscript{50} However, it was not long after the new province started operation that the provincial leadership changed its mind.

The overall economic environment in China in 1988 turned against the new province. Zhao Ziyang - Hainan's key political patron - lost controls over economic policymaking and quit the premiership to become general party secretary. Hainan quickly found itself drawn into difficult bargaining with central bureaucracies over decentralisation. Many central bureaucracies were not ready to make good on what was promised in broad central policy. In December 1988, Hainan's provincial party

\textsuperscript{46}Liu Guoguang (ed.), \textit{Hainanjingjifazhan zhanlue}, p.5.
\textsuperscript{47}\textit{Dangdai Zhongguo de Hainan}, Vol.1, pp.163-4.
\textsuperscript{48}\textit{Jiushi niandai}, January 1988, pp.61-3; May 1988, pp.36-9.
\textsuperscript{49}This paragraph is based on \textit{Hainan shehui zhuyi shichang jingji tizhi de jiben shijian}, Vol.9 (tebie guanshui qu yanjiu), March, 1993.
committee and government were prepared to request the central level to approve the setting up of a special customs zone. They thought a clean break with the existing constraining institutions would save Hainan the trouble of dealing endlessly with central ministries and being constrained by the existing institutional and policy frameworks.

However, Hainan did not have much time to press this request. The political struggle triggered by the pro-democracy movement during April-June 1989 was a heavy blow to the pace and direction of radical reforms in Hainan. Not only did Zhao Ziyang's fall from political power mean that Hainan lost a key patron, it also drew Hainan's leadership into the political struggle at the central level as a result of the explicit support of Liang Xiang (the first provincial governor of Hainan and formerly mayor of Shenzhen special economic zone) for the student demonstrations. Hainan was the last province to pledge support to the central government following the June 4th crackdown. Consequently, Liang Xiang was purged on grounds of corruption and cronyism. Another key leader, Xu Shijie, while not facing a political purge, stepped down from the position of provincial party secretary soon after Liang Xiang's purge.

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50 Hainan shehui zhuyi shichang jingji tizhi de jiben shijian, Vol.9 (tebie guanshui qu yanjiu), p.4.
51 "Guanyu jianli hainan tebie guanshui qu de qingshi," in Ibid., pp.1-3. However, it seems that this request was not formally sent to the central level. In January 1989, because Tian Jiyun, then deputy Premier and a close aide to Zhao Ziyang, visited Hainan, the request was withheld for Tian's comment. Ibid., 56-64. There was no mention that a formal request was made following Tian's visit. However, this did not change the fact that there were preparations and lobbying in Hainan for the establishment of the special custom zone.
52 For an informed analysis of Liang Xiang's political career in Hainan and the background leading to his arrest see He Ping, "Hainan shengzhang liangxiang baguan neimu," Jiushi nian代, October 1989, pp.76-77. He argued that the real reason for Liang's political demise was not corruption but that he took wrong political side.
However, it was the change in the overall political and economic environment, not the change of provincial leadership in Haikou, that had the most important consequences for Hainan's endeavour to become a special customs zone. Contrary to common expectations, the leadership after Liang Xiang and Xu Shijie also supported (or at least was not opposed to) a special customs zone. This path was clearly in the best interests of Hainan in the circumstances of the late 1980s. As the province's Systemic Reform Office recognised, establishing a special customs zone was in fact a prerequisite for Hainan's status as a special economic zone. There was also a growing realisation that a special customs zone was where Hainan's advantage vis-a-vis the existing special economic zones and even other coastal provinces lay.53 As Xu Shijie pointed out in 1988, the overall environment in which Hainan became a special economic zone was different from the environment for Shenzhen and Zhuhai almost a decade earlier. This underscored the harsh reality facing Hainan as it struggled to give substance to its new status.

When Shenzhen and Zhuhai were created as special economic zones in the late 1970s, they held almost a monopoly over many of the preferential policies.54 While they were also drawn into endless wrangling with central ministries, for many years they did not have to worry about competition from other places. In the late 1980s, preferential policies were found not only in the special economic zones but also in many other parts of the coastal provinces. If Hainan only gained the preferential policies that already existed elsewhere, it would not be able to attract foreign

54 Of course, very often the special economic zones in Guangdong had to share the preferential policies with the inner delta counties. Although the latter did not formally enjoy the policies, due to tolerance from provincial leaders, they in fact enjoyed many
investors. In such a case, Hainan would surely lose out to other localities in coastal China. This was why just a few months after the new province came into operation the provincial leadership saw Hainan's future in a clean break with the mainland by establishing Hainan as a special customs zone.

The Development of Yangpu

In addition to the struggle for a special customs zone, Hainan's special preferential policies entailed the provision that land in Hainan could be leased for as many as 70 years. More importantly, foreigners could lease a whole area for development and could transfer the lease to other parties (called chengpian kaifa). While the special customs zone was still an idea awaiting central endorsement, these provisions were already part of the package of preferential policies given to Hainan. Soon after the establishment of the province, Hainan began negotiations with a Japanese construction giant, Kumagai Gumi, to develop Yangpu, a deep port in the northwest part of the island. In the negotiation, the Japanese company could lease a tract of land of about thirty square kilometres around Yangpu port for 70 years and was responsible for developing and managing the entire region. In essence, Yangpu was meant to be a small special customs zone, and for it to work it needed to be cut off totally from the rest of Hainan. To achieve this, there would be two boundaries, one (yi xian) to separate Yangpu from other countries of the world, and the other (er xian) to separate it from other parts of Hainan and China. There would be minimal control over the first boundary, and in theory all commodities passing the second one should

measures that officially only existed in the special economic zones. See Vogel, One Step Ahead in China, pp.161-195.

be treated as exports and imports. Desperate to attract foreign investment and to
achieve a breakthrough, Hainan was more than ready to give the project a green light.
In December 1988, Hainan formally asked the central government to allow its
collaboration with Kumagai Gumi.\(^{56}\)

However, the project raised political concerns at the national level when a member of
the Chinese People’s Political Consultative Conference criticised it during a CPPCC
meeting in Beijing. He equated Yangpu with the foreign settlements of the past and
compared Yangpu’s development by Kumagai Gumi with the forced concessions to
foreign powers in the nineteenth century.\(^{57}\) Yangpu was all the more problematic
because Kumagai Gumi had a strong Japanese interest,\(^{58}\) which aroused the memory
of the Japanese invasion during the Second World War. The echoes this concern
generated at the CPPCC meeting gave the Yangpu project a big question mark.
Although Deng Xiaoping and Wang Zhen reportedly gave the project a boost by
approving it in April 1989, it was put on hold following the political turmoil in June
1989.

\(^{56}\) Dangdai Zhongguo de Hainan, Vol.2, p.96; Willem van Kemenade, China, Hong

\(^{57}\) Dangdai Zhongguo de Hainan, Vol.1, pp.190-1; Deng Xiaobo. "Yangpu fengbo
jishi," in He Baozhen, Hainan beiwanglu, 1988-1993, Haikou, Hanhai chuban she,
1993, pp.203-214.

\(^{58}\) The company, Kumagai Gumi (Hong Kong), was in fact a joint venture of Japan’s
Kumagai Gumi and a Chinese businessman in Hong Kong, and was listed on Hong
Kong’s stock exchange. Since 1997, the company has been under the control of a red
chip company, China Everbright, which until recently was managed by a close aides
to Premier Zhu Rongji, Zhu Xiaohua. In 1999, the company was renamed Hong Kong
Construction. Therefore, since 1997, the foreign company that was responsible for
developing Yangpu has in fact been a red chip company listed in Hong Kong. Zhu
Xiaohua was removed from the helm of China Everbright reportedly because of bad
management and poor decision making leading to massive loss to the company. He
was replaced by Liu Mingkang, formerly a deputy head of the People’s Bank of
China.
Both Jiang Zemin and Li Peng visited Hainan and Yangpu in 1990 and pledged their support for the project, but central approval was not soon forthcoming. Meanwhile, Hainan did not sit idly waiting for central approval. At the end of 1989, the province created an office at the departmental level (zhengting ji) with an establishment of a hundred cadres to prepare for Yangpu's development. In September 1991, Hainan and Kumagai Gumi signed a memorandum, but this was no more than an expression of interest and intentions. Everything still needed approval from the central government. This, however, did not come until Deng Xiaoping's imperial tour to Southern China in early 1992, which ushered in a new phase in China's reform and opening.

Without making the whole province or even the part of it at Yangpu a special customs zone, what exactly did "more special than existing preferential policies" or "extraordinary means of development" entail? Hainan officials liked to emphasise that Hainan had a high degree of freedom in three areas: people, capital and goods. But these three freedoms were still objectives that needed to be achieved.

"Xiao zhengfu, da shehui" (Small Government, Big Society)

Among the special preferential policies granted to Hainan, Hainan was no longer required to retain predominantly public ownership. All types of ownership were to be equally encouraged and treated in the same way according to law. While this has

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60 However, at least until May 1991, the office was only listed as a temporary organ (fei changshe jigou). See "Guanyu tiaozheng xiaozhengfu wenti de buchong yijian," in Hainan shehui zhuyi shichang jingji tizhi de jiben shijian, Vol.8, p.255.
gained wider acceptance in recent years, in the political climate of the late 1980s it put Hainan at the forefront of reform. Another related feature was that Hainan should move faster in establishing a market economy by allowing the market forces to work to a greater extent. Price controls were to be relaxed, and was control over labour movements.

Yet the aspect that has drawn most attention was that the party-state bureaucracy in Hainan should be organised differently than at the national level and other provinces. This was called "small government, big society" (xiaozhengfu da shehui).\textsuperscript{62} For many years, officials and analysts alike have viewed this as the single most important defining feature of the new system in Hainan and view it as the most original contribution Hainan has made to China's reform.\textsuperscript{63} The phrase was originally developed by Liao Xun, who began his connection with Hainan first as a member of the CASS research team sent to Hainan in late 1987, and since then as a key policy adviser to the provincial government.\textsuperscript{64} Liao went to considerable lengths to find support for the proposition in Marxist theories and ideology. The phrase went into the report authored by the research team led by Liu Guoguang and since then has been frequently cited in discussions on Hainan.


\textsuperscript{64} Liao was first deputy director and later director of the Research Centre of Social and Economic Development, Hainan Provincial Government. Before his association with Hainan, Liao was a researcher associated with CASS. Another member of the research team, Jiang Shangzhou, became the head of the government body in charge of Yangpu.
However, on closer examination "small government, big society" was neither original nor revolutionary. Similar ideas had existed in China, both as part of the broad agenda of political reform and more narrowly as a feature of administrative restructuring. Since the beginning of the reform era, many people had argued that one of the major defects of China's political system was its totalistic nature whereby the party-state sought to control everything in the economy and society. Economic reforms in China, above all, marked a remarkable retreat of the party-state. Advocates of political reform in China were fully aware of the need for a more limited state and the need to nurture a stronger civil society, but two problems have plagued political reform in China. First, the ruling communist party was not willing to loosen its grip on political power, and secondly, a portion of the Chinese intellectuals continue to advocate an authoritarian government.

It can be argued that "small government, big society" was never meant to be a political reform, but rather a guiding principle in organising government. However, even in the narrower area of administrative reorganisation and reform, "small government, big society" was not a revolutionary idea. For one thing, lean troops and simplified administration (jingbing jianzheng) had been a key principle since the

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67 However, we should remember that at the about the same time that Hainan became a province, CPC's national congress endorsed Zhao Ziyang's proposal of political system reform. For an insider's account of Zhao's reform proposal and its fate, see Wu Guoguang, Zhao Ziyang yu Zhongguo zhengzhi gaige.
Yanan era.\textsuperscript{68} After the failed administrative reorganisation beginning in 1982 and what is called the repeated loop of streamlining and bureaucratic expansion,\textsuperscript{69} reformers of administrative organisation increasingly recognised that streamlining and small government should not be the only or even the most important criterion guiding administrative reorganisation in China. What was needed, the reformers stressed, was changing the functions of government organisations (\textit{gaibian zhengfu zhineng}).\textsuperscript{70}

Hence, the reorganisation of the State Council in 1988, unlike past attempts, placed the emphasis not simply on reducing the administration by a certain number of ministries and cadres.\textsuperscript{71} However, although changing government functions does not necessarily mean a small government and bureaucratic streamlining, in the context of China's transition from a command economy to a market economy they were closely related. The old state bureaucracy performed a whole range of functions required by the command economy, and in this context changing government functions meant that the government would relinquish a host of functions in direct economic management and control, and take up new functions in macro economic monitoring and guidance. In 1988, the central agency responsible for supervising state enterprises and their production activities, the State Economic Commission, was abolished.\textsuperscript{72} A number of

\textsuperscript{70} \textit{Ibid.}, p.389-92.
\textsuperscript{71} But the value of streamlining died hard. The emphasis on streamlining continued to prevail also because of political considerations. Very often, the public and the NPC deputies were inclined to view the success or failure of administrative reorganisation merely in terms of the number of agencies being reduced and the number of cadres being pruned.
\textsuperscript{72} Later development proved that this decision was pre-mature. A State Production Office was created soon after the abolition of the State Economic Commission, to be replaced soon by a State Economic and Trade Commission, which performed the same functions that the State Economic Commission performed in the past.
ministries involved in fuel and energy were merged to form a single energy ministry.\textsuperscript{73}

Seen in this larger context of administrative reorganisation in the transition to a market economy in China, "small government, big society" was not a radical idea. The following three points were, however, quite unique in Hainan. First, as a new province, what was needed in Hainan was not so much changing government functions as creating new ones that were consistent with its overall direction of development. This task was made easier because Hainan had a weak industrial base and therefore a weak industrial bureaucracy. Second, as Hainan was elevated from a prefecture to a province, it expected and did experience bureaucratic growth rather than shrinkage. Small government merely meant the government was smaller than the governments of other provinces,\textsuperscript{74} but it is difficult to draw many conclusions from this fact alone. After all, Hainan is much smaller than most of China's provincial units, in terms of both geographical expanse and population size. At the same time, because Hainan was a new province, any conclusion based merely on information about the provincial government at its establishment is highly questionable. In Hainan, the objective of establishing a "small government" has been under

\textsuperscript{73} Again, this was not a successful change, as attested by the restoration of the constituent parts of the energy ministry in 1993. See Wu Jie (ed.), \textit{Zhongguo zhengfu yu jigou gaige}, Vol.1, p.415.

\textsuperscript{74} Initially Hainan provincial government was not only smallest among all provinces in China, it was even smaller than the original prefecture-level government in Hainan, in terms of both the number of agencies and number of total employees. See \textit{Dangdai Zhongguo de Hainan}, Vol.1, p.180. However, the figures should be viewed cautiously. Many agencies in the prefecture-level government were not abolished and their employees not pruned. They just fell outside the provincial government and were supposed to be turned into economic entities. However, in the following years many of these entities were restored as administrative agencies. Some of these became \textit{ting} (department) directly under provincial government, others were called \textit{ju} (bureau), which were a bit lower in bureaucratic status than \textit{ting} and therefore were often not counted in the total number of agencies under provincial government.
considerable pressure since the provincial government came into operation in May 1988, and has grown much in size.\textsuperscript{75} More importantly, although the total number of administrative agencies directly under the provincial government has not grown but decreased over time,\textsuperscript{76} this was often achieved by the trick of putting certain agencies outside the government organisational chart or placing some bureaux under the supervision of departments (ting).\textsuperscript{77}

Despite these reservations, it is still true that Hainan had a smaller government than other provinces in China. This stemmed from Hainan not having separate agencies in charge of specialised industrial sectors. Only one department was created to oversee industrial development.

More specifically, government functions and responsibilities were conceived as falling into four broad areas or systems. They are: (1) political guarantee system, (2) administrative support and social services system, (3) economic supervision and regulation system and (4), economic development and organisation system.\textsuperscript{78} These four systems basically followed what Liao Xun and the CASS research team proposed in 1987.\textsuperscript{79} This conception represents a rational and comprehensive approach to


\textsuperscript{76} For example, in 1998 the total number of administrative agencies under provincial government was reduced from 27 to 22. Hainan ribao, 2 June, 1998, p.1.

\textsuperscript{77} In 1998, Bureau of Industry and Commerce Administration and Bureau of Legislation were not listed as parts of the provincial government, but they continued to be administrative agencies performing authoritative administrative functions. Hainan ribao, 2 June, 1998, p.1.

\textsuperscript{78} In Chinese, they are called zhengzhi baozhang xitong, xingzheng shiwu he shehui fuwu xitong, jingji jiandu he tiaojie xitong, jingji fazhan yu zuzhi xitong. See Dangdai Zhongguo de Hainan, Vol.1, pp.179-80.

\textsuperscript{79} Liu Guoguang (ed.), Hainan jingji fazhan zhanlue, pp.193-223.
questions about government functions and organisation which has been emphasised both in Hainan and at the national level and in other regions. However, at both the national level and in other provinces the main task was to reform the existing system rather than create a new one. Thus, a rational and comprehensive approach faced greater limitations there. Even in Hainan, the rational conception of government functions and organisations had to be balanced by the compelling need to align Hainan’s government setup with the national system. The pressure has been getting greater as Hainan becomes just another ordinary province. As soon as the new provincial government was established, officials in Hainan started to complain that the new system was not working in Hainan’s best interests. Because the government setup in Hainan did not follow the national pattern, central ministries, which still controlled important resources and powers, withheld support or demanded that Hainan establish corresponding agencies.80 When the initially tight control over administration recedes, many agencies that had been designated as economic entities demanded to be reinstated as administrative bodies. All of these developments led to a concern that “big government” would return to Hainan.81

In some respects, it had never left. For the bulk of Hainan outside Haikou, the bloated bureaucracy was never streamlined. In Wenchang, for example, the county-level government organisation was not restructured until 1996.82 In July 1998, Hainan ribao (Hainan Daily) carried a series of reports of the persistent bureaucratic expansion in Lingshui, one of Hainan’s poorest counties.83 While these reports pointed

81 Ibid., p.634.
82 See Chapter four.
out many problems in the governance of poor counties in Hainan, they also suggested
that a small government, at least in terms of the size of government if not functions,
was no more than a myth at the county level. However, this has always been ignored
by much of the writings about Hainan’s new government system. As pointed out
above, these writings did not explore whether small government was merely an
objective to be achieved or had already become a reality. Moreover, their analysis of
Hainan’s experimentation with small government did not go much beyond the
provincial government compound and was based almost exclusively on official
reports and propaganda.84

84 Two notable examples are Brodsgaard, State and Society in Hainan, and Ru Xin
(ed.), “Xiao zhengfu da shehui” de lilun yu shijian. Officials and policy advisers in
Hainan of course have been keenly aware of the limitations of, and obstacles to, the
new government system. See, for example, Huang Deming’s article cited above. A
collection of policy papers and research reports edited by the provincial party
commitee’s policy research office and system reform office revealed many important
issues in instituting a small government at the provincial as well as county levels.
Brodsgaard’s article did not even mention the collection, which explains why he did
not do much more than elaborating on Liao Xun’s idea and following official
propaganda. At a deeper level, it is not very meaningful to focus merely on the
administrative agencies alone when discussing reform of government in China. One
of the most important issues concerns the service organisations (shiye danwei or
zuzhi). In China, for example, the industrial and commercial administration
bureaucracy was often listed as a service organisation, although it performed
essentially administrative functions. The organ created in 1989 to govern the Yangpu
Development Zone was quintessentially an administrative body, but it was
categorised as a service organisation (shiye danwei) using the staff establishment for
service organisations. During my research in Hainan, I found that the people I talked
to took painstaking efforts to make the distinction between jobs financed by budgetary
revenue (chi caizheng) and those not financed by budgetary revenue. In comparison,
not much emphasis was given to administrative agencies and service organisations, so
long as the latter were funded by budgetary revenue. When Hainan ribao reported on
the bloating bureaucracy in Lingshui, it did not make much a distinction between
administrative agencies and service organisations. They were put in the same
categories of relying on state revenue (chi huangliang). See Hainan ribao, 6 July,
1998, p.1. Moreover, as Chapter Six below argues, the local state’s growth in Hainan
has occurred in a much more diffused fashion, making any interpretation based on
officially designated administrative agencies ever more problematic.
Nonetheless, if "small government, big society" did not have any real substance, it was an excellent public-relations device.\textsuperscript{85} The central level needed it to justify the decision to make Hainan a province. To leaders in Hainan, the value of this proposition is even greater. It allows them to tell the central level, the nation and the world that Hainan is unique and is setting the pace of reform in China as originally intended. This is all the more necessary when Hainan's prospects have been clouded and doubted in recent years. As such, "small government, big society" should be regarded as political rhetoric and a propaganda device as much as a statement of objectives to be achieved - and even less as a correct description of political and administrative realities.

\textbf{Deng Xiaoping's Southern Tour As a Mixed Blessing}

It has been shown above that the endeavour to establish a new set of institutions and to achieve breakthroughs in Hainan proceeded in politically and economically unfavourable environments. Both Zhao Ziyang's fall from power following the crackdown on the pro-democracy movement and the economic austerity measures beginning in 1988 created great difficulties to radical reform in Hainan. A turnaround in the overall political environment occurred when Deng Xiaoping made his imperial tour to Southern China in early 1992 to push reform into a new phase. The tour gave a big boost to Hainan's attempt to stay on the track of radical reforms, but in retrospect it is clear that the overall environment created for accelerating reforms by Deng Xiaoping was at best a mixed blessing to Hainan. This is because Deng's tour helped spread reform throughout China, eroding Hainan's unique position.

\textsuperscript{85} Ru Xin (ed.), "\textit{xiao zhengfu da shehui" de lilun yu shijian; Hainan shehui zhuyi shichang jingji tizhi de jiben shijian}, Vol.8; \textit{Dangdai Zhongguo de Hainan}, Vol.1, pp.176-83; "Hainan jiansheng ban jingji tequ shinian cai quanguo shuaixian shixing
As the overall economic environment improved, Hainan's leaders lost no time to press the central government to give approval to the aborted projects of turning Hainan into a special customs zone and permitting the development of Yangpu by Kumagai Gumi. As the latter already had the explicit support from Deng Xiaoping, and endorsements from both Jiang Zemin and Li Peng (see above), Hainan quickly won a green light to go ahead in April 1992. Kumagai Gumi signed a contract with Hainan in August 1992.

The more ambitious endeavour of turning all of Hainan into a special customs zone, however, did not receive much support at the central level. According to an analyst, the reluctance of the central leaders to allow Hainan to do so was partly due to concerns over loss of customs revenue, and partly due to a fear that this would encourage other localities to make similar demands. We have shown above that only a few months after establishing the province, leaders in Hainan already came to the conclusion that the best way to guarantee Hainan's cutting-edge position in China was to separate it in a sweeping fashion from the economy of the mainland. The situation in the early 1990s also made this strategy an imperative for Hainan if it was to preserve its attractiveness to foreign investors in competition with other provinces.

One thing that turned increasingly against Hainan was the erosion of its uniqueness as preferential policies were extended to other localities in China. The opening of Pudong in Shanghai, in particular, was a threat to Hainan because it signified a


decisive shift of the central government's regional development strategy. Pudong was allowed to go into many of the businesses that Hainan had long wanted but had been vetoed by the central level. Foreign capital was increasingly attracted to Pudong. Hainan did try to pre-empt the challenge of Shanghai and Shenzhen by setting up a stock exchange without central approval in 1992, but it was closed down due to central opposition.\(^{89}\)

The prospect of becoming a special customs zone was still attractive enough to draw investments to Hainan in the two to three years after Deng's South China tour. However, most of these investments went into real estate speculation in Haikou, Sanya, Yangpu and the designated development zones (kaifā qu) in counties. This led to a real estate bubble, which gave the appearance of easy money everywhere in Hainan. The profits from real estate investment in 1992 in Haikou were reported to be as high as 100\%, and apartments up for sale were grabbed in days.\(^{90}\) In the summer of 1993, I stayed in Hainan for more than two weeks and met an old secondary school classmate. He had made some money by selling air-conditioners since 1988. Now his attention had shifted to real estate and he had passed the air-conditioning business to his brother. He had bought a piece of land along the coast at the far fringes of Haikou, hoping that the city would grow and he could make a huge profit by selling the land. His air-conditioning business allowed him to buy a Toyota truck, but his aim was a Lexus. Both government officials and individual investors got carried away by the atmosphere of easy and big wealth. The following comment by Huan Guochang in an interview with the *Far Eastern Economic Review* reflects this atmosphere: "The

\(^{88}\) Jasper Becker, "Tide has turned against Hainan," *South China Morning Post*, 19 April, 1997.

\(^{89}\) Willem van Kemenade, *China, Hong Kong, Taiwan, Inc.*, pp.185-6.

\(^{90}\) *Zhonghua gongshang shibao*, 21 April, 1993, p.6.
reason people are interested in Hainan is you can make a lot of cash, and there is not much regulation and no effective enforcement. In Hainan you can do whatever you want.\textsuperscript{91} The following statement was popular in an inland province. "If you want to make money in these two years, go to Hainan."\textsuperscript{92} Hainan's economy grew at a frenzied rate during 1992-1994 (Table 3.4 below), but it did not take long for the bubble to burst. Since 1995, Hainan's economy has received heavy blows: first the nationwide monetary tightening stopped the flow of capital into the real estate market; and the prospects of a special customs zone has become more and more remote. The price of real estate has been falling by more than 10\% each year, and as of 1999 the price was less than one quarter of the value in 1993. In 1999, Hainan became an experimental site for cleaning up the stocks of unsold real estate properties, which in the words of an interviewee in Haikou, were enough for the next century. According to the province's department of construction, vacant apartments and office space stood at an astounding seven million square metres, about 10\% of China's total unoccupied floor space. More than RMB50 billion in capital and bank loans were frozen in unsold and unoccupied properties.\textsuperscript{93}

The collapse of the real estate market also had ramifications for Hainan's endeavour to become one of China's financial centres. Partially because of the huge amounts of non-performing debts frozen in the unoccupied buildings, in 1997 there was a run on the Haikou City People's Credit Union. On the instructions of the provincial government, the Hainan Development Bank, a local bank responsible for financing

\textsuperscript{92} Zhonghua gongshang shibao, 21 April, 1993, p.6.
infrastructure construction, took over the credit union in December 1997. However, a few months later the Hainan Development Bank was itself placed in receivership.⁹⁴

Even Yangpu had not made much progress after gaining approval from the central government in April 1992. For all the excitement it has generated and the resources that have gone into improving its infrastructure, the zone was not able to attract much foreign investment.⁹⁵ Worse still, Yangpu was hit by the bursting of the real estate bubble. Yangpu's value was further reduced because it had never been completely open to the rest of the world.⁹⁶ As of 1998, officials in Yangpu admitted that only two factories had started operations in the zone.⁹⁷ After China Everbright took majority control over Kumagai Gumi, Yangpu has become a project involving domestic capital. It is doubtful whether this change will enhance Yangpu's appeal to international investors.⁹⁸ Probably due to his close connection with Premier Zhu Rongji, Zhu Xiaohua was able to gain some support from the Premier.⁹⁹ During his visit to Yangpu in December 1998, Zhu Rongji pledged central support by agreeing to place central projects in the zone, and asked Hainan to do so with its industrial projects as well.¹⁰⁰ People began to talk about re-starting (zaici qidong) the zone.

⁹⁵ Jasper Becker, "Tide has turned against Hainan," South China Morning Post, 19 April, 1997; Willem van Kemenade, China, Hong Kong, Taiwan, Inc., pp.188-90; Xianggang jingji ribao (Hong Kong), 22 December, 1998, p. A6.
The rumours about Hainan were popular both among the peasants in the rural areas and among the intellectuals and government cadres. For example, Feng Chongyi and David Goodman mentioned a view that after the hand-over of Macau from Portugal to China at the end of 1999, the casinos would be relocated to Hainan. An editor of Hainan ribao chose to forecast the fate of Hainan in term of the cycles of opening in China, in 1995 pointing out that yet another cycle of opening up would emerge in 1996 and that Hainan should be able to benefit greatly from it. His forecast, of course, was wrong, but this did not prevent him from wishing that the communist party in Mainland China would join the KMT in Taiwan to develop Hainan. The development of Hainan, he argued, would not just entail piecemeal economic deals, but the collective efforts of two parties and governments in the best interests of the nation.

This kind of analysis borders on sheer wishful thinking and was just an element of the larger problem: a strong sense of frustration and despair, and a waiting attitude coupled with a longing for the central government to issue new policies.

Ruan Chongwu's appointment as provincial party secretary and governor in 1993 marked yet another dividing line. While previous provincial leaders put the emphasis on seeking more preferential policies from the central level, Ruan focused on changing the institutions in Hainan and shifting from an advantage in policies to an advantage in institutions, i.e. from relying on preferential policies given by the central

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101 Feng Chongyi and David Goodman, China's Hainan Province, p.63.
government to developing better institutions and environment for economic activities to attract investors from the mainland and abroad.\textsuperscript{104}

When the province celebrated its 10th anniversary in April 1998, two opposite views on this question were presented. The first view stresses that Hainan has now been equipped with a superior system of market economy, which should enable it to compete favourably with other localities in China, while the preferential policies had fostered speculation and a get-rich-quick mentality, which led Hainan into deep recession in recent years. This view also disputes the vision of making Hainan a special customs zone, arguing that Hainan should now set its aims on the massive domestic market.\textsuperscript{105} A Remin ribao \textit{(People's Daily)} reporter pointed out that when Hainan lost its uniqueness, it had fulfilled its historical mission of being China's testing ground for market-oriented initiatives. It also echoes the view that preferential policies were only temporary measures to get Hainan started on the path of economic take-off. In the long run, Hainan should move to a higher level and grow on the basis of the new institutions of a market economy.\textsuperscript{106}

In contrast to this, a more widely held view was that Hainan should continue to seek preferential policies from the central government. "Whenever the pace of opening was accelerated, development and construction [of Hainan] moved up to a new stage; whenever the pace of opening was slackened, development and construction suffered a setback," writes Chong Yechang, a senior staff member of \textit{Hainan ribao}, in an article marking the province's 10th anniversary. The main theme of Hainan's task, [Footnotes]

\textsuperscript{104} Feng Chongyi and David Goodman, "Hainan Province in Reform: Political Dependence and Economic Interdependence," pp.358-9.


Chong emphasised, was still to strengthen the opening up of Hainan because it was the foundation of all other tasks and targets.

The new provincial leadership under Du Qinglin, the new provincial party secretary to replace Ruan Congwu in 1998, attached great importance to greater opening, stating that Hainan had a special position and advantage in the overall order of China's opening. Du also suggested that playing the card of opening (da kaifang pai) was not just a key task for Hainan in the short term, but also a long-term development strategy. The greatest issues in Hainan's development, Du emphasized, were not only central government's opposition to grant it more preferential policies, but also the tendency for Hainan to become a normal province (changgui sheng). However, they were not many supports at the central level (Li Ruihuan was perhaps an exception) for granting more preferential policies to Hainan. At the same time, as the new province grows older, it has been increasingly routinised and regularised. People are more concerned about the gains from Hainan's rise in bureaucratic status rather than the increasingly bleak prospect of being at the cutting-edge of China's march to wealth and prosperity.107

From Opening to Development

David Zweig has aptly described the practice of granting special preferential policies to only certain localities or industrial sectors as segmented deregulation, or reform by exception. With segmented deregulation, some localities or industrial sectors are granted "special exemptions from regulatory constraints, such as import duties, taxes for foreign investors, tax remissions or exclusions from labour regulations ... [while at

the same time] the rest of the country remained constrained by the planned economy and the regulatory regime.\textsuperscript{108} Segmented deregulation worked in a surprisingly simple way: while the rest of the country was still tightly bound by the command economy, deregulated localities enjoyed tremendous advantages in attracting investments, because they could do what other localities could not do and do so at a lower cost. As a result, as David Zweig points out, the bulk of the initial investments going to the special economic zones were not from foreign countries but from other localities within China.

Like other special economic zones and the coastal regions, Hainan also benefited from segmented deregulation. But Hainan's problems were, first, it was deregulated later than provinces such as Guangdong and Fujian, and second, its economic base was too poor to enable it to benefit greatly from deregulation. The research team led by Liu Guoguang recognised Hainan's limitations when it suggested that Hainan should achieve extraordinary development by an extraordinary means. For two reasons, the extraordinary means did not work very well in Hainan either. First, they did not have the appropriate political and economic environment to fully develop. Hainan was drawn into a political struggle in Beijing as soon as the province came into operation. Since the fall of Zhao Ziyang, Hainan did not have a political patron to give substance to what was meant by extraordinary means. Second, Hainan also made its own mistakes. Allowing real estate speculation to run wild and allowing itself to be carried away by an unfounded optimism and unrealistic ambitions,\textsuperscript{109} Hainan lost the best opportunity of its short history. The cost was not only the economic recession of

\textsuperscript{108} David Zweig, \textit{Freeing China's Farmers: Rural Restructuring in the Reform Era}, p.4.

\textsuperscript{109}
1995-1997, but also the confidence of the central level in Hainan's ability to manage autonomy. Another widely noted but invisible legacy was the mentality that developed over the ups and downs of its recent history. The sense of despair and longing for a sudden change of central policy, coupled with decades of neglect and exploitation during the Maoist era, have created a unique sentiment or culture that does not bear well for Hainan's future development.

Table 3.4  Per Capita GDP and Growth Rates, Hainan, China and Selected Provinces

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<tbody>
<tr>
<td>Per Capita GDP</td>
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<tr>
<td>Hainan</td>
<td>5,698</td>
<td>10.3</td>
<td>5.7</td>
<td>10.6</td>
<td>14.9</td>
<td>40.2</td>
<td>20.9</td>
<td>11.9</td>
<td>4.3</td>
<td>4.8</td>
<td>6.7</td>
</tr>
<tr>
<td>National</td>
<td>6,079</td>
<td>9.5</td>
<td>2.5</td>
<td>2.3</td>
<td>7.7</td>
<td>12.8</td>
<td>12.2</td>
<td>11.4</td>
<td>9.3</td>
<td>8.4</td>
<td>7.6</td>
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<tr>
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<tr>
<td>Guangdong</td>
<td>10,428</td>
<td>16.1</td>
<td>7</td>
<td>11.3</td>
<td>17.3</td>
<td>22</td>
<td>22.3</td>
<td>19.1</td>
<td>14.9</td>
<td>10.7</td>
<td>10.6</td>
</tr>
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<td>Jiangsu</td>
<td>9,344</td>
<td>10.4</td>
<td>1.4</td>
<td>4.4</td>
<td>6.9</td>
<td>26.2</td>
<td>20.7</td>
<td>16.5</td>
<td>15.4</td>
<td>12.2</td>
<td>12</td>
</tr>
<tr>
<td>Shandong</td>
<td>7,590</td>
<td>16.8</td>
<td>4</td>
<td>5.3</td>
<td>13.9</td>
<td>19.5</td>
<td>18.5</td>
<td>16.3</td>
<td>14.2</td>
<td>12.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Fujian</td>
<td>9,238</td>
<td>12.1</td>
<td>6.5</td>
<td>7</td>
<td>14.7</td>
<td>20.8</td>
<td>25.2</td>
<td>21.7</td>
<td>15.2</td>
<td>15.4</td>
<td>14.5</td>
</tr>
</tbody>
</table>


The main problem is that such overall level of per capita GDP obscures important issues in economic structure, growth trends, and more importantly, disparities between urban and rural areas. First, as of 1997 (Table 3.5), the composition of GDP in Hainan was still skewed toward the primary sector. In particular, the share of the secondary industry (20.2%) in Hainan was not only substantially lower than the national average (49.2%), but the lowest in China. Hainan's population was still

109 Hainan's ambitions know no bounds. In twenty years it hoped to rival Taiwan in industrial strength, Hong Kong in technical scope, and Hawaii in tourist attraction,
locked to the land and agriculture, with 61.2% of the labour force in the primary sector compared with 49.9 for China as a whole. Again, the proportion of the labour force in secondary industry in Hainan was among the lowest in China: only Xizang, Yunnan, Guizhou and Guangxi had a lower proportion of labour force in secondary industry. As a result of low industrial growth, migrant workers from Hainan are still competing with their counterparts from Sichuan, Hunan and Guizhou for factory jobs in the Pearl River Delta.

| Table 3.5 GDP and Labour Force by Sector, China and Hainan, 1997 |
|-----------------|-------------|-------------|
|                 | China       | Hainan      |
| Primary         | 18.7        | 36.9        |
| Secondary       | 49.2        | 20.2        |
| Tertiary        | 32.1        | 42.9        |
| Primary         | 49.9        | 61.2        |
| Secondary       | 23.7        | 11.6        |
| Tertiary        | 26.4        | 27.3        |


Second, the economic growth in Hainan has lost the momentum gained when it achieved provincial status and after Deng Xiaoping's South China tour in early 1992. Table 3.4 shows that, following two years of exceptionally fast growth in 1992 and 1993, Hainan's economic growth rates decreased sharply (from nearly 40% in 1992 and 20% the following year to about 4% in 1995 and 1996). Since 1995, the growth rates in Hainan were substantially lower than the national average (over 9% and 8% in 1995 and 1996 respectively). While the whole country had been affected by the tightening of monetary supplies and related measures to cool down the overheated economy, Hainan has been the hardest hit. The trend in growth rates in recent years

"observes a journalist. See Willemvan Kemenade, China, Hong Kong, Taiwan, Inc."
sent an alarming signal to Hainan, because it suggests that the province not only was unable to achieve extraordinary development, but failed to achieve even the national average growth rates.\textsuperscript{110} If this trend continues, Hainan will go back to its original status as one of China's poorest regions.

Some of Hainan's rural areas are among China's poorest regions. This leads us to a more important issue in the first decade of Hainan as a province: uneven development and what is called economic polarisation (jingji er yuanhua). Over the years, economic dualism in Hainan has not just not been reduced but even become more pronounced,\textsuperscript{111} as shown in Table 3.6. As of 1996 of all the counties in Hainan only Qionghai had a per capita GDP (RMB5,782) above the provincial average of RMB5,500. Even in the relatively more developed counties such as Qionghai, Qiongshan and Wenchang, agriculture still accounted for a large share of total output value. In quite a few counties, agricultural output value was several times that of industry.

\textsuperscript{110} This argument stands in sharp contrast to that of the research teams of CASS and Feng Chongyi and Goodman. Feng and Goodman wrote in 1995 that, "Hainan has laid a sound foundation for further economic development, with sufficient infrastructural development and appropriate economic structures for future. It would seem likely that the province has passed the threshold of the take-off stage in economic growth, be followed by a long period of sustained growth." Feng and Goodman, \textit{China's Hainan Province}, p.29.

\textsuperscript{111} Liao Xun, "Hainan jingji fazhan zhong de er yuan hua wenti," pp.131-146.
Table 3.6  Per Capita GDP, GIOV and Ratio of Agriculture to Industry Output in Hainan, 1996

<table>
<thead>
<tr>
<th></th>
<th>Per Capita GDP</th>
<th>Per Capita GIOV</th>
<th>Ratio of Agriculture to Industrial Output</th>
</tr>
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<tbody>
<tr>
<td>National</td>
<td>5,634</td>
<td></td>
<td></td>
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<tr>
<td>Hainan</td>
<td>5,500</td>
<td>2,213</td>
<td>0.76</td>
</tr>
<tr>
<td>Wenchang</td>
<td>4,235</td>
<td>2,035</td>
<td>0.71</td>
</tr>
<tr>
<td>Haikou</td>
<td>16,608</td>
<td>9,694</td>
<td>0.03</td>
</tr>
<tr>
<td>Sanya</td>
<td>5,161</td>
<td>1,144</td>
<td>1.07</td>
</tr>
<tr>
<td>Tongza</td>
<td>4,606</td>
<td>1,173</td>
<td>0.98</td>
</tr>
<tr>
<td>Qiongshan</td>
<td>4,991</td>
<td>1,737</td>
<td>0.83</td>
</tr>
<tr>
<td>Qionghai</td>
<td>5,782</td>
<td>2,073</td>
<td>1.22</td>
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<tr>
<td>Wanming</td>
<td>4,172</td>
<td>2,095</td>
<td>0.68</td>
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<td>2,371</td>
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<tr>
<td>Tunchang</td>
<td>3,427</td>
<td>1,066</td>
<td>1.38</td>
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<tr>
<td>Chengmai</td>
<td>4,043</td>
<td>2,659</td>
<td>0.50</td>
</tr>
<tr>
<td>Lingao</td>
<td>3,308</td>
<td>539</td>
<td>3.50</td>
</tr>
<tr>
<td>Danzhou</td>
<td>5,406</td>
<td>1,188</td>
<td>1.59</td>
</tr>
<tr>
<td>Dongfang</td>
<td>4,281</td>
<td>1,021</td>
<td>0.88</td>
</tr>
<tr>
<td>Ledong</td>
<td>3,106</td>
<td>219</td>
<td>6.08</td>
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<tr>
<td>Qionghong</td>
<td>3,129</td>
<td>179</td>
<td>5.48</td>
</tr>
<tr>
<td>Baoting</td>
<td>2,809</td>
<td>111</td>
<td>6.47</td>
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<tr>
<td>Lingshui</td>
<td>2,782</td>
<td>574</td>
<td>1.70</td>
</tr>
<tr>
<td>Baisha</td>
<td>3,977</td>
<td>476</td>
<td>2.42</td>
</tr>
<tr>
<td>Changjiang</td>
<td>5,130</td>
<td>1,607</td>
<td>0.67</td>
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</table>


Another way of revealing economic dualism in Hainan is to note the growing importance of Haikou in the provincial economy (Table 3.7). In 1990, Haikou's GDP accounted for about 19.1% of the provincial total. This had increased to 25.5% in 1997 despite the burst of the real estate bubble. This trend suggests a widening gap between the more developed provincial capital (and to a lesser extent, Sanya) and the rural counties. The growing share of Haikou in the provincial GDP, however, represents a gain mainly at the expense of the decreasing importance of the GDP of the inland and minority counties. The counties in the northern and eastern parts of the island, including Qiongshan and Wenchang, have increased their share of the total provincial GDP. However, even though the share of Wenchang is shown in these
statistics to have increased, as discussed in Chapter One, Wenchang's economy was probably more rural than suggested by the statistical figures.

Uneven development and the under-development of the rural areas distinguish Hainan's experiences from many other parts of China, where rural industrialisation has contributed significantly to overall economic growth. In Hainan, almost all the rural counties have continued to rely on heavy subsidies from the provincial level.\(^{112}\) Table 3.8 presents figures on subsidies to cities and counties in Hainan in selected years. Two observations can be drawn from the table. First, for most counties subsidies have increased since Hainan gained provincial status in 1988. For example,

\(^{112}\) It is a common knowledge that many county governments in Hainan found it difficult to make timely wage payments. For a report insinuating this phenomenon, see *Hainan ribao*, 13 October, 1997, p.5. Cadres in Wenchang, particularly those at the county level, cited it as one of Wenchang's major achievement under Zhu Mingguo that while those inland counties (*neixian*) were not able to pay their cadres on time, Wenchang had been able to do so. When people mention *neixian*, they mainly refer to counties other than Qiongshan, Qionghai and perhaps a few other relatively developed counties in the northern part as well. *Neixian* in particular refers to those counties with a large concentration of *li* and *miao* minorities.
Wenchang received a total of about RMB23 million in subsidy in 1988 and more than RMB33 million in 1990. Second, since 1991 the provincial level has largely fixed the level of quota subsidies (*dinge buzhu*) to the sub-provincial localities (total quota subsidies to all counties were RMB132 million in 1991 and RMB135 million in 1997). A much greater portion of subsidies to the sub-provincial level was in the form of earmarked subsidies and has been increasing: earmarked subsidies were RMB380 million in 1991 and increased to RMB613 million in 1997. In 1997 Wenchang received RMB10.6 million in quota subsidy from the provincial level, but RMB32.7 million in earmarked subsidies. The significance of earmarked subsidies was not a phenomenon unique to Hainan, it was instead a typical feature all over China. In 1993, for instance, the central government allocated RMB9.5 billion in quota subsidies, but allocated nearly three times as much (RMB36 billion) in earmarked subsides to the provincial level.113

Despite the importance of earmarked subsidies, the mechanism and principle through which the earmarked subsidies were allocated remain poorly understood. Christine Wong has pointed out that the bulk of central earmarked grants (59.2%) in 1993 went to price subsidies, but price subsidies were less important at the lower levels of the administrative hierarchies where urban populations were relatively smaller.

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### Table 3.8 Subsidies to Counties in Hainan, Various Years

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<td>Q</td>
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<td>T</td>
<td>Q</td>
<td>E</td>
</tr>
<tr>
<td>Haikou</td>
<td>-1,114</td>
<td>-7,829</td>
<td>-7,862</td>
<td>-7,417</td>
<td>-5,355</td>
<td>5,355</td>
<td>-6,670</td>
<td>-8,844</td>
</tr>
<tr>
<td>Sanya</td>
<td>186</td>
<td>1,203</td>
<td>3,030</td>
<td>3,476</td>
<td>2,936</td>
<td>3,684</td>
<td>4,779</td>
<td>5,527</td>
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<tr>
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<td>-711</td>
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<td>1,927</td>
<td>1,409</td>
<td>1,996</td>
<td>1,808</td>
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<tr>
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<td>1,586</td>
<td>1,709</td>
<td>-2,155</td>
<td>2,155</td>
<td>-2,566</td>
<td>2,566</td>
</tr>
<tr>
<td>Wenchang</td>
<td>733</td>
<td>2,138</td>
<td>2,282</td>
<td>3,340</td>
<td>1,062</td>
<td>2,096</td>
<td>3,158</td>
<td>1,062</td>
</tr>
<tr>
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<td>935</td>
<td>1,656</td>
<td>2,689</td>
<td>583</td>
<td>1,919</td>
<td>2,502</td>
<td>583</td>
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<tr>
<td>Wanning</td>
<td>288</td>
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<td>3,370</td>
<td>1,358</td>
<td>2,074</td>
<td>3,432</td>
<td>1,358</td>
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<tr>
<td>Dingan</td>
<td>243</td>
<td>788</td>
<td>1,307</td>
<td>2,116</td>
<td>579</td>
<td>1,455</td>
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<td>Tunchang</td>
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<td>682</td>
<td>1,337</td>
<td>2,019</td>
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</tr>
<tr>
<td>Chengmai</td>
<td>698</td>
<td>1,057</td>
<td>1,476</td>
<td>2,448</td>
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<td>1,905</td>
<td>2,660</td>
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<tr>
<td>Lingao</td>
<td>358</td>
<td>1,122</td>
<td>1,542</td>
<td>2,826</td>
<td>1,274</td>
<td>1,785</td>
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<tr>
<td>Danzhou</td>
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<td>937</td>
<td>1,853</td>
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<td>714</td>
<td>2,050</td>
<td>2,764</td>
<td>714</td>
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<tr>
<td>Dongfang</td>
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<td>415</td>
<td>1,383</td>
<td>2,514</td>
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<td>1,901</td>
<td>2,766</td>
<td>865</td>
</tr>
<tr>
<td>Ledong</td>
<td>-554</td>
<td>273</td>
<td>1,228</td>
<td>2,408</td>
<td>988</td>
<td>2,138</td>
<td>3,126</td>
<td>624</td>
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<tr>
<td>Qionghong</td>
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<td>972</td>
<td>1,268</td>
<td>2,106</td>
<td>578</td>
<td>1,545</td>
<td>2,123</td>
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<tr>
<td>Baoting</td>
<td>208</td>
<td>900</td>
<td>1,075</td>
<td>1,800</td>
<td>574</td>
<td>1,024</td>
<td>1,598</td>
<td>574</td>
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<tr>
<td>Lingshui</td>
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<td>1,503</td>
<td>1,767</td>
<td>3,385</td>
<td>1,106</td>
<td>1,816</td>
<td>2,922</td>
<td>1,106</td>
</tr>
<tr>
<td>Baisha</td>
<td>396</td>
<td>909</td>
<td>1,061</td>
<td>1,646</td>
<td>660</td>
<td>1,236</td>
<td>1,896</td>
<td>660</td>
</tr>
<tr>
<td>Changjiang</td>
<td>252</td>
<td>712</td>
<td>1,076</td>
<td>1,525</td>
<td>112</td>
<td>1,922</td>
<td>2,034</td>
<td>112</td>
</tr>
</tbody>
</table>

Q = Quota Subsidies  
E = Earmarked Subsidies  
T = Total Subsidies

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td>1980</td>
<td>13,225</td>
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<tr>
<td>1985</td>
<td>38,058</td>
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<td>1988</td>
<td>51,283</td>
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<tr>
<td>1990</td>
<td>62,681</td>
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<tr>
<td>1991</td>
<td>60,610</td>
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<td>1992</td>
<td>14,094</td>
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<td>1993</td>
<td>49,913</td>
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<td>1994</td>
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<td>1995</td>
<td>13,516</td>
</tr>
<tr>
<td>1996</td>
<td>61,300</td>
</tr>
<tr>
<td>1997</td>
<td>74,816</td>
</tr>
</tbody>
</table>

Sources:  
Hainan tongji nianjian 1991, pp.467-68  
Hainan tongji nianjian 1992, p.543  
Hainan tongji nianjian 1993, p.545  
Hainan tongji nianjian 1994, p.429  
Hainan tongji nianjian 1998, p.527

* Earmarked subsidies for these counties were markedly low probably because much of these subsidies were counted as other revenue.

Note: Figures before 1990 are derived from comparing the revenue with expenditures. No breakdowns of quota and earmarked are available. Figures since 1991 do not include remittance (both quota and earmarked), but since most of the localities in Hainan received subsidies, the figures are still comparable. Only Haikou turned over a significant amount of quota and earmarked remittance. The figures for Haikou since 1991 do not include remittance, and are therefore not net subsidies.
With the freeing of prices to market determination, price subsidies should become less important as a component of earmarked subsidies in recent years, but as we can see from Table 3.7, in 1997 total earmarked subsidies remained substantially higher than total quota subsidies. Total earmarked subsidies in 1997 were RMB613 million compared with RMB135 million in quota subsidies.

How the earmarked subsidies were allocated and their effects on equality are important issues. Loraine West and Christine Wong have pointed out that while quota subsidies on the whole have an equalising effect, earmarked subsidies from the central level had been distributed in a way that favoured the rich provinces rather than the poor ones. Many Chinese scholars also find serious defects in the management and distribution of the earmarked subsidies, including poor management, too many types of earmarked subsidies, the fragmentation of their use, and a lack in transparency in allocation. They identify this as one of the most important areas for reforming the system of inter-governmental transfers of revenue.

However, in Hainan, with an important exception, the allocation of earmarked subsidies appears to have had some equalizing effect. As Table 3.9 indicates, the poor counties such as Qiongzhong, Baoting, Lingshui and Baisha received more per capita earmarked revenue than the more affluent counties in the northern and eastern parts of the island. There seems to be some relationship between per capita local revenue and per capita earmarked subsidies in Table 3.9: counties with a lower per capital local revenue received a higher per capita earmarked subsidies and vice versa.

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114 Ibid., p.294.
But there is a notable exception, and it worked to dilute the equalizing effect we just noted. Haikou was the only locality that turns over any significant surplus to the provincial level and had a per capita GDP and revenue several times higher than those of the provincial average (Tables 3.6 and 3.9), but in 1996 it received RMB 313 in per capita earmarked revenue. This is higher than any other sub-provincial units in the province. Only Tongza in the mountainous region, with per capita subsidies of RMB278, came close to the level of Haikou.

The large amount of earmarked subsides given to Haikou is but one aspect of the issue of uneven development and economic dualism in Hainan. Writings on this issue often point to two reasons for the slow growth of the rural counties in Hainan. The first was the free flow of capital to Haikou and the areas around Sanya. Because conditions in the rural areas were poor, they were not able to attract investments. The increasing concentration of foreign investments in Haikou over the years merely reflected its relative attractiveness. Second, the agricultural population, particularly from inland and minority counties in the center and southwest districts of the island, did not take advantage of the employment opportunities available in Haikou. In some cases even when the income in the village was only 1/7 or 1/8 of the income of employees in Haikou, many peasants still chose to stay in home, leaving thousands of employment opportunities to be taken by migrant workers from mainland provinces. While migrant workers from the mainland traveled thousands of miles to Hainan to look for employment opportunities, many peasants in Hainan did not leave their villages for jobs that were not very far away.

Table 3.9  Relation between Per Capita Revenue, and Per Capita Subsides, 1996

<table>
<thead>
<tr>
<th>City</th>
<th>Per Capita Revenue</th>
<th>Per Capita Quota Subsides</th>
<th>Per Capita Earmarked Subsides</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haikou</td>
<td>1,431</td>
<td>-</td>
<td>313</td>
</tr>
<tr>
<td>Sanya</td>
<td>544</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Tongza</td>
<td>342</td>
<td>59.6</td>
<td>278</td>
</tr>
<tr>
<td>Qiongshan</td>
<td>468</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>Wenchang</td>
<td>223</td>
<td>20.3</td>
<td>54</td>
</tr>
<tr>
<td>Qionghai</td>
<td>323</td>
<td>13.9</td>
<td>74</td>
</tr>
<tr>
<td>Wanning</td>
<td>230</td>
<td>25.9</td>
<td>47</td>
</tr>
<tr>
<td>Dingan</td>
<td>142</td>
<td>19.5</td>
<td>73</td>
</tr>
<tr>
<td>Tunchang</td>
<td>220</td>
<td>32.4</td>
<td>118</td>
</tr>
<tr>
<td>Chengmai</td>
<td>191</td>
<td>17.4</td>
<td>69</td>
</tr>
<tr>
<td>Lingao</td>
<td>138</td>
<td>39.2</td>
<td>14 *</td>
</tr>
<tr>
<td>Danzhou</td>
<td>228</td>
<td>1.7</td>
<td>4 *</td>
</tr>
<tr>
<td>Dongfang</td>
<td>168</td>
<td>26</td>
<td>23</td>
</tr>
<tr>
<td>Ledong</td>
<td>108</td>
<td>31.8</td>
<td>22</td>
</tr>
<tr>
<td>Qiongzhong</td>
<td>178</td>
<td>36.3</td>
<td>150</td>
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<tr>
<td>Baoting</td>
<td>158</td>
<td>48.0</td>
<td>193</td>
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<td>Lingshui</td>
<td>111</td>
<td>48.1</td>
<td>126</td>
</tr>
<tr>
<td>Baisha</td>
<td>233</td>
<td>40.2</td>
<td>103</td>
</tr>
<tr>
<td>Changjiang</td>
<td>375</td>
<td>5.8</td>
<td>127</td>
</tr>
</tbody>
</table>

Sources: *Hainan tongji nianjian, 1997*, pp.42, 500

* Lingao and Danzhou’s earmarked subsidies in 1996 were markedly smaller than the subsidies they received in 1995. See *Hainan tongji nianjian, 1996*, p.387.

My observations in the county seat and townships in Wenchang are in line with this observation. There were quite a few people from the mainland doing the dirty jobs such as collecting faeces and rubbish, cleaning streets and even shining shoes. In many villages, workers from the mainland were hired to look after the watermelon fields (which meant that they would spend a couple of months around the clock in the fields). At the same time, I found that many people in the villages were unemployed. Why did the unemployed local people do the jobs? It is a common scene that in many Pearl River Delta cities and towns, these were jobs for migrant floating populations, but it was a bit strange that in a place with so many people unemployed, quite many of these jobs also went to migrants from the mainland.
However, these two reasons aside, Hainan's strategy exhibited a strong bias against the rural areas. This strategy was based on an understanding that to achieve extraordinary development Hainan should create a few poles of economic growth by concentrating resources on the areas around existing cities and ports.\(^{117}\) Thus, no apologies were made for the growing disparities between Haikou and the rural counties. Advocates of this strategy argued that when the cities developed, they would bring enormous benefits to the rural areas either by creating more economic activities and investments, or by incorporating them into the city proper. As it was, a city growth plan in 1993 predicted that Haikou would grow from its 215 square kilometres in 1993 to 2,000 square kilometres in 2005, and by then, Haikou would have a quarter of Hainan's projected 8 million population.\(^{118}\)

The urban bias of Hainan's strategy was reflected clearly in its pioneering regulation collecting a 60% surtax on fuel and abolishing other fees needed for road construction and maintenance. For all of its virtues, the fuel surtax favoured the urban areas but worked to the disadvantage of the rural areas. First, although the rate of the fuel surtax was the same across the island, in urban areas the roads were far superior. The vehicles in the urban areas were also likely to be more fuel economical than the old vehicles used in the rural areas. When the fuel surtax was first introduced, peasants were also required to pay an additional tax for the diesel used for powering tractors and water pumps. Diesel was later exempted from the surtax on fuel due to complaints from peasants,\(^{119}\) but the vehicle fuel surtax system favoured the urban area in yet another way. Concentration of revenue from the fuel surtax implied that rural interests were often neglected in the development of roads and highways.

Because local governments were not allowed to collect tolls from the use of roads, they were

\(^{117}\) Liu Guoguang (ed.), *Hainan jingji fazhan zhanlue*, p.12.

\(^{118}\) Quoted in Liao Xun, "Hainan jingji fazhan zhong de er yuanhua wenti."
deprived of an important means of raising revenue to improve their infrastructure. Unlike the localities in the Pearl River Delta region where the local governments could rely on revenue from tolls to improve the roads in their local areas, county governments in Hainan were not able to do so. So far, the development of highways and roads in Hainan had been guided by the grand idea of achieving extraordinary development. Massive resources had been spent to realise this grand objective. The highway linking Yangpu and Haikou, which was mostly empty, was widely viewed as an inappropriate investment decision. In contrast, roads in the rural areas hardly received any attention. In Wenchang, most of the roads in the county had not improved much over the past two decades. For many years, Wenchang had lobbied the provincial government to improve the clay roads linking most of the townships in the county without success. In 1997, the provincial Transport Department finally agreed to pave a section of the main road in Wenchang, but this was only possible after the county government agreed to pay half of the bill.

The strategy of giving priority to developing infrastructure was also biased towards the urban areas. For obvious reasons, the infrastructure projects were concentrated in the urban areas, bringing very few benefits to peasants and villagers. In the words of Liao Xun, after the province came into operation, the provincial government devoted all the resources it could mobilise to improve water supply, telecommunications, electricity and transportation, only to see that much of these facilities were heavily underutilised.\(^\text{120}\) By 1993 Hainan already had a hugely excessive electricity generation capacity, with peak demand only a bit more than one third of the total capacity, but the provincial government still planned for even more electricity plants. In Wenchang, for example, Enron built a very advanced

\[^{119}\text{Chen Suhou, Hainan tegu nongye fazhan renshi he shijian, Beijing, Zhonggong zhongyang dangxiao chuban she, 1995, p.425.}\]
\[^{120}\text{Liao Xun, Xiao zhengju, da shehui: Hainan xintizhi de lilun yu shijian, Haikou, Sanhuan chuban she, 1991, pp.368-76.}\]
electricity plant in 1995, but it has never operated since then. Port facilities in Yangpu and Qinglan were also improved, but few vessels called at these ports. In 1994, a new airport was completed near Sanya and a new airport for Haikou came into operation in mid-1999. Initially, the huge investments in infrastructure were considered necessary to attract foreign investors. However, inasmuch as not many foreign investors have been attracted to Hainan, the efficacy of the resources spent on the strategy of "giving a priority to developing infrastructure" seems doubtful.

Official propaganda about Hainan liked to point to the great improvements in infrastructure and the changing scenes of Haikou and Sanya as Hainan's achievements. However, apart from more reliable electricity supply, most of the infrastructure projects did not directly benefit the rural areas. Because resources had focused on improving infrastructure in the urban areas, the townships and villages that I visited in Wenchang saw surprisingly little change in the last decade and a half. Many roads remained as they were 10 or even 20 years ago, some even having become worse as the maintenance of roads was now less reliable. Hence, quite distinct from the question of whether there was enough development in Hainan is another important issue: who has benefited from development and development for whom.

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121 Feng Chongyi and David Goodman, China's Hainan Province, pp.57-9.
Chapter Four
COUNTY AND TOWNSHIP GOVERNMENT
STRUCTURES AND ADMINISTRATION

Issues of Local State Administration at County Level and Below

Government administration in Wenchang at the county level and below followed the national fluctuations in local administration, but it also demonstrated characteristics unique to its physical settings as well as its level of economic development. As with many counties in China, Wenchang as a territorial unit has had a high degree of stability. During the peak of the Great Leap Forward, in the illusory interest of streamlining and simplifying administration, the counties in Hainan were halved from 20 to 10, but Wenchang was allowed to stay intact. In fact, the boundaries of the county have not changed much since many centuries ago, and this gives it quite a strong identity. In comparison to the county's relative permanency and stability, both the levels above and below it have been marked by frequent changes. For example, Hainan's administration was theoretically an organ of the Guangdong provincial government before 1984, bearing different names. In 1984, it was given a more constitutionally formal status under Guangdong province, but before long, as discussed in Chapter Three, it became a province directly under the central level in 1988. The levels below the county experienced even more frequent changes, as will be shown below.

1 Hainan shengzhi, minzhengzhi/waishizhi, Haikou, Nanhai chuban she, 1994, p.18.
2 During the nationalist period, the communist party committee in Hainan set up its own governments in various places, and these governments did not follow the administrative boundaries of the nationalist government. In 1931, the communist party established a Qiongwen county branch, which encompassed the north section of Wenchang and east section of Qiongshan. In 1948, the communist party also split Wenchang into two counties, but Wenchang remained one county under the nationalist government. See Wenchang tonglan, p.3.
The relative permanency of Wenchang is but one example of the important position of the county level in local governance in China. Since imperial times, the county level has never ceased to be a key level of state administration, and this remained basically unchanged throughout both the Nationalist and Socialist periods. Most counties could trace their origins far back into the imperial times and therefore have acquired a strong identity. In imperial China, the county level was the lowest level of state administration, supplemented below this by enlisting the energies of the gentry and other local people and organizations. The total number of county-level units has remained quite stable. In late Qing, there were about 1,500 counties, as compared to about 2,200 in China today. Many of these counties are the same counties that existed centuries ago.

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4 As a reflection of this strong identity, since the second half of the 1980s counties in China started to edit and publish county gazettes. Following a nation-wide policy, Wenchang has started to edit a county gazette since late 1980s, but as of mid-1999, it was still not complete partly as a result of lack of funding support from county government.


6 Panyu county of Guangdong province, for example, likes to emphasize its long history by saying *xianyou panyu, houyou guangzhou* (Panyu emerged first in history and Guangzhou emerged later), although at present Panyu is put under the administrative leadership of Guangzhou. The only period during which large scale meddling of the county level administration in China occurred, not surprisingly, during the Great Leap Forward. 348 counties were abolished in 1958, and another 57 and 60 counties abolished in 1959 and 1969 respectively. From 1961 till 1965, most of the counties abolished were reinstated. See Zhang Wenfan, "Zhongguo de xianzhi xianzhuang luelun," *Zhongguo xianzhen nianjian* 1993, Beijing, Zhongguo xianzhen nianjian chubanshe, 1994, pp.93-6. For the changes in Hainan, see *Hainan shengzhi, minzheng zhi/waishizhi*. Haikou, Nanhai chuban she, 1994, p.18.
China scholars differ among themselves about the status and main orientation of the sub-county levels under Communist rule. Marc Blecher and Vivienne Shue, for example, view the county level as the lowest level of unalloyed state organization. By implication, the levels below the county belong largely to society. This position was most clearly articulated by Mitch Meisner and Marc Blecher. They point out that even at the height of Maoist China, there was still a formal distinction between the county government and the levels below it. This largely corresponds with the distinction between state ownership (quanmin suoyouzhi) and collective ownership (jiti suoyouzhi). Although most commune cadres were state cadres paid by the state, and the communes carried out essential government functions, the collective economic base ensured that they had orientations and interests that were different from those of county officials. The levels below the commune had never been fully integrated into local state administration: brigade cadres were recruited locally and paid from collective income with some subsidies from communes. Hence, explicitly or implicitly, the county level is seen as more inclined to represent the interests of the state, while the levels below it were viewed as more responsive to the interests of the society and local community.

Other scholars argue that during the Maoist period the line between state and society lay much further downward at the production brigade level, with the brigade cadres oriented more toward the interests of the state and the production team leaders oriented toward the

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interests of the village communities. This was the case despite the fact that commune cadres "ate state rice" (chi guojia fan, meaning were paid by state) and brigade cadres "ate collective rice" (chi jiti fan, meaning were paid by their collectives). Where the intersection between the state and local community lay was also affected by the nature of the village community. In large villages like Chen Village or Shajing in North China studied by Huang, brigade cadres were more likely to feel pressures from the village community and therefore to represent community interests. In contrast, in other rural settings where a brigade consisted of several smaller natural villages, brigade and team cadres worked under different environments and acquired different orientations.

As can be seen from Table 1.5 in Chapter One, in Wenchang the rural hamlets are typically much smaller than the Yangzi Delta villages in Huang's study. The villages in Table 1.5 are administrative villages (xingzheng cun), and it is common in Wenchang for an administrative village (guanli qu, as it was previously called) to contain more than 10 hamlets: for example, Tanniu Township contains as many as 137 hamlets which are organized into 6 villages, and even the township with the smallest hamlet-to-village ratio has an average of more than 4 hamlets per administrative village.

De-collectivization and economic reform in the post-Mao period have certainly pushed back the reach of the state, but the issues concerning the distinctive interests and orientations of officials located at different administrative levels are still important to understanding the local state and its relations to rural society. While the position of the

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county level has remained basically unchanged, since the separation of administration and economy and the abolition of the communes in 1982-83 the township (former commune) level has undergone significant changes. Recent studies of the local state in China, however, have not paid much attention to the possible differences between different levels of local governments and the conflicts of interests among them. An example is the concept of local state corporatism, which views a county government as similar to the headquarters of a corporation, and the townships and villages as regional headquarters and companies in the large corporation.\(^{11}\) The main problem with this conception is that it often neglects the distinctive institutional environments in which officials at different levels find themselves, and the divergent interests and conflicts among different levels of local government.\(^{12}\)

This chapter examines Wenchang with a focus on the relationship between the county and township levels, and the very different problems facing these two levels of local state administration. It is suggested below that although the township (and formerly the commune) administration has existed for several decades, in Wenchang and probably in localities at a more or less similar level of development it is still a very weak level of government vis-a-vis the county level. The recent attempts to make the township level a separate level in fiscal management have not strengthened it much, in part because the fiscal arrangements were designed to the disadvantage of the township level, and in part

\(^{10}\) Philip Huang, *The Peasant Family and Rural Development*, pp.178-9.


\(^{12}\) For a recent research underscoring the importance of understanding the incentives of different local levels of governments, see Jonathan Unger and Anita Chan, "Inheritors of the Boom: Private Enterprise and the Role of Local Government in a Rural South China Township," *China Journal*, No.42 (July 1999), pp.45-74.
because the county level has retained other important resources. The position of the township level has also been weakened by the involutionary pattern of state expansion discussed in Chapter Six.

The pattern of rural settlement in the county has also presented tremendous problems for local state administration. As a result of the weakening of the former brigade level following de-collectivization, township officials in the county have faced great difficulties reaching, and extracting resources from, the villagers. While the county has been long aware of the needs for strengthening the effectiveness of the former brigade level, because of revenue shortages this has not been carried out. This is one of the reasons why the local state has appeared to be impotent in the eyes of the recalcitrant peasants.

**County Government**

**Leadership Structure**

The county government in Wenchang, as in other counties in China, has developed an elaborate and comprehensive bureaucracy.\(^{13}\) At the first level, there are four sets of leading bodies (*sitao lingdao banzhi*, or simply *sitao banzhi*), namely the party committee, government, the standing committee of the people's congress, and the people's political consultative conference. The last two are largely decorative. In Wenchang, officials appointed to head these two bodies were, without exceptions, those due to retire or deemed to have no political future.\(^{14}\) Once a cadre became chairman of

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\(^{13}\) Blecher and Shue, *Tethered Deer*, pp.29-45.

\(^{14}\) It should be noted that at higher levels, the position of the chairman of the people's congress has become more important. At the central level, both the chairman of the National People's Congress and chairman of the Chinese People's Political Consultative
the people's congress or the local people's political congress, he lost membership on the standing committee of the local party machinery or his position with government. When Zhu Mingguo was party secretary during 1993-1998, he gave some symbolic importance to these two bodies through a joint conference of the four leading bodies, which met once every quarter to discuss important issues. The chairpersons of these two bodies also attended the party's standing committee meetings.  

The party's standing committee is the most important decision-making body. It met once every month to discuss important issues. One of its main powers lies in its control over cadres and their appointments to all the important positions in the county. Once every six months, the standing committee had a session to discuss personnel arrangements (renshi anpai). Normally the standing committee had 8-10 members (changwei in short in Chinese), with a typical distribution of its membership as follows: party secretary, two deputy secretaries (normally of these two, one is the county magistrate if this is not held concurrently by the party secretary, and the other is concurrently head of the party's

Conference are members of the powerful standing committee of the Politburo. At the provincial level, increasingly the provincial party secretary doubles as head of the people's congress. As of 2000, in Hainan, Du Qinglin, provincial party secretary is concurrently chairman of the provincial people's congress. A recent leadership reshuffle in Shenzhen, the special economic zone bordering Hong Kong's New Territories, the party secretary also concurrently held the position of chairman of people's congress. Even at lower levels, as a result of basic level election, in some areas the position of the chairman of the People's congress has become more important. In a research of Shanghai's townships, of the 234 chairmen of the people's congress, 69 were held concurrently by party secretary and 80 by deputy party secretary. See Li Kang, "Xiangzhen zhengfu," unpublished manuscript, 1999, p.3.

15 But they did not have the right to vote.

16 The meeting is called renshi hui.

17 Changwei now becomes a position and carries a rank. When an official is appointed to the standing committee, and he/she does not hold any position higher than that, he/she will be addressed as X changwei even if he/she concurrently holds another formal
organization department), the head of the party disciplinary committee, the head of the
government security bureau, the head of the people's
armed police, and a women's representative. Each member of the standing committee was given some specific jurisdictions, and this
was one of the main reasons for the importance of its membership in the local political
scene. For example, the deputy party secretary who concurrently headed the organization
department had jurisdiction over matters of cadre management. Similarly, the standing
commitee member who concurrently heads the propaganda department had jurisdiction
over a number of government bureaus placed under the propaganda department. Beyond
these distributions of responsibilities, standing committee members were also given
wider jurisdictions. Table 4.1 describes the division of responsibilities of the standing
committee members of Wenchang in 1997. As can be seen from this table, the powers of
standing committee members vary greatly. According to a number of interviewees, the
member who had the least influence in the standing committee was the women's
representative, whose jurisdiction was not only very limited but also the least important.

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18 From 1993 to 1998, the head of the public security bureau was not a member of the
standing committee, but this is an exception rather than a rule in Wenchang. Before him,
the head of public security bureau was a standing committee member. When the new
party secretary arrived in early 1998, he brought with him a cadre to head the public
security bureau, and he later became a member of the standing committee.

19 The distribution is similar to the provincial level. See, for example, Hainan nianjian

20 I do not just come to this conclusion from Table 4.1. I also specifically posed this
question to my interviewees.
Because membership on the standing committee was treated at least as equivalent to the deputy division (or deputy county) rank, in line with China's nomenklatura system. Standing committee members were chosen by the provincial organization department. In the local political scene, a standing committee membership means a lot of power and influence, mainly because some of the most important decisions were determined in the standing committee meetings.

The county government consisted of a county magistrate and 6-7 deputy magistrates. Like memberships on the standing committee, the county magistrate and deputy magistrates were also appointed at the provincial level. Each of the deputy magistrates was responsible for a specific area, like education, economic management, science and technology, finance etc. Although all important decisions were made by the party's standing committee, the jurisdictions of party and government leaders did not overlap much with one another, other than the fact that leadership at the top was united because the party secretary and county magistrate had been the same person since September 1994 (Table 4.5). For example, political and legal functions (zhengfa) fell into the jurisdictions of a deputy party secretary, and no deputy county magistrate was responsible for this area. Nor was there any deputy county magistrate responsible for propaganda affairs. Similarly, the members of the party's standing committee were not directly involved in, for example, economic affairs and education. As Table 4.1 indicates, the party secretary and two deputy secretaries did have some say over economic

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management, and therefore might come into potential conflict with the deputy magistrate responsible for economic management.

In the early 1990s, in an attempt to strengthen control at the county level, Wenchang adopted an arrangement in which standing committee members and deputy county magistrates were assigned certain townships and county agencies for their special personal attention. For example, the standing committee member who concurrently headed the propaganda department had jurisdiction over Wenjiao, one of the townships where I did research. Dongjiao, another township that I studied, was placed under the jurisdiction of a deputy county magistrate.

In 1995 a rule regarding the financial authority of different county leaders was issued. It gave the head of the county finance bureau the authority to approve expenses of less than RMB2,000 no more than three times each month, and a deputy county magistrate the power to approve expenditures of less than RMB5,000, similarly no more than three times a month. The county magistrate could approve expenses up to RMB30,000, but there was no limit on the frequency. Expenses above that amount, the rule stated, should be discussed in the working meetings of the county magistrate and deputy magistrates (xianzhang bangong huiyi). While this hierarchy of authority in approving expenditures gives a sense of the differences in powers among various officials, in reality the powers of the magistrate, I was told many times by different interviewees, were far greater. As discussed more fully in the next chapter, the county magistrate during that time ruled in an imposing way because as concurrent Party secretary he possessed unrivalled political resources.
### Table 4.1 Division of Responsibilities among Standing Committee Members, Wenchang, 1997

<table>
<thead>
<tr>
<th>Member</th>
<th>Main Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhu Mingguo</td>
<td>Overall work of the party committee; Concurrently head, leading group on investment and development; Old cadres affairs</td>
</tr>
<tr>
<td>Party secretary</td>
<td></td>
</tr>
<tr>
<td>Chen Zhongwen</td>
<td>Jurisdictions over Party discipline and investigation, ideology, mass organizations and communist youth league; Bureau of Tourism and the six development zones in the county. Concurrently head, leading group on rural works and leading group on overseas affairs;</td>
</tr>
<tr>
<td>Deputy party secretary</td>
<td></td>
</tr>
<tr>
<td>Li Enjie</td>
<td>Jurisdiction over the Organization department, old cadre bureau, united front and Taiwan affairs, militia, bureau of urban planning and construction, bureau of environment and public health; Concurrently head, leading group on family planning; Liaison with party core groups of the people’s congress and political consultative conference</td>
</tr>
<tr>
<td>Deputy party secretary</td>
<td></td>
</tr>
<tr>
<td>Lei Xiangqing</td>
<td>Jurisdiction over the political and legal commission, public security, procuratorate, courts, stare security, civil affairs, old revolutionary areas, militia and supporting the PLA.</td>
</tr>
<tr>
<td>Fan Qian</td>
<td>Jurisdiction over disciplinary committee, supervision of party members, complaints and urban relocation.</td>
</tr>
<tr>
<td>Lin Mingren</td>
<td>Jurisdiction over general office of party committee, the Propaganda department, party school, party history office, and state farms.</td>
</tr>
<tr>
<td>Yao Lanxiang</td>
<td>Jurisdiction over the Women’s association, trade union, communist youth league, Song Qingling Foundation, science association.</td>
</tr>
<tr>
<td>Fu Zhilun</td>
<td>Jurisdiction over the militia and liaison with the PLA</td>
</tr>
</tbody>
</table>

Source: Zhonggong Wenchangshi weiyuanhui guanyu shiwei shuji, fushuji, changwei fengong wenti de tongzhi (30 April, 1997).
Before appointing the county leadership, the provincial organization department conducted polls among cadres in the county, but the results of the polls were not always followed. This in part reflected the strong suspicion of localism in Hainan, and in part reflected the fact that local support was only one of the many factors for promotion. In a poll before the change of county leadership in 1995, the local official who received the strongest support among cadres from county agencies did not get an appointment to the county government. As a consolation, however, he was promoted to the party's standing committee. In late 1997, when there was a vacancy for deputy party secretary, the provincial organization department conducted another poll among officials above a certain level in the county. The same official who came first in 1995 again ranked the highest in the poll, but again he was not picked. Instead, when the party's standing committee was reshuffled in early 1998, he lost his membership on the standing committee and was appointed to head the largely decorative people's political consultative conference.

While opinion polls were not binding, in early 1998 a small step was taken in the direction of giving local cadres some input in the selection of party and government leaders. For the first time, the election of members of the county party committee and its standing committee included more candidates than the number of positions available. In the election of the standing committee members, the electors (members of the county party committee, 29 in total) were asked to elect 10 standing committee members from 11 candidates (who were determined by the provincial organization department). A candidate from Wanning, a county in the middle part of Hainan island, that the provincial organization department wanted elected was voted out by the local Wenchang cadres.
This was widely interpreted as a response of local cadres in Wenchang to a defeat of a cadre from Wenchang in Chengmai, a county in the northwest of Hainan island, in an election held earlier.

In the election for county magistrate and deputy magistrate in June 1998, deputies to the people's congress were even allowed to nominate a candidate to stand for election. This time the provincial organization department was more careful, mainly because of the setback experienced earlier in the election of standing committee members. While unable to entirely control the deputies, it succeeded in "persuading" the candidate nominated by the deputies to withdraw from the election. These elections represented only very small steps toward democracy, but they allowed some local input in the selection of party and government leadership, and showed the dilemma inherent in controlling election outcomes in even a window-dressing democracy. At the same time, the defeat of the candidate from Wanning in the election for party leadership was indicative of the hostility toward outsiders among the cadres of the county. They of course could not rebel against the party secretary/county magistrate, who was, again, an outsider, but they could vent their grievances through not voting for a candidate favored by the provincial level.

The County Bureaucracy: Increasing Horizontal and Vertical Differentiation

The county party and government bureaucracy had grown into a quite elaborate and complex bureaucracy over the years, both horizontally and vertically. The units directly under the county level come in many forms. First, there are 25 townships and 6 newly established development zones (Figure 1). Then there are a large number of party organs and government bureaux: 24 and 59 respectively in 1995. These exceeded the number of
organs approved by the central level for the county level by a big margin. In 1983, the central level had stipulated that the county level should establish only some 5-6 party organs and about 25 government bureaus.22

Although Wenchang did not have a strong county-run economy, in the mid-1990s it still had 23 enterprises (only 6 of them were industrial enterprises) over which the county level exercised direct control over appointment of their managers. This group of enterprises was separated from another group (totaling 34), whose managers were appointed by the county's organization department. This division of enterprises into two groups was implemented in 1993 in an attempt to bestow greater autonomy to enterprises, and to release county leaders from too much involvement in their management.23

Although Hainan had boasted a new government system based on the idea of "small government, big society" (see Chapter Three), not even a very limited reorganization and streamlining had been implemented in Wenchang before 1996. In 1996, the first major changes of party and government organizations since the early 1980s were enacted, obviously continuing the nationwide effort starting at the central level in 1993.24 This coincided with the tenure of a county party secretary who aspired to climb upward and


23 Zhonggong wenchang xianwei zuzhibu (29 September, 1993), "Wenchang xian quanmin suoyouzhi qiye renshi guanli zhanxingguiding." In 1998, most of them were in the red and almost bankrupt.

the worsening fiscal crisis in the county. However, the progress was more apparent than real.

On the surface, as a result of reorganizations the total number of party and government organs was reduced quite significantly from the original 51 organs to just 30, as shown in Table 4.2. On closer examination, this was largely a numbers game, and a variant of what I labeled in Chapter Two as pushing offices and personnel off the administrative establishment list. Many of the changes were just nominal: for instance, the original veteran cadres bureau was placed under the organization department as an internal bureau; the original people's complaints office, which was counted as a separate unit, was abolished, but a new complaints office was created under the county government's general office. Similarly, a state property management bureau was created as an internal bureau of the finance and taxation bureau. There were some real mergers and cutbacks, but there were more cases of manipulations of titles and self-deception. A key strategy was to push some offices off the administrative establishment list: for example, the Grain Bureau did not appear in Table 4.2 because it was re-classified as a service organization (shiye danwei). However, it kept its administrative powers and its old bureaucratic rank, and was placed under the supervision of another bureau of the same bureaucratic rank.

Still more telling was the case of the new agricultural bureau (nongye ju). Before the reorganization, there were an agricultural commission (nongye weiyuan hui) and an agricultural bureau. Then in the reorganization the agricultural commission was renamed the agricultural bureau, and the old agricultural bureau was renamed the agricultural
technology promotion center and placed under the supervision of the new agricultural bureau. As if this were not enough, the original agricultural technology promotion center was integrated into the new center. If what I have described in these two paragraphs is difficult to follow, it is not because I am not able to describe it clearly. The whole picture is hard to bear in mind. After the reorganization, the new agricultural bureau was burdened with the responsibility of supervising seven bodies, all of them equal to it in bureaucratic status.26

This exercise was undertaken in part to fulfil the requirements set by the higher levels for party and government organizations. It created an appearance of a streamlined bureaucracy. As shown above, this objective is far from being achieved. Another main objective was to reduce the burden on the fiscal system. In some cases, classifying some former administrative bodies as service organizations did not reduce the county government's fiscal commitments, because they would continue to be funded by fiscal revenue. This is just a case of what we call pushing administrative organs and personnel off the administrative establishment.

To achieve the objective of lowering the county's fiscal burden, the strategy had to be accompanied by a pushing-off-budget approach. In the 1996 reorganization, a number of service organizations and companies, which before had been funded either wholly or partly by fiscal revenue, were turned into service organizations slated, eventually, for self-financing. These bodies were given a respite for five years, during which they were

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25 The accounts and analysis in the paragraphs below are based on Wenchang shi jigou gaige lingdao xiaozu bangong shi (ed.), Wenchang shi jigou gaige wenjian huibian, 2 April, 1996. This is a collection of documents for the reorganization in 1996.

26 Ibid., pp.12-3.
to continue to be funded by fiscal revenue, fully in the first three years, and at a level of 50% in the last two years.  

On the whole, the changes accomplished by this reorganization were very limited. Many of the former organs continued to exist, many of them even continuing to keep their old bureaucratic ranks, although they did not appear in Table 4.2. Very few cadres were forced to rely entirely on self-generated revenue in five years' time. Moreover, as they were given a five years respite, there was still room for maneuver. For one thing, the total staff establishment approved for party and government organs (the administrative establishment, xingzheng bianzhi), set at 700 by the provincial government, was unrealistically small in view of the level of existing staff in the county party and government bureaucracy. In 1996, as shown in Table 4.3, close to 1,900 employees in the party and government organizations at the county level were paid by fiscal revenue. The difference was not as large as these two figures would suggest, because the newly approved staff establishment did not include the staff establishment for the political and legal system (zhengfa xitong): i.e., police, the procuratorate and the judiciary. However, even after allowing for this factor, the difference between the approved administrative establishment and actual cadre staffing levels was still very big.  

No real attempt was ever made to bring down the actual numbers to the approved level. If previous reorganizations at the central level in the past two decades were mocked for entailing false streamlining, this reorganization in Wenchang even fell short of that.

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27 Ibid., pp.10-16.
28 As is always the case in China, the establishment of the political and legal system is always not disclosed.
Table 4.2  Party and Government Organizations after the 1996 Reorganization

<table>
<thead>
<tr>
<th>Party (7)</th>
<th>Government (23)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Office</td>
<td>General Office</td>
</tr>
<tr>
<td>Organization Department</td>
<td>Planning and Statistics Bureau</td>
</tr>
<tr>
<td>Propaganda Department</td>
<td>Education Bureau</td>
</tr>
<tr>
<td>United Front Department</td>
<td>Science and Technology Bureau</td>
</tr>
<tr>
<td>Political and Legal Commission,</td>
<td>Public Security Bureau</td>
</tr>
<tr>
<td>Work Committee of Organizations Subordinate to the County</td>
<td>State Security Bureau</td>
</tr>
<tr>
<td>Office of Discipline and Investigation Commission</td>
<td>Supervision Bureau</td>
</tr>
<tr>
<td>Civil Affairs Bureau</td>
<td>Civil Affairs Bureau</td>
</tr>
<tr>
<td>Legal Bureau</td>
<td>Legal Bureau</td>
</tr>
<tr>
<td>Finance and Taxation Bureau</td>
<td>Finance and Taxation Bureau</td>
</tr>
<tr>
<td>Personnel and Labor Bureau</td>
<td>Personnel and Labor Bureau</td>
</tr>
<tr>
<td>Planning and Construction Bureau</td>
<td>Planning and Construction Bureau</td>
</tr>
<tr>
<td>Land Management Bureau</td>
<td>Land Management Bureau</td>
</tr>
<tr>
<td>Environment and Resource Bureau</td>
<td>Environment and Resource Bureau</td>
</tr>
<tr>
<td>Industry Bureau</td>
<td>Industry Bureau</td>
</tr>
<tr>
<td>Transport Bureau</td>
<td>Transport Bureau</td>
</tr>
<tr>
<td>Agriculture Bureau</td>
<td>Agriculture Bureau</td>
</tr>
<tr>
<td>Water Resource and Electricity Bureau</td>
<td>Water Resource and Electricity Bureau</td>
</tr>
<tr>
<td>Trade Bureau</td>
<td>Trade Bureau</td>
</tr>
<tr>
<td>Culture and Sport Bureau</td>
<td>Culture and Sport Bureau</td>
</tr>
<tr>
<td>Public Health Bureau</td>
<td>Public Health Bureau</td>
</tr>
<tr>
<td>Family Planning Bureau</td>
<td>Family Planning Bureau</td>
</tr>
<tr>
<td>Auditing Bureau</td>
<td>Auditing Bureau</td>
</tr>
<tr>
<td>Industrial and Commercial Administration Bureau</td>
<td>Industrial and Commercial Administration Bureau</td>
</tr>
<tr>
<td>Foreign and Overseas Chinese Affairs Bureau</td>
<td>Foreign and Overseas Chinese Affairs Bureau</td>
</tr>
</tbody>
</table>

*The State Security Bureau was not counted an organ under the county government, as was the Supervision Bureau, which would double as the disciplinary and investigation committee's office.

Table 4.3 Employees Funded by Budgetary Revenue, Wenchang, 1996

<table>
<thead>
<tr>
<th>Administrative Category</th>
<th>No. of Employees</th>
<th>Total Wages (0,000 RMB)</th>
<th>Average Wage (RMB per Annum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>9,590</td>
<td>6,576.6</td>
<td>6,865</td>
</tr>
<tr>
<td>Administrative Category</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County</td>
<td>2,625</td>
<td>1,851.1</td>
<td>7,084</td>
</tr>
<tr>
<td>Township</td>
<td>1,892</td>
<td>1,381.4</td>
<td>7,317</td>
</tr>
<tr>
<td>Township</td>
<td>733</td>
<td>469.7</td>
<td>6,427</td>
</tr>
</tbody>
</table>

Source: Personnel and Labour Bureau, Wenchang.

The discussion above suggests that what is formally listed in a table such as Table 4.2 grossly understates the horizontal complexity of the county bureaucracy. While the actual number of employees falling into the administrative category in Wenchang were substantially higher than the approved figure, as Table 4.3 suggests they were only a small fraction of the employees paid through budgetary revenue.

Now we turn to the increasing vertical differentiation of the county bureaucracy in Wenchang. As implied in the above analysis, the county’s efforts to reduce the number of government organizations would result in a “taller” bureaucracy, if the system was to work properly. For example, it is very difficult to think that two organs of the same rank would function smoothly in a subordinate relationship.

There is another issue. In China’s nomenclature, the county level is equivalent to the division level (chu ji). The level immediately below the county level is the township/branch (xiang/ke), which is the lowest bureaucratic rank for a county bureau or office. A county bureau placed at a branch level is not allowed to assign any rank to its
internal offices.²⁹ In Wenchang, this system was severely strained. In almost all bureaus,³⁰ a formal level called a section (gu) was created. In large bureaus such as the Finance and Taxation Bureau, as many as 16 sections were established. At the same time, the county Finance and Taxation Bureau also supervised about 50 finance and tax offices at the township level.³¹

As a result, the local hierarchy became taller as the bureaucracy grew in size, and the bureaucratic reality was simply too complex and dynamic to be contained by the rigid categories established in Beijing. Because Zhu Mingguo, the Party secretary and county Magistrate for 1993-1998, was a department-level (zheng tingji) cadre,³² the hierarchy of power in Wenchang during this period was further differentiated. At the top was a prefecture-level leader, who was significantly higher in rank than all other county leaders. Between him and the bottom there were as many as six levels. The new party secretary replacing Zhu in 1998 also had a bureaucratic rank higher than what was normally needed for a county head.³³ Although he was not likely to wield the same kind of power

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²⁹ Of course, individual officers can be graded at a lower level as officer (ke yuan) or junior officer (banshi yuan). See Article 10, "Guojia gongwu yuan zhanxing tiaoli," in Wu Jie (ed.), Zhongguo zhengfu yu jigou gaige, Vol.1, Beijing, Guojia xingzheng xueyuan chuban she, 1998, pp.651-60.

³⁰ Bureau (ju) is a very confusing term in the Chinese bureaucracy. At the county level, a bureau has the bureaucratic rank of a branch (ke). However, a bureau at the central level may even be a full-fledged ministry. For instance, the General Bureau of State Environmental Protection (guojia huanbao zongju) has been given a ministerial status.

³¹ This problem is conceivably more serious in more industrialized and wealthy counties. For example, in Nanhai, a county in the inner Pearl River Delta, the internal offices of the Personnel Bureau were called branch (ke), despite the fact that the Personnel Bureau itself only had the rank of a branch.

³² See Chapter Five for a detailed discussion on this and the implications for understanding the politics of development in Wenchang.

³³ Being the deputy head of Hainan's Bureau for State Farms before his appointment to Wenchang, he already had a deputy-department rank (fu tingji).
that Zhu once held in Wenchang, the local hierarchy of power remained more multi-layered than it had been before 1993.

In yet another area, the bureaucracy in Wenchang disregarded the national rules governing the bureaucracy. Many of the party and state organizations in Wenchang had far more deputy heads than what was prescribed by central guidelines. Checking through the telephone directory of the county government, I found that almost all bureaus had three or more deputy heads, while national rules only allowed for two to three. This problem was particularly serious at the township level. In 1998, for example, Dongjiao had as many as seven deputy township heads (fu zhenzhang), well surpassing the maximum of four set by the county level.

Cadre Avoidance in Hainan and Wenchang

As befitting its role as a testing site of reform, Hainan was the first province in China to implement a system of avoidance at the county level. Back in March 1989, the provincial government decided to introduce this system, preventing cadres from holding certain important positions in their native counties. Avoidance had a long tradition in Chinese history, originating in the Han Dynasty more than two thousand years ago. It was a key instrument of imperial control, but during the reform era it has been widely held to be a positive legacy of the Chinese bureaucratic tradition. When China prepared for the

34 This is called diqu huibi, as it is distinguished from other two types of avoidance: qinshu huibi and gongwu huibi. Qinshu huibi refers to the system to prevent a leading cadre's relatives from serving in the same organization where he is the main leader. Gongwu huibi refers to the system to prevent a cadre from taking part in decisions that affect his/her interests. See Hainan ribao, 9 May, 1989, p.1; Hainan ribao, 2 June, 1989, p.3.
establishment of the civil service system in the late 1980s, the system of avoidance received a lot of attention. When the civil service code was promulgated in 1993, however, the avoidance system was only accepted in principle outside of Hainan, i.e., it was not meant for full implementation immediately. In most of China, some elements of avoidance, such as preventing close relatives from serving under a leading cadre, could be introduced without causing too much resistance. However, a system of avoidance that prohibited officials from holding important positions in their native counties was considered to be either too problematic or too unrealistic. As a result, the central government did not press for its immediate implementation.  

Table 4.4  Positions Not to be Held by Local Cadres at the County Level in Hainan

<table>
<thead>
<tr>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Party secretary</td>
</tr>
<tr>
<td>County magistrate</td>
</tr>
<tr>
<td>Deputy party secretary in charge of organization</td>
</tr>
<tr>
<td>Deputy county magistrate in charge of personnel</td>
</tr>
<tr>
<td>Head, Party disciplinary and investigation commission</td>
</tr>
<tr>
<td>Head, Organization Department</td>
</tr>
<tr>
<td>Head, Personnel Bureau</td>
</tr>
<tr>
<td>Head, Public Security Bureau</td>
</tr>
</tbody>
</table>


The early adoption of this system in Hainan should be viewed in connection with the
longstanding suspicion of localism in Hainan among the central and provincial leaders.\textsuperscript{37}
Otherwise it would be difficult to explain why the system of avoidance was pushed to
such an extent: as shown in Table 4.4 as many as eight of the most important positions
were decreed off-limits to local cadres in Hainan. This provides a sharp contrast to many
of the counties in Guangdong province: in places like Foshan, Panyu and Nanhai, almost
all of the main leaders are local cadres. In fact, in these places, non-local cadres are
almost prohibited, \textit{de facto} if not \textit{de jure}, from holding the most important positions.\textsuperscript{38}
The strict implementation of cadre avoidance has had a very negative impact on Hainan's
development, as will be discussed in the next chapter.

The county leadership in Wenchang in the 1990s directly reflected the impact of the
avoidance system. Among the four party secretaries and three county magistrates since
1990, all of them have been non-local cadres, as shown in Table 4.5. The table also
shows that political power in Wenchang had become more centralized. Before April
1994, the positions of party secretary and county magistrate were separated and held by
different cadres. Since then, the party secretary had doubled as county magistrate.\textsuperscript{39}

\textsuperscript{37} Localism in Hainan could be traced as far back to the localistic aspirations of the
Qiongya Column under General Feng Pai-chu before 1949. See an analysis of the
crackdown on localism in Hainan, in Ezra Vogel, \textit{Canton Under Communism},
Cambridge, Mass., Harvard University Press, 1969, pp.211-6. For a recent discussion of
the hostility of the mainland rulers to the local cadres, see Feng Chongyi and David
Goodman, "Hainan: Communal Politics and Struggle for Identity," in David Goodman

\textsuperscript{38} I have a friend who has been deputy head, the Personnel Bureau of Foshan city for
many years. When I asked him whether he would be promoted to be head. He said that in
Foshan, non-local cadre like him (his place of origin is Anhui) did not have a chance to
be the head (zhengzhi) of a department.

\textsuperscript{39} This has become a norm in Hainan. For example, during 1993 and 1996, Han
Zhizhong, was concurrently party secretary and county magistrate in the adjacent
Searching for Effective Administration at the Township Level and Below

Instability of Institutional Arrangements and of the Local State Administration

In a sharp contrast to the permanence of the county, the sub-county levels in Wenchang experienced frequent changes under Communist rule. Between 1950 and 1995, there were as many as 18 changes to the sub-county administrative divisions, and 6 complete overhauls of the sub-county administration. These changes included almost all possibilities in sub-county level administration, reflecting an absence of a tradition of effective local administration at that level. Some of the major changes of sub-county administration during this period are summarized in Table 4.6.

Table 4.5 Party secretaries and County Magistrates in Wenchang since 1990

<table>
<thead>
<tr>
<th>Party Secretaries</th>
<th>Tenure</th>
<th>Place of Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ma Zhanguo</td>
<td>9.1992 - 5.1993</td>
<td>Shaanxi Province</td>
</tr>
<tr>
<td>Zhu Mingguo</td>
<td>5. 1993 - 4.1998</td>
<td>Tongza, Hainan</td>
</tr>
<tr>
<td>Lin Shilian</td>
<td>4. 1998 -</td>
<td>Qiongshan, Hainan</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>County Magistrate</th>
<th>Tenure</th>
<th>Place of Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lin Fangming</td>
<td>1. 1989 - 9. 1994</td>
<td>Qiongshan, Hainan</td>
</tr>
<tr>
<td>Lin Shilian</td>
<td>4. 1998 -</td>
<td>Qiongshan, Hainan</td>
</tr>
</tbody>
</table>


40 Wenchang tonglan, pp.9-17; Hainan shengzhi, minzhengzhi/waishizhi, pp.29-36; Ru Xin (ed.), "Xiao zhengfu da shehui" de lilun yu shijian, pp.320-3.
Two observations can be made of these institutional changes. First, the level immediately below the county had been quite stable since the 1960s although there were small adjustments of one kind and another. Most of the townships listed in Table 1.5 had been administrative units under the county for many decades. Second, the level below the township had been in disarray and the weakest link in local administration in Wenchang, as shown in the changes since 1987. In 1987, Wenchang (in fact the whole of Hainan) decided to follow the national pattern of establishing village committee and village self-government below the township, but it soon found that this system did not fit in with the structure of the rural areas in Hainan. These village committees below the township level were not natural communities, but rather administrative creations comprising, on average in Wenchang, 12 small hamlets. It was difficult for these administrative creations to establish any meaningful self-rule in accordance with the national policy governing village self-government.

On the other hand, the natural community in Wenchang was the small hamlet, many of which had been production teams during the Maoist era. The problems with these hamlets were twofold: they were too small in size to be a viable unit of self-government and there were simply too many of them for the township to manage. In 1983, on average a production team had only a bit more than 21 households. As of 1995, the average

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41 Table 4.6: there were 4,421 production teams in 1983 as compared with 3,236 natural villages at present. A village in Wenjiao that I visited had two different production teams during the collective period. Now the villagers see themselves as belonging to the same village, although they also use such terms as yidui (first production team) and erdui (second production team). What supports this memory is that the second production team still had some common property. Therefore, in 1998 the village had one village head but two cashiers to manage the common properties of the two former production teams.
households per hamlet numbered 31. Of course, there were variations across different townships. For example, in Tanniu township, a hamlet only had an average of around 29 households. Dongjiao and Wenjiao had bigger natural villages, with an average of 82 and 65 households per hamlet respectively.

Table 4.6 Major Changes of Sub-County Administration in Wenchang, 1950-1995

<table>
<thead>
<tr>
<th>Year</th>
<th>Sub-County Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>District (10) ---- Village (149)</td>
</tr>
<tr>
<td>1959</td>
<td>Commune (15)</td>
</tr>
<tr>
<td>1961</td>
<td>District (3) ---- Commune (22) ---- Brigade ---- Production Team</td>
</tr>
<tr>
<td>1964</td>
<td>Commune (21) ---- Brigade (228) ---- Production Team</td>
</tr>
<tr>
<td>1983</td>
<td>District and Township (26) ---- Villages (189) ---- Production Team (4421)</td>
</tr>
<tr>
<td>1987</td>
<td>Township (25) ---- Village Committee (267) ---- Natural Village (3236)</td>
</tr>
<tr>
<td>1988</td>
<td>Township (25) ---- Management District (267) ---- Village Committee (3236)</td>
</tr>
<tr>
<td>1995</td>
<td>Township (25) ---- Village Committee (267) ---- Natural Village (3236)</td>
</tr>
</tbody>
</table>

Number in brackets refers to the number of units. For example, township (25) means 25 townships were established.


42 I derive this figure by dividing the total agricultural households (90,456) by the total number of production teams (4,221). Wenchang xian guomin jingji tongji ziliao 1949-1983, pp.7, 18; Hainan tongji nianjian 1996, p.86. In comparison, the average number of households for natural villages in Hainan was 49. See also Ru Xin (ed.), "Xiao zhengfu da shehui" de lilun yu shijian, p.321.

43 Wenchang tonglan, pp.42, 45, 47.
In Wenchang, on average, a township has close to 130 hamlets under it (Table 1.5, Chapter One), making it extremely difficult, if not impossible, for the township government to exercise direct effective control over them. Certainly an intermediate level was needed between the township and the hamlets, but in the wake of de-collectivization the former brigades had ceased to be ready instruments for the township governments. When the village committees were established to replace the former brigades in 1987, it was found that they did not function well, both as self-governing bodies and as instruments of township and county governments.

As a result, the idea of creating management districts (guanli qu) had a strong appeal, in that it sought to make this level a dispatched organ of the township, with their officials receiving some of their salary from the township level. However, this was never fully implemented in Wenchang, as management district cadres were never paid any salary at all before 1994, and were only paid a very small amount of salary since then. In the 1990s, the management district idea not only deviated from the national policy of carrying out village self-governance, but also created a financial burden on the already revenue-strapped township and county governments. County leaders in Wenchang often insisted that efforts should be made to ensure that village cadres received a reasonable salary and had some retirement benefits. The idea was to pay village cadres a reasonable amount with contribution from three levels, the county, township, and village. In the

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44 Xiang Jiquan, "Cunji zuzhi," unpublished manuscript, 1999, p.4. For a study of a township where the village level was in fact an organ of the township level, see Jonathan Unger and Anita Chan, "Inheritors of the Boom: Private Enterprise and the Role of Local Government in a Rural South China Township," The China Journal, No.42 (July 1999), pp.45-74.
1994 fiscal contract signed with the township level, the county government did allow a budgetary item for paying village cadres, but this was only enough for the township to pay them about RMB60-80 a month.\textsuperscript{45} Because the township level could not collect much from the centrally approved unified fund (tongchou kuan), part of which is supposed to pay the village cadres, and most villages in Wenchang did not have any other source of revenue, in most cases village cadres only received the amount allocated by the county government. Hence, in all the townships where I did interviews, village cadres were only normally paid on average about RMB80 a month, although in some exceptional cases where the villages had some sources of revenue, the cadres were paid about RMB200 per month.\textsuperscript{46}

This situation provides a key to understand the very obvious problems in effective political control, tax collection and revenue extraction in Wenchang.

Another issue that had important implications for township government and village cadres was the absence of almost any collective economy after de-collectivization. During the Maoist period, there were very few commune and brigade enterprises (shedui qiye) in Wenchang, as shown in Table 4.7. As of 1983, the entire county had only 258 collective enterprises, with 191 run by communes and 67 by brigades. On average each commune had only 7 enterprises, while most brigades did not have any collective enterprise at all. Only sixty-six of these enterprises were industrial enterprises, which accounted for about half of the total enterprise income.

\textsuperscript{45} By doing this, the county level also made paying the village cadres the township's responsibility.
So the county started from an extremely low base, and since then the collective sector has not had much growth. Tables 4.8 and 4.9 show that in the reform era the township and village enterprises had not seen much development. Table 4.8 is telling, as it shows that the share of the industrial output value generated by collective industrial enterprises decreased from the original very low level in the late 1970s.

Township Governments and Township Finance

Although the township level had been a level of local state administration for many decades, before 1994 township governments in Wenchang did not have much independence. Table 4.6 above indicates that Wenchang had closely followed the national trend of dissolving the communes in 1983. But the county did not proceed fast to create the township as a separate budgetary level (xiangzheng caizheng). Across the country, different localities proceeded at different rates in establishing township as a separate level of fiscal management.47 In Hainan, Qiongshan, a county adjacent to Wenchang, took the lead to do so in 22 of its 26 townships in 1987, after having a pilot scheme in four townships in 1986.48 Wenchang did not implement similar institutional change until 1994, after Zhu Mingguo took over the position of party secretary. Zhu's immediate predecessor, Ma Zhangguo, broached a similar idea after becoming county party secretary in October 1992, but as he did not have a good working relationship with

46 Compare this with, for example, the party secretary of the village studied by Yan Yunxiang, who was paid RMB 3,000 a year in 1991. See Yan Yunxiang, "Everyday Power Relations," p.226.

the county magistrate and most other county cadres, he failed to get sufficient support for his idea. Moreover, Ma was party secretary for only a couple months (from September 1992 to May 1993), which also made it impossible for him to carry out any significant change in the county-township relationship.

Before becoming a separate level of fiscal management in 1994, the township government did not function like a real level of government, and was fraught with many problems. One was the relationship between the township government and the numerous stations and agencies representing the county bureaux at the township level. In China, there have been many writings about the large of number of agencies stationed at the township but that were not effectively controlled by the township government. In Wenchang, as we can see in Tables 4.10 and 4.11 below, these included the finance office, tax office, police office and the industrial and commercial administration office (referred as the commerce office in the rest of this thesis). These four were far more significant than others both in terms of size and the problems they had created for the township governments. Other bodies like the culture station, agricultural machinery station, and economic management station etc. were either small in size or close in their relations with the township government.

50 Originally, the finance, tax and commerce offices were the same organization. Then the commerce was split. In 1983, the office was split again into finance and tax offices. Interviewee No.34.
Table 4.7  Commune and Brigade Enterprises in Wenchang, 1983

<table>
<thead>
<tr>
<th>Total No. of Enterprises</th>
<th>258</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commune</td>
<td>191</td>
</tr>
<tr>
<td>Brigade</td>
<td>67</td>
</tr>
</tbody>
</table>

| No. of Enterprises per Commune (26 in 1983) | 7.4 |
| No. of Enterprises per Brigade (189 in 1983) | 0.35 |

| Industrial Enterprises (No.) | 66 |
| Employees                   | 5,631 |
| Employment as a % of Total Labour Force | 3.8 % |
| Employees of Industrial Enterprises | 1,980 |
| Industrial Employees as a % of Total Labour Force | 0.7 % |

| Total Income (0,000 RMB)  | 1,103 |
| Industry (0, 000 RMB)     | 560 |
| % of Industry in Total Income of Commune and Brigade Enterprises | 51 % |


Table 4.8  Share of Collective Enterprise in Total Industrial Output Value, Wenchang, Various Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Collective Industrial Enterprises (0,000 RMB)</th>
<th>Total Industrial Output Value (0,000 RMB)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>627</td>
<td>3,366</td>
<td>18.6</td>
</tr>
<tr>
<td>1983</td>
<td>347</td>
<td>3,303</td>
<td>10.5</td>
</tr>
<tr>
<td>1990</td>
<td>806</td>
<td>21,613</td>
<td>3.7</td>
</tr>
<tr>
<td>1991</td>
<td>1,059</td>
<td>25,644</td>
<td>4.1</td>
</tr>
<tr>
<td>1992</td>
<td>1,551</td>
<td>30,831</td>
<td>5</td>
</tr>
<tr>
<td>1993</td>
<td>3,810</td>
<td>40,112</td>
<td>9.5</td>
</tr>
<tr>
<td>1994</td>
<td>3,617</td>
<td>61,520</td>
<td>5.9</td>
</tr>
<tr>
<td>1995</td>
<td>6,516</td>
<td>88,880</td>
<td>7.3</td>
</tr>
</tbody>
</table>


* It should be noted that the statistical categories presented in this table are not consistent throughout the years. The figures for 1983 and before refer to output value or enterprise operated by the people's communes, but not all collective enterprises during this period were operated by the people's communes. For example, of the 69 collective industrial enterprises in 1978, only 60 were operated by the people's communes. The others were under the management of what was called the second industrial bureau at the county level. For an informative discussion of this, see Marc Blecher and Vivienne Shue, Tethered Deer, Chapter 5.
### Table 4.9 Industrial Enterprises Below Township Level, Wenchang, Various Years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of Enterprises</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Village</td>
<td>948</td>
<td>1,526</td>
<td>1,759</td>
<td>-</td>
</tr>
<tr>
<td>Partnership</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Individual</td>
<td>866</td>
<td>1,304</td>
<td>1,610</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Output Value</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Village (1980 Constant Price, 0,000 yuan)</td>
<td>2,576</td>
<td>20,259</td>
<td>42,940(^a)</td>
<td>72,827(^b)</td>
</tr>
<tr>
<td>Partnership</td>
<td>8</td>
<td>347</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Individual</td>
<td>1,387</td>
<td>8,961</td>
<td>4,155</td>
<td>14,894(^b)</td>
</tr>
<tr>
<td></td>
<td>1,181</td>
<td>10,952</td>
<td>39,300</td>
<td>57,933(^b)</td>
</tr>
</tbody>
</table>

**Sources:**

**Note:**
\(^a\) Obviously, there is a mistake here because this figure is less than the sum of the output value of partnership and individual enterprises.
\(^b\) Current price.

Since the early 1980s, taxes at the township level had been collected by two different offices, the finance office and the tax office. The finance office was responsible for collecting agricultural taxes, and the tax office for collecting industrial and commercial taxes. The cadres of these offices were answerable to the respective county bureaux (the two bureaux at the county level were merged in 1993) and had only minimal dealings with the township government. These cadres were paid by the county level, and passed on what they collected to the county level. The township government was, for good reasons, not much interested in the work of the finance and tax offices.

The police office had a closer relationship with the township government, but was an even more difficult organization for the township government. In many cases, to ensure
Table 4.10  Growth of Organization and Employees, Dongjiao Township, 1983-1997

<table>
<thead>
<tr>
<th></th>
<th>83</th>
<th>84</th>
<th>85</th>
<th>86</th>
<th>87</th>
<th>88</th>
<th>89</th>
<th>90</th>
<th>91</th>
<th>92</th>
<th>93</th>
<th>94</th>
<th>95</th>
<th>96</th>
<th>97</th>
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</thead>
<tbody>
<tr>
<td>Town Government</td>
<td>33</td>
<td>34</td>
<td>33</td>
<td>36</td>
<td>35</td>
<td>34</td>
<td>36</td>
<td>37</td>
<td>39</td>
<td>40</td>
<td>38</td>
<td>41</td>
<td>41</td>
<td>43</td>
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</tr>
<tr>
<td>Police Office</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>6</td>
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<td>5</td>
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</tr>
<tr>
<td>Local Security officers</td>
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<td>3</td>
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<td>6</td>
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<td>9</td>
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</tr>
<tr>
<td>Traffic Police</td>
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<td></td>
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<tr>
<td>Commerce Office</td>
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<td>7</td>
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<td>Finance Office</td>
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<tr>
<td>Tax Office</td>
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<td>13</td>
<td>13</td>
<td>14</td>
<td>16</td>
<td>15</td>
<td>15</td>
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<td>16</td>
<td>18</td>
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</tr>
<tr>
<td>State Tax Office</td>
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<tr>
<td>Middle Schools</td>
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<td>48</td>
<td>52</td>
<td>52</td>
<td>57</td>
<td>59</td>
<td>62</td>
<td>66</td>
<td>73</td>
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<td>78</td>
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<td>Primary Schools</td>
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<td>142</td>
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<td>153</td>
<td>167</td>
<td>171</td>
<td>176</td>
<td>180</td>
<td>186</td>
<td>192</td>
</tr>
<tr>
<td>Economic Management Station</td>
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<td></td>
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</tr>
<tr>
<td>Technology Station</td>
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<td>2</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Machinery Station</td>
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</tr>
<tr>
<td>Culture Station</td>
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<td>2</td>
<td>2</td>
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<td>2</td>
<td>2</td>
<td>2</td>
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<td>2</td>
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</tr>
<tr>
<td>Broadcast Station</td>
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<td>2</td>
<td>2</td>
<td>2</td>
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<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Total*</td>
<td>238</td>
<td>244</td>
<td>254</td>
<td>264</td>
<td>278</td>
<td>285</td>
<td>291</td>
<td>302</td>
<td>325</td>
<td>339</td>
<td>349</td>
<td>356</td>
<td>365</td>
<td>34</td>
<td>391</td>
</tr>
<tr>
<td>Total excluding teachers</td>
<td>70</td>
<td>72</td>
<td>74</td>
<td>79</td>
<td>83</td>
<td>84</td>
<td>88</td>
<td>90</td>
<td>99</td>
<td>98</td>
<td>100</td>
<td>101</td>
<td>103</td>
<td>104</td>
<td>108</td>
</tr>
</tbody>
</table>

Source: Dongjiao township government.

* Not including the personnel of State Tax Office and Traffic Police.
### Table 4.11 Organizations and Employees in Wenjiao Township, 1997

<table>
<thead>
<tr>
<th>Staff</th>
<th>Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>General Office, Organization, Propaganda United Front, Communist Youth League, Woman.</td>
</tr>
<tr>
<td>2</td>
<td>People’s Congress</td>
</tr>
<tr>
<td>1</td>
<td>Discipline Committee</td>
</tr>
<tr>
<td>3</td>
<td>People’s Armed Department</td>
</tr>
<tr>
<td>4</td>
<td>Police Office (budgetary)</td>
</tr>
<tr>
<td>8</td>
<td>Finance Office (budgetary)</td>
</tr>
<tr>
<td>3</td>
<td>Tax Office (budgetary)</td>
</tr>
<tr>
<td>8</td>
<td>Commune Office (budgetary)</td>
</tr>
<tr>
<td>101</td>
<td>Middle Schools (82 teachers/19 supporting)</td>
</tr>
<tr>
<td>132</td>
<td>Primary Schools (budgetary), 22 (minban)</td>
</tr>
<tr>
<td>9</td>
<td>Economic Management Station (budgetary)</td>
</tr>
<tr>
<td>6</td>
<td>Technology Station (budgetary)</td>
</tr>
<tr>
<td>1</td>
<td>Culture Station (budgetary)</td>
</tr>
<tr>
<td>53</td>
<td>Clinic (subsidized in part by government, but mainly self-raised)</td>
</tr>
<tr>
<td>35</td>
<td>Grain Station (self-raised)</td>
</tr>
<tr>
<td>126</td>
<td>Supply and Marketing Co-op. (self-raised)</td>
</tr>
<tr>
<td>25</td>
<td>Others (self-raised)</td>
</tr>
</tbody>
</table>

Coordination between the township government and the police office, the head of the police office concurrently held the position of deputy township party secretary. On the one hand, this arrangement facilitated better cooperation between the township government and the police office. On the other, however, it made it more difficult for the township government to keep the police office under its control.

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51 Interviewee No.22. He said that this arrangement had the effect of raising the status of the police office.
Of these four offices, the commerce office had the most difficult relationship with the township government. Like the other three, the commerce office was answerable to the corresponding bureau at the county level, but more than the other three, at the county level industrial and commercial administration was less integrated into the county’s overall administration and fiscal system. In the terminology of China studies, it belonged more to the vertical system (tiao tiao or xitong) than to the horizontal one (kuai kuai).\footnote{In their study of county government in Shulu of Hebei Province, Blecher and Shue noted the fragmented or disjointed nature of county finance by describing three pathways of revenue flows. However, in their study, industrial and commercial administration appeared to be more fully integrated with the county government, often serving as an}

I gained a clear view of the difficult working relationship of the township government with the commerce office from an experience that I encountered during my fieldwork in Dongjiao township in April 1998. Accompanied by the deputy township party secretary, I went to the commerce office, which was close to the market, to ask for an interview. The head of the commerce office was very reluctant to talk to me, saying that he needed to ask the county bureau for permission. The deputy party secretary insisted that I was a close friend of his and had an introduction from a senior cadre at the county level, and almost ordered him to talk to me. When pressed by the party secretary, the head of the commerce office simply picked up the phone and talked to a deputy head of the county bureau. The latter said that I should go the county bureau if I wanted to know anything about industrial and commercial administration in the township. This was 1998, four years after the township was made a separate level of fiscal management and the commerce office had in theory been placed under the leadership of the township government. A real change in the relations between the commerce office and township
government occurred briefly in summer 1998, when the county government took further step to bring the entire industrial and commercial administration system to heel. However, as later developments proved, this attempt was not very successful.

Before the institutional change in 1994, the township government only had a very limited amount of self-raised revenue. Because the few township enterprises were sold or already contracted to individuals in the 1980s, township governments across the county either survived by selling collective assets inherited from the commune era or by begging for earmarked grants from both the county level and Hainan, or by asking for donations from overseas Chinese.\(^{53}\) Between 1987 to 1991, for example, the Wenjiao township government sold almost all of its assets in order to raise funds to "eat and drink" (chihe), in the words of many local people (both cadres and peasants) that I talked to.\(^{54}\) When the township government was about to sell its most profitable asset, a tea-house along the main road, the former brigade cadres protested and complained to the county level. In another township, the township government sold almost all the trees planted during the collective era to raise revenue. Selling collective assets was very common and unless there was strong opposition from cadres and villagers, the county government did not bother to intervene. By late 1990, most township governments in Wenchang no longer had many assets.

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\(^{53}\) Overseas Chinese (huaqiao) mainly refer to Hong Kong and Macau residents.

\(^{54}\) I do not use the term "eat and drink extravagantly" (dachi dahe), because compared with what I saw and sometimes experienced in Guangdong, what they had for meals were not really extravagant. It was a lot of money and quite extravagant by local standard, but using this term would be too exaggerating.
The most important development that affected the township level was the fiscal contract system introduced in 1994. As the national government had called for establishing township finance as early as 1983, this institutional change came quite late to Wenchang. Initially, the system was an experiment for one year in 1994. This was called the first fiscal contract period (diyi baogan qi). In 1995, a second fiscal contract (dier baogan qi), which was fixed for three years, was signed between the county level and the township. As the second fiscal contract expired at the end of 1997, a third one should have been signed in early 1998. However, due to delays in negotiations over the level of quota subsidies from the provincial level to the county, the county government decided that a new fiscal contract between the county and township levels would be postponed to 1999.

Like all such fiscal contract arrangements, the critical issues in the fiscal contract between the county and township levels in Wenchang involved dividing sources of revenue and assigning expenditure responsibilities. After the fiscal contract system, the township was to have fiscal responsibility for not only the staff of the township government, but also all employees (both serving and retired) in the township. The largest group of employees was primary and middle school teachers (Tables 4.10 and 4.11 above). In Dongjiao township, in 1995 when the three-year fiscal contract was signed, the primary and middle school teachers accounted for more than 70% of the total employees to be supported by the township level (Table 4.10). Not all the costs of the organizations and employees in Table 4.11, however, were to be borne by the township finance of Wenjiao. Some, like the Grain Office (liangsuo), the Supply and Marketing Co-

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55 Interviewees No. 17 and 18. In summer 1998, after considering appeal from Wenchang, the provincial level agreed to almost keep its original level of subsidies to the
operatives (gongxiao she) and food station (shipin zhan), were self-financed, as they had been before. The township clinic was only partly funded by township finance. In Wenjiao township, and in fact in all townships in Wenchang, the largest expenditure item was the salaries of teachers.

On the revenue side, the township government was to collect all the taxes in the areas under its jurisdiction. In theory, the finance and tax offices were to become the offices responsible for collecting taxes for the township governments. Practically all taxes at the township level became the township's revenue. The county level set the revenue of the townships at a level, compared it with their expenditures (which was mainly determined by the number of employees falling within the township's fiscal responsibility), and determined whether a township should receive subsidies or turn over its surpluses to the county level.

Of the county's 25 townships, only two, Wencheng (the county seat) and Qinglan (the old town where the port is located, next to the Qinglan Development Zone) were in surplus, and they were required to turn over a total of RMB8,617,700 per annum to the county level. The rest were all deficit townships, receiving subsidies ranging from a low of RMB144,300 (Dongjiao township) to a high of RMB1,688,800 (Chongxing township). On balance, the county level's total net subsidies to the township level were about 56 According to interviewee No.30, the Grain Bureau in Baoluo was disbanded a long time ago, and its staff had gone back to the villages to "collect cow dung." In Baoluo township, agriculture tax was paid in cash, not in grain. This is different from Wenjiao, where agricultural tax was still paid in grain. In Dongjiao, agricultural tax had been paid in cash for decades because there were very few fields in the township. Most of the land was planted to coconut trees.

county. The new quota subsidies were RMB 9 million per annum, compared with RMB 10.58 million before 1998.

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RMB11 million per annum, a bit more than the quota subsidies it received from the provincial level. The base was the revenue collected in 1994. To gain the support of township governments, the revenue level for many townships was set at a level lower than their 1994 revenue. On the whole it was expected that if the township governments intensified their tax collection efforts, they would be able to exceed the revenue set in the fiscal contract by a big margin. In the following years, most townships did succeed in achieving this.

Does this mean that the township level had benefited from this new institutional arrangement. This is far from the truth. In determining the level of expenditures for township governments, the county level only included the salaries of the employees. Other necessary expenses were not included in determining the level of expenditure of township governments. This created a big gap in the fiscal system, and required the township level to seek additional revenue to cover the necessary expenses. Worst still, not all the salaries of township employees were included in determining the expenditure level for fiscal contracts. On the grounds that the upper level did not provide funding, the county government was only willing to support 50% of the salary raises incurred by following the nationwide salary increase beginning from October 1993. This then left a bigger gap in the township finance.

As the county level only received RMB10.58 million per annum in quota subsidies, it might lead one to think that the subsidies flowing from the county to the township level represented a real net transfer. This was not the case, because each year the county level received a great deal more in earmarked subsidies (see Chapter Three), and the new types
of expenditure assigned to the townships were extremely unfair to them. A detailed analysis of the revenue and expenditures of the county and township levels suggests that the arrangement was, in reality, to the disadvantage of the township level. Since 1994, the employees falling within the fiscal responsibilities of the county level have received full salaries, while those covered by township finance have received only partial payments. This problem had its roots not just at the county level, but also in the fiscal decentralization that had been carried out throughout the entire country. Since 1990, the quota subsidies that Wenchang received from the provincial level stayed at the same level, but a whole number of policies had increased the county’s expenditures. Therefore, when township officials complained about the fiscal burdens imposed by county policies, the county leaders, a number of interviewees said, asked them to complain to the central leaders in Beijing.

The township government now took a direct interest in tax collection and expenditures. In Dongjiao township, tax collection was no longer left to the finance and tax offices. Very often the township government took the lead to coordinate tax collection efforts. It became excessively "entrepreneurial." Quite a few of the cadres in the township government became directly involved in tax collection on a routine basis. For example, the township government coordinated the collection of taxes from gambling operations. Each morning, it sent two to three of its cadres to join the tax officials of the tax office to collect taxes from gambling operators one by one. The township government's involvement was considered necessary for two reasons: to justify a larger share for the township government in total revenue, and to make sure that the operators of the gambling businesses paid the taxes. In the afternoon, township officials went to the small
markets in the villages to collect taxes from smaller gambling operations. This time, the tax office was not involved. Sometimes, it was necessary to involve the police office, because without guns even the township officials were not always able to demand taxes from the recalcitrant operators. That was why the police play such an important role in grass-roots state administration in Wenchang today.

In addition, in early 1998, the township government even hired two temporary tax collectors to assist the tax office to collect piecemeal taxes and agricultural taxes. They were paid RMB200 per month, but could take a cut of 10% of the agricultural taxes collected and 20-30% of other taxes collected. It would be very interesting to see whether this system will grow and in what form.

The institutional change in the fiscal system has empowered the township government in some ways. In the past, the county level could assign an official to a township without the consent of the township government. The township government could not care less because the official would be paid through county revenue. Under the new fiscal arrangement, the township government had the right to say no to a new official, because it would increase its fiscal burden. However, township governments only had a veto power. They could not make new appointments on their own. One of the most important of the county government’s powers - to determine whether to admit a person to the pool covered by budgetary revenue - still lay with the county (or to be more specific, in the hands of the county party secretary).\(^{57}\) Take the example of a university graduate who wanted to find a job in a township government. The most important hurdle was the

\(^{57}\) Several interviewees (No.8, 22 and 33) told me that the authority to approve accepting a person into the cadre force resided with the county party secretary.
county level, which was responsible for controlling the overall size of the bureaucracy within the county. This kind of control was considered necessary to prevent the township governments from taking in too many people and creating problems for future governments.\(^{58}\) If a township government had additional revenue to spend, it could hire temporary workers (such as the tax collectors in Dongjiao township mentioned above), but these were not long-term positions and would not be accepted as a factor in the next fiscal contract.

The township level also began to exercise tighter control over expenditures. In a circular issued in 1993, the county finance bureau recommended that the head of the finance office be given the power to approve expenses below RMB500, but this was not followed in all of the townships after the new fiscal arrangement.\(^{59}\) In Dongjiao and Tanniu townships, the party secretaries allowed the heads of the finance office to approve expenses up to RMB500, but in Wenjiao township, the head of the finance office did not have any authority in approving revenue at all. "Even if you just want to spend a cent, you have to ask the party secretary," the head of the finance office told me. He described his role as merely a cashier for the township government.

The township governments also had a greater role in the appointment of the heads of the finance, tax, police and commerce offices than they had before. However, here also the influence was limited to vetoing nominations by the county bureaux. The real power still resided with the county bureaux, because only they could make recommendations to fill a

\(^{58}\) Interviewee No.22.

\(^{59}\) "Guanyu jiaqiang xiangzhen caizheng yuxuan guanli de yijian" (22 November, 1993).
vacancy.\textsuperscript{60} Almost certainly, such a person should come from within the bureaux. Yet the township government could still influence the decision of the county bureaux informally. In early 1998, for example, Dongjiao succeeded in getting the county public security bureau to replace the head of the police office in the township, because he did not cooperate fully with the township government.

The Township Government: Structure, Staff Establishment and Officials

As Table 4.11 indicates, in Wenjiao township, the party committee and government each set up a number of offices, but most of these offices only had one or two officials. They were assigned to be in charge of specific areas but in reality the division of labor within the township governments was not clear-cut. As they put an increasing emphasis on tax collection and revenue extraction, quite a number of officials were often drawn in to help collect taxes, as we have observed, even though their formal responsibility had nothing to do with tax collection. And when the family planning campaign started, almost the entire township government was involved. Even officials assigned to collect taxes had to put down their tax receipts. However, in recent years family planning has increasingly been integrated with revenue collection, because one of the main tasks during the campaign was to collect fines for violations of family planning policies,\textsuperscript{61} while the officials often picked up other types of receipts during the family planning campaigns.

\textsuperscript{60} Zhonggong wenchang xianwei zuzhibu, "Wenchangxian xiangzhen dangzheng jigou ganbu guanli de zhanxing guiding" (30 September, 1993).

\textsuperscript{61} There were also campaigns exclusively for collecting family planning fines.
Contrary to common expectations, the township administrative establishment in Wenchang did not exceed the staff establishment approved for the township level. In 1996, the administrative staff establishment for the township level was 870, but the actual employees in all of the 25 townships in the county were only 733 (Table 4.3 above). In the fiscal contract signed by the county level and township governments in 1995, total serving administrative staff at the township level were 735. This unexpected feature was perhaps closely related to overstaffing at the county level. Hence, in Wenchang the county level in fact used some of the staff quota approved for the township level. This situation also reflected the fact that most township officials wanted to relocate to the county seat.

The practice in Hainan of having one official hold the positions of township party secretary and head of township government concurrently had been criticized in other places in China. The arguments in Hainan in favor of the practice were as follows. First, it was difficult to differentiate the work of the party from that of the government at the grass-roots level. Second, people had got used to following the instructions of the party secretary. Third, this would help reduce conflicts caused by having two officials of roughly equal rank. In Wenchang, however, the policy was not implemented in all townships. The county government found it necessary to maintain a balance between following this arrangement and the need for finding suitable positions for surplus cadres.

62 For overstaffing at the township level, see Li Kang, "Xiangzhen zhengfu"; Zhongguo xingzheng gaige daqushi, Beijing, Jingji kexue chuban she, 1993, pp.78-82.
63 Interviewee No.22 also confirmed that the township level's actual staff level was below the approved establishment.
64 This was announced in the first party congress in Hainan in September 1988. See Hainan sheng tizhi gaige bangong shi. "Guanyu wo sheng xiangzheng dangwei shuji
For the same reason, as noted above, Wenchang's administrative agencies violated the rule governing the maximum number of leading positions to be established in administrative agencies.

In the townships where the party secretary and the head of township government were two different officials, the party secretary had the preponderance of power. Because there was only very limited power and resources at the township level, a party secretary normally could exercise tight control if he/she so desired. The situation was very different from what prevailed at the county level, where the relative complexity of tasks necessitated some division of labor and decentralization.

Because of the practice of avoidance, only in a very few cases did officials work their way up from within the same township to occupy the top township post. It was more often the case that a party secretary was transferred from another township (Dongjiao township's party secretary in 1998) or descended from the county seat (Baoluo and Touyuan townships' party secretaries). Wenjiao township's party secretary (when I was there in April 1998) was promoted from within the township government (previously a deputy township head), but he was quickly transferred to become party secretary at Touyuan township. Touyuan's former party secretary, whom I interviewed in September 1997, was originally head of the office supporting the county party disciplinary inspection commission (jijian). Although Touyuan is only five kilometers from the county seat, he was very reluctant to accept the appointment as too "rural" for his liking, and he thereafter tried all means to get transferred back to the county seat. When he was

appointed to be party secretary of Touyuan township, he did not even move to live in the township, but continued to live in the county seat.

This was a common practice in Wenchang, and seemed to have become more common in recent years. When my research guide was appointed to the position of deputy party secretary of Dongjiao, which was some 40 kilometers by road and about 20 kilometers by a combination of road and ferry, he also continued to live in the county seat. He never thought of relocating to the township even though the township government provided him with an apartment, because he did not plan to work at the township for too long.

Top township officials were rotated every two to three years, and most of them took township postings as intermediate steps to more permanent positions at the county seat. My research guide frankly told me that his objective in the medium term was to seek a position in a good bureau at the county level. Some experience at the township, he said, was necessary to qualify for a position as head of a county bureau. I asked him whether other township officials thought the same way. He said yes and added that his party secretary, his immediate superior, also had his home in the county seat and was actively working to be transferred to there. All the officials of the six development zones not only lived in the county seat, but also had their offices only in the county seat. "They did not go to the development zones to work, but built nice offices and homes in the county capital," an interviewee said.

Normally even a party secretary only served for one term (three years) or even less in a township. Because localism was not a serious concern within the county, this system did not seem administratively justifiable, inasmuch as the frequent rotations of party
secretaries gave rise to complaints of irresponsible behavior. When a new party secretary arrived, he/she normally proposed new initiatives. One of the most common initiatives in Wenchang was to move the market (shichang) where peasants conducted transactions during market days. The frequent changes of party secretaries rendered these initiatives incredible. A consequence was that after the party secretary of Wenjiao township decided to move the old market, he failed to convince the market town's residents to buy any land around the new market. The head of a hamlet explained why: "Every party secretary has new projects. Nobody would be stupid to pay for the land around the new market because when the next party secretary arrives he may move the market again."

This was exactly what occurred in Baoluo township. In the late 1980s, the township moved its market, and both the township government and the supply and marketing cooperative gained handsomely from selling the shops in the market. In 1995, the new Party secretary decided to move the market to a location far away from the market town. Despite opposition from the shop owners who thought that the value of their shops would drop dramatically if the market was moved, the Party secretary started the construction of the new market. The shop owners and residents of the market town took the case to the county level, and succeeded in forcing the transfer of the party secretary.

Almost all new party secretaries proposed initiatives of one sort or other, all of them involving construction. I asked a number of interviewees several times why this was the case. Almost unanimously, they said that these were opportunities for the party secretaries to make money. And the projects were packaged as attempts to do something to benefit the local people and presented by the party secretary to his superiors in the
county government as evidence of his boldness and resolution. And because they did not involve direct levies from the peasants, they tended to be quite acceptance to the rural populace.

The frequent rotations of party secretaries were also closely related to the practice of "dianzi" in government projects. When a government body did not have the revenue to start a project, but still wanted to do it, it could ask a construction team to pay for the cost of construction first, and would promise that the government body would pay it back when it had revenue. This is called dianzi and is a common practice in Wenchang. When a party secretary was transferred, the fiscal burden was passed to the successor. As shown in Chapter Five, Zhu Mingguo relied on "dianzi" to build the grand county government building. When he was promoted in 1998, he left a huge debt for his successor to handle.

**Concluding Remarks**

I considered two issues raised in this chapter: the relations between the county and township levels, and the effectiveness of township level administration.

First, to what extent had the effort to create a separate fiscal budget at the township level strengthened it vis-a-vis the county level? I suggest in the above analysis that the township gained little extra power, for several reasons. First, although the township level was given more autonomy in fiscal management, the fiscal arrangements in the 1990s substantially increased its expenditures. In particular, together with the fiscal contract system the county level succeeded in passing to the township level the burden of financing education. Second, although the fiscal contract system succeeded in turning the township party secretaries into heads of financial bureau (meaning that they were fully
concerned with revenue collection and expenditure), the revenue base of the township level was very unreliable. As will be discussed in the next chapter, collection of revenue from the peasants was very difficult. Third, increasing the fiscal responsibilities of the township governments did not automatically amount to improving their positions vis-à-vis the offices representing county bureaux at the township level. In Chapter Six, I will discuss the conflicts between the township governments and the offices representing the county bureaux, and will analyze it as an enduring structural cause for the weakness of the township level. Lastly, the weakness of the township level also had its root cause in the practice of appointing outsiders to be top township officials, and then rotating them frequently. As these officials set their eyes on careers at the county seat, they did not fight eagerly for the township’s interests.

However, the fiscal contract system did provide the township governments a weapon with which to bargain with county officials and sometimes even to refuse cooperation. There were interesting examples of blatant refusals to cooperate with the county level. One concerns the two townships that had surpluses: Wencheng and Qinglan. When the fiscal contract system was experimented with in 1994, these two townships were assessed to be surplus townships and required to turn over their surpluses to the county at the end of the contract period. When that fell due and the county level asked these two townships to turn over the revenue, they responded that they had used it all up. In light of this experience, in the three-year fiscal contract starting in 1995 the county level required the two townships to turn over a certain percentage of their revenue every month. The message is that the higher level could no longer count on the voluntary compliance of the township governments.
As another example, starting from 1996 the county required the township level to "digest" (xiaohua) the old debts incurred as a result of grain subsidies (liangshi guazhang). The debts were assigned by the State Council to the provinces, and in Hainan, the province assigned Wenchang a quota of RMB51.67 million to be recovered in five years. The county government then assigned a quota to each township. Because this was a lot of money and a heavy burden on the township’s finances, and also because they were new expenditures not anticipated in the fiscal contract, most of the townships were not willing to pay their shares. To obtain the money the county level simply reduced the amount from the amount the townships received from the county. But because Dongjiao township only received RMB140,000 in subsidies from the county level each year, while they had accumulated debts of over RMB300,000, the county finance bureau could not get Dongjiao to pay their share of grain subsidies.

Does such evidence show that the township level had become disobedient? Or does it just reflect the absurdities of the existing system of revenue distribution and expenditure responsibilities? Perhaps they are examples of a more widespread absence of authority not only within the local state bureaucracy but also in the relations between the local state bureaucracy and the peasantry. As discussed in the next chapter, peasants in Wenchang did not pay agricultural taxes and other fees voluntarily. They would pay only when they were forced to or had no alternative. In the case of "digesting" the debts incurred from grain subsidies, the township assigned part of the quota it received from the county level to the non-agricultural populations (fei nongye renkou) under its jurisdiction. It did not count on voluntary payments, but simply deducted these from the salaries of township
government employees. Those who did not receive a salary from the township government did not even consider paying.

While in some other places in China, peasants suffered from levies of all kinds, in Wenchang, peasants were not even paying agricultural taxes and centrally approved unified fees (*tongchou kuan*), not to say illegal levies. The peasants that I talked to did not feel the pressure to pay any type of local levy. As a middle school teacher said during an interview session: "The school could not ask the students to pay many fees. Even if the school made demands on the parents, they would not pay." When asked what the peasants thought about the policies and corruption of township officials, he said, "the peasants do not care as long as they are not asked to pay money."

This phenomenon bears directly on the question of the effectiveness of the township administrations. Although the local state still maintained a large presence at the township level, its effectiveness was very much in doubt. In term of institutional development, the township level in Wenchang was still grappling with the problem of establishing effective institutions at the sub-township level, and the problem of exercising effective control over the so-called ambassadors of county bureaux.

In view of the peculiar pattern of rural settlement in Wenchang, it makes a lot of sense to extend state administration one level downward. However, this is very difficult to achieve for two reasons. First, it would violate the national practice of creating village self-government at the former brigade level. Second and more importantly, the fiscal conditions of the township government did not allow the township level to pay village cadres reasonable salaries.
Beyond these institutional considerations, township administration was also frustrated by the increasing defiance of the peasantry. As a result of de-collectivization, the contact between the local state and the peasantry focused mainly or even exclusively on tax collection. In Wenchang, the fiscal reform of 1994 has made the township government keenly aware of the importance of extracting more revenue. However, the township's efforts have met with two difficulties: a lack of voluntary compliance from the taxpayers, and loss of revenue to the functional state agencies. These two issues comprise the subject matter of the next two chapters.
Chapter Five
THE LOCAL STATE IN WENCHANG: DEVELOPMENTAL OR PREDATORY?

Introduction

Chapter Two had noted that in the theoretical writings on comparative political economy the concept of a developmental state is defined in both the structural and behavioural senses. A developmental state refers not only to (i) certain modes of state involvement and intervention in the economy, but also to (ii) certain organisational characteristics that enable the state to undertake wise and effective interventions.¹ When this concept is borrowed to study the Chinese local state, these two aspects have not been clearly distinguished, leading to considerable conceptual confusion and misunderstanding as to the nature and the efficacy of the involvement of local state in China.

In this and the following chapters, I discuss the local state in Wenchang from both of these dimensions: i.e. behavior and structure. The chapter focuses mainly on the behavior of the county and township leaders, and discusses the extent to which this behavior can be viewed from a local developmental state perspective. I will point out that the apparent developmental initiatives undertaken by the local officials in Wenchang were in fact driven by doubtful motivations among the leaders involved.

The chapter also examines whether the local state in Wenchang is predatory in the sense that a predatory state has been understood in the literature. What is most fascinating about

the relations between the local state and the rural populace in Wenchang from a comparative perspective is the absence of levies and direct predation, the apparent defiance of the peasants, and the impotence of local officials in revenue extraction and local administration. I will explain these fascinating phenomena in relation to the weak sub-township governing structure discussed in Chapter Four, the ability of township officials to push fiscal burdens off budget, and the availability of revenue that did not involve direct confrontation with the rural populace.

**Leadership and the Local State**

In studying local state behavior in Wenchang, I will stress the specific incentives and concerns of the local officials. One of the missing elements in much of the analyses of the local state in the existing literature is a focus on leadership. In many of these studies, the analysis is of the local government as a whole or the structural relationship between local governments and enterprises, with almost no mention of the specific leaders, their motives, interests and strategies. In this way, the local government is excessively reified. Of course, some degree of reification is desirable in studying national states or governments, which either are shaped by a strong conception of the state's role in human

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2 Jean Oi, *Rural China Takes Off*; Andrew Walder, "Local Governments as Industrial Firms."

life, or institutionalized in a body of rules and memories.\textsuperscript{4} However, this approach is highly problematic when applied to local governments in China, which often face volatile and uncertain environments.

A focus on local leaders is particularly necessary because, as examined in the last chapter, cadre avoidance and rotation have tended to usher in officials with interests that deviate from the long-term interests of local society. In Wenchang in the 1990s, the leadership factor acquired further importance because the county possessed a party secretary with unchallenged authority in the local political scene. At the township level, frequent rotations of township party secretaries also provided a fertile ground for cadre behavior primarily for the sake of the personal interests of the cadres concerned. On the whole, this focus disputes the view that the local state's actions are always oriented to developmental objectives and the long-term interests of local society, which is implied in much of the existing literature. In Wenchang, township governments were preoccupied with collecting adequate taxes just to keep themselves afloat. Townships with excess revenue might initiate projects such as building roads or government offices, but the motives behind these projects were almost universally doubted. At the county level, the county government did have the appearance of a local developmental state with forward-looking and developmental orientations. However, many of the developmental initiatives were also driven by highly doubtful motivations.

Symbols of Local Developmental State?

Visitors to Wenchang could not fail to be impressed by two major achievements (zhengji) of the former county leader, Zhu Mingguo. One is the six-lane twelve-kilometer road linking Wencheng, the county seat, and Qinglan, a small harbor town with the new status as a provincial development zone. In the past, the road between the county seat and Qinglan was, like all the existing roads in the county, poor and narrow. The idea of improving the county seat’s access to the coast did not start with Zhu Mingguo, but it was he who managed to find the resources to turn it into a reality. About two years after Zhu took the position of party secretary in Wenchang, the new road was in place. He expected that the construction of this road would help to merge Wenchang and Qinglan, and promote economic activities along the road. However, in the summer 1998, except for a few factories, the most eye-catching of which was an electricity plant built by Enron, these had failed to materialize.

Zhu Mingguo not only sought to improve access from Wencheng to the coast, but also made a bold and controversial decision to move the county government to a site in Qinglan. As a matter of fact, the construction of the road was part of the larger project to relocate the county government. Wencheng, the old county seat, was regarded as having limited potentials for further growth as it is not located along the coast. Qinglan, in comparison, has more growth potential. Soon after Hainan became a provincial special economic zone, Qinglan gained the status of a provincial developmental zone. After considerable investments in the late 1980s and 1992-1994, Qinglan had already developed some of the basic infrastructure necessary for further development.
Zhu decided to relocate the county party committee and government to Qinglan by building a huge office building in a site outside the old Qinglan market town. He argued that the relocation of the county party committee and government would give a boost to the development of Qinglan and would benefit the county's long-term development. Although the idea of relocating the county seat also did not originate from Zhu Mingguo, no one in the county ever had seriously studied the possibility and imagined that this would become a reality in 1997. Zhu made the relocation of the county government a bigger event by managing to make it coincide with the granting of city (shi) status to the county.

On surface, these initiatives are in line with what a local developmental state should do.\(^5\) As Mahathir Mohemad of Malaysia recently did when he decided to move the national capital from Kurla Lumpur to Putrajaya in order to give a boost to the development of the Multimedia Super Corridor, Zhu expected the relocation would draw more investment to the areas around the new government headquarters. In addition to these two initiatives, Wenchang also designated specific zones for investment by creating six development zones. In theory, these development zones should be different from the rest of the county with better infrastructures and an environment to attract investment. However, with the exception of Qinglan, all of the other five development zones had almost nothing to offer.

\(^5\) Note, however, that local developmental state is defined here differently from local state corporatism. In this conception, the local state is mainly concerned with providing the right conditions for local economic development and stays away from direct management of economic enterprises.
to investors. Meanwhile, the county established a small leading group on investment, led by Zhu himself, to persuade investors to come to Wenchang.

Nevertheless, the direct involvement of the county and township governments in economic management was very limited in Wenchang. Starting with a very weak industrial base, the county and township governments did not own many enterprises, and by early 1990s many of the county state-owned enterprises had already been sold or contracted out, or were almost bankrupt. As a result, the share of total industrial output accounted for by state-owned enterprises had declined sharply in recent years. As shown in Table 5.1, in 1995 state-owned enterprises accounted for 11% of total industrial output value, but by the first half of 1997 the share had dropped to less than 4%. Since the early 1990s, the county government, like governments in other parts of China, had strongly emphasized the need for industrial development, and stressed the common theme that if there was no industry there would be no prosperity (wugong bufu). However, the emphasis was decidedly on the growth of private enterprises. Because the local state-owned enterprises (difang guoying) had accumulated been in huge deficits in the reform era, both the county and township

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7 In Wenchang, what are commonly referred as xiangzhen qiye (village and township enterprises) were in fact private enterprises. They were called as such not because of any particular benefits of registering as collective enterprises. In Hainan, private enterprises have been given more room for development much earlier than other parts of China, as befitting the island's status as a special economic zone. These enterprises are called as xiangzhen qiye simply because they are located in towns and villages. For a study discussing the practice of registering private enterprises as collective enterprises, see Liu Yia-ling, "Reform from Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou," China Quarterly, No.130 (June 1992), pp.293-316; Kristen Parris, "Local Initiative and National Reform: The Wenzhou Model of Development," China Quarterly, No.134 (June 1993), pp.242-63.
governments did not count on developing state or collective enterprises. Rather, they thought that if the private sector flourished, the government would also benefit greatly by collecting more revenue in taxes.

The county government was willing to extend whatever support it was able to offer to private investors to lure them to invest in the county. In addition to providing appropriate tax allowances, emphasis was also given to preventing government bureaucracies from forming unnecessary barriers to private economic activities. For example, a metaphor that the county economic officials in Wenchang often used was "xian shangche, hou maipiao," (literally meaning to get on the bus first, and buy the ticket later). This metaphor was used to hammer home the message that government bureaucracies should let business activities start operating before they completed the necessary bureaucratic procedures. Another noteworthy feature is the emphasis on "fangkai" (literally meaning liberalizing or abandoning control and regulation), not merely the more conventional term "kaifang" (opening). This theme was officially stressed by Zhu Mingguo in an enlarged cadre meeting on the political and economic situation facing Wenchang in July 1997, but before

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8 Almost all the people I interviewed or casually talked to had very pessimistic views about the prospects of collective and state enterprises in Wenchang.


10 This metaphor did not originate in Wenchang. It originated from the provincial level and was used to highlight Hainan's pioneering status in creating a facilitating environment for business activities. See Wang Luolin (ed.), Jianli shehui zhuyi shichang jingji tizhi de shijian, Beijing, Shehui kexue wenxian chuban she, 1997, p.15.
that it had been a main strategy of the county government in its competition with other counties in Hainan for scarce investment. The message that Zhu sent to cadres in Wenchang was loud and clear: even if private activities violated central and provincial policies and regulations, government bureaux should turn a blind eye to them if they would bring revenue to government coffers and contribute to the county's economic growth. Although he did not explicitly mention that the county should allow gambling and prostitution, I was told by several cadres who attended the meeting that everyone got the underlying message very clearly.\(^{11}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Output Value (0,000 yuan)</th>
<th>% of Total Industrial Output Value</th>
<th>Total Profits/Losses (0,000 yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>2,266</td>
<td>67</td>
<td>43.8</td>
</tr>
<tr>
<td>1980</td>
<td>2,281</td>
<td>76</td>
<td>12.8</td>
</tr>
<tr>
<td>1983</td>
<td>2,538</td>
<td>77</td>
<td>184.3</td>
</tr>
<tr>
<td>1985</td>
<td>4,299</td>
<td>49(^a)</td>
<td>167</td>
</tr>
<tr>
<td>1987</td>
<td>3,846</td>
<td>40</td>
<td>-16</td>
</tr>
<tr>
<td>1990</td>
<td>4,631</td>
<td>33</td>
<td>-18</td>
</tr>
<tr>
<td>1993</td>
<td>13,780</td>
<td>34</td>
<td>-1,163.0(^b)</td>
</tr>
<tr>
<td>1995</td>
<td>9,580</td>
<td>11</td>
<td>-810.0(^b)</td>
</tr>
</tbody>
</table>

Sources:
- *Wenchang shi 7.5 qijian guomin jingji he shehui fazhan zhuiao tongji ziliao* (1991.6.), pp.6, 14.
- *Wenchang shi 8.5 qijian guomin jingji he shehui fazhan zhuiao tongji ziliao* (1996.10.), p.7.

Note: \(^a\) Since 1985, total industrial output value include output value of small enterprises in the villages. In Wenchang, most of these enterprises are private enterprises.

\(^b\) Refer to total profits/losses of enterprises at and above township/town level.

\(^{11}\) *Hainan ribao*, 29 August, 1997, p.1. This is a summary of Zhu's speech in July.
However, due to a slow-down in economic development in the whole country and in particular to a cooling down of interest in Hainan, Wenchang's efforts to attract investment did not have much success. Although the county claimed to have had fast industrial growth in recent years and in 1995 industrial output value surpassed agricultural output value, its economy was not in good shape. As Table 1.1 in Chapter One suggests, in 1997 the primary sector still accounted for about 50% of GDP, and the secondary sector only about a fourth. An even more telling indicator was the low level of industrial employment in the county (Table 1.2): while total non-agricultural employment in 1996 accounted for 25.5% of the total labour force, industry only accounted for a miniscule 3.5%. Even more worrying is the recent trend: from 1990 to 1996, employment in industry as a percentage of the total labour force hardly changed at all.

However, the slow growth of industry in Wenchang reflected more the problems facing the whole province of Hainan (Chapter Three) than just the failure of the county government in promoting industrial growth. The failure of industrial development locked the county into a chronic state of fiscal difficulty. As the head of the county finance bureau pointed out in an analysis submitted to the county government, taxes from both the primary and secondary sectors were small, and the county had grown to rely more and more on taxes from the tertiary sector (i.e. a private lottery and gambling). As a result, Wenchang continued to rely on subsidies from the provincial government, although the share of subsidies in total revenue had decreased.

In view of the fiscal crisis facing the county, the sumptuous government office building and the new road discussed at the beginning of this section pose interesting questions
about the role of the local state. At one level, these two projects suggest a potential conflict between a developmental orientation and a concern for immediate consumption. In Chinese this is called the conflict between jianshe and chifan. At another level, even if investment for future development (jianshe) is emphasized and justifiable, there is still a question as to how the scarce resources were used, and for what purposes.

Let us first see what these developmental projects really are before coming to any conclusion about the developmental role of the local state. The new road between Wencheng and Qinglan has six lanes, obviously much more than what was needed for the county then and in the foreseeable future. There was little traffic. Worse still, the road was only paved with a very thin layer of asphalt and was soon dotted with holes due to poor construction quality and maintenance. As the road was built on the initiative of the county with self-raised revenue, the provincial transport bureau, which was responsible for building and managing all roads on the island, would not take care of the maintenance. No sooner than the road had been open, cadres in the county started to worry about how to find the money to keep the road in a usable condition. As the real estate bubble had long burst, the original estimate that the costs could be covered by selling the lands along the road had proved completely wrong.

The new government headquarters built in the middle of nowhere in Qinglan was even more controversial. Compared to the modern skyscrapers in Haikou or the new government compounds found in the county seats in the Pearl River Delta, the new

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12 As pointed out in Chapter Three, because Hainan charges additional taxes for petrol, local governments are not allowed to collect tolls from road users.
government office building in Wenchang was not particularly magnificent. However, in view of Wenchang's level of economic development and the fiscal problems it faced, it is nothing less than sumptuous. The building is eight stories high and clad in glittering glass as is found in modern cities. It is located in a huge area planted with flowers and coconut trees and circled with tall walls. A pathway leads to a large lake and a small pavilion. From the front gate a driveway of more than 100 meters leads to the second floor, which has tall ceiling to impress visitors. The building is even equipped with lifts (no other building in the county was equipped with lifts in 1998), although they did not always function well. Because the government office building is 12 kilometers away from the old county seat, the county government found it necessary to buy four coaches to shuttle between the county seat and the new offices to take the staff from and back home twice each day.

The true cost of the office building has never been revealed. As a matter of fact, two cadres in the finance bureau (Interviewees No.9 and 17) said that even the head of the finance bureau did not know the details. But many estimated the cost of the building was close to RMB 40 million, or about the total amount of the industrial and commercial taxes collected in the county in 1997 or the total of the wage bills of teachers in the county in the same year. Although exactly how much it cost and where the money came from were never disclosed, it was a common knowledge that the revenue came from four sources: from selling publicly owned apartments under the housing system reform; from selling non-agricultural household registration permits; from selling land close to the new government office; and dianzi, which means that the construction team responsible for building the government office advanced the cost on behalf of the county government. As
of 1999, more than two years after the completion of the government offices, I was told
that the county government had not fully paid the debts owed to the construction team.

I asked several interviewees why a construction team was willing to advance the cost of
construction for government bodies. They almost always cited the same two reasons.
First, when the real estate bubble went bust, construction teams were desperate for new
construction work, and therefore were willing to take some risks. Second, in a dianzi
arrangement, the construction teams could always ask for a higher price. With this and the
deposit already paid by the government bodies, the risk was considered acceptable.

Local government leaders used this financial arrangement to start government projects not
only because it provided them with opportunities for corruption, but also because these
projects would be viewed as their achievements (zhengji) and became part of their
credentials for further bureaucratic advancement. Officials who were able to undertake
grand projects were viewed as capable (you banfa), daring and resolute (you poli), even if
they left huge debts to successors. Of course, there were some risks in passing such debts
to successors, but according to the interviewees, the risks were not high. In the case of
Zhu Mingguo, because he possessed unrivalled political assets, his successor or other local
cadres in the county would not be able to create any trouble.

The party secretary of Dongjiao township, Liu, did precisely the same thing on a smaller
scale. When he took over the position of party secretary in 1997 (formerly he was party
secretary of Tanniu township), Liu entered into arrangements with a construction team to
pave the clay road from the township to the pier for ferries to Qinglan. He also expanded
the original plan to construct a new government office building in a place about 500 meters from the old market town. Because the township government was in a much worse fiscal situation than the county, the construction team asked for advance payments for a considerable part of the construction cost. The party secretary expected to pay back some of the advance money with the revenue from selling the old government office, which is located at the center of the old market town. But he never expected this to be enough, because the construction cost stood at more than RMB 4 million, an astonishing amount considering the fact that this exceeds the township's annual budgetary revenue. When I did fieldwork in Dongjiao township in April 1998, the township government was busy moving into the new offices and thinking about how to repay the advance money paid by the construction team. When I returned in July 1998, it still owed the construction team more than RMB 2 million. Township officials confided to me that they managed to pay back some of the debts with family planning fines and budgetary revenue. At that time, the pressure of repaying the debt also compelled the township government to force its partners at the township to concede a higher portion of the taxes and fines collected from the private lottery. This had started to sour the relationship between the township government and, for example, the tax office. At that time, as will be discussed in Chapter Six, because the county government had started a new round of efforts to bring the revenue outside the budgetary pathway under control, the township government expected to win more concessions from its partners. Even so, the township felt greater pressures than ever before. Thus in April 1998, when the county public security bureau asked the townships in the county to temporarily stop the gamble activities other than private lottery during the period when the coconut festival was held in Haikou, after a few days the
township government in Dongjiao started to worry about the impact of this on revenue, and encouraged the operators of the gambling stalls that they should re-start business as early as possible.

In addition to making every effort to collect more revenue to repay the debts, Liu made preparations to enable him to pass the debts to his successor safely. What he did was to persuade the county government to appoint a cadre whom he trusted to be his successor. The cadre Liu chose was originally with the county's propaganda department. According to this cadre, although he had known Liu for a long time, he obtained Liu's appreciation for his ability and trust when he was part of the work team in a campaign to collect family planning fines in Tanniu township in early 1997. At that time, Liu was the party secretary of the township. Soon after taking over the position of party secretary of Dongjiao, Liu managed to make the county government appoint this cadre as deputy party secretary and deputy township head, which made him the second most powerful cadre in the township. In early 1999, this cadre was further promoted to township head. Since Liu had been actively seeking a position at the county seat, he counted on this cadre not only to help him repay the debts, but also to inherit the debts if the township government was not able to fully repay them before he left.

This section suggests that in Wenchang the county government did try hard to lure investors to invest in the county, and it also put a strong emphasis on creating an investment environment with the least government interventions. Both the county and township governments in Wenchang consciously stayed away from direct involvement in
economic management. The initiatives such as paving roads and building government offices were always held as major efforts to improve the county's infrastructure to attract investors. However, whether they served any significant developmental purpose is best viewed in connection with the incentives and strategies of the key leaders who benefited most from these activities. In the following section, I discuss how these apparently developmental initiatives can be understood in the strategies of a political high flier.

A Promising High Flier's Use of Wenchang

Before 1993, the county government in Wenchang had been plagued with factional strife, and the county leaders were viewed as lacking resolution and a reform spirit. In September 1992, Ma Zhanguo, a mainland cadre transferred to Hainan to support the new province's development, was appointed the county party secretary. Ma brought with him many reform initiatives, but his work style soon got him into conflict with the county magistrate and other county cadres. As a result, internal strife carried on. This problem received attention and intervention from the provincial level. In May 1993, Zhu Mingguo was appointed to replace Ma Zhanguo as party secretary. In Chapter Four, we have briefly discussed the adverse effects that the cadre avoidance system and the frequent change of county leadership might have on a locality. However, in Zhu Mingguo's case, the problem was greater because he was no ordinary transient outsider. He might or might not have the will to do harm, but he had the political authority to do so.\(^\text{13}\)

\(^{13}\) To use the terms coined by Peter Cheung for studying provincial leadership in China, Zhu Mingguo and Ma Zhanguo were both pioneers, while the county leaders before them were clearly laggards. See Peter T.Y. Cheung, "Introduction: Provincial Leadership and Economic Reform in Post-Mao China," pp.23-6.
Unlike previous county party secretaries in Wenchang, Zhu was a promising high flier. He
had all the credentials to move up the political ladder. First, he is of the Li minority, which
was perhaps a unique credential among all of the cadres of his generation. Ever since
Hainan became a province, every attempt had been made to incorporate a member of a
minority ethnicity into the provincial leadership. Another advantage was that he was
young. When he was appointed party secretary of Wenchang in May 1993, he was only
36. At that age, he was already a deputy-department level cadre. Prior to his appointment
to Wenchang, he had been deputy head of the powerful organization department of the
provincial party committee since 1988. His background suggested that he was being
groomed for promotion. This was confirmed in September 1995 when Zhu was sent to the
Central Party School for training, a clear signal that he was on the way into the provincial
leadership.

Due to his political background, Zhu was able to stand well above the factional strife
within the county leadership. However, in his first year he still found that the county
magistrate, Lin Fangming, was a constraint. In September 1994, a bit more than one year
after his appointment as party secretary, Zhu succeeded in getting Lin transferred to a
district in Haikou, the provincial capital. Then he was able to double as county magistrate.
In February 1995, he was promoted to a departmental level rank (zheng tingji). Coupled

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14 The two former provincial leaders of a minority background were Wang Yuefeng and
Wang Xueping. See Who's Who in China: Current Leaders, pp.667, 672. Wang Xueping,
the Li minority representative in the provincial leadership, was born in 1938, and when the
leadership was due to change in 1988, was too old to be considered for another term.
15 This promotion was obviously linked to his concurrent position of county magistrate. A
senior county cadre said that then it was the policy of the provincial government that if a
cadre was concurrently party secretary and head of government, he would get a
with the fact that he was sent to the Central Party School for training, he clearly enjoyed unrivalled political authority in Wenchang.

Zhu’s strategy in Wenchang was simple: to show his achievements (zhengji) as a leader as quickly as possible.\textsuperscript{16} Zhu had made preparations even before taking up the position in Wenchang. When Zhu used his political influence in Haikou to organize a donation campaign. The campaign, called "loving Wenchang, helping Wenchang and developing Wenchang", was a great success mainly because of Zhu’s political background. As much as RMB 100 million was pledged to support Wenchang’s economic construction projects,\textsuperscript{17} betting on Zhu’s political future. Some donors expected him to return their favor in Wenchang. On the same day that the donations were reported, some 270 companies indicated their intention to invest in Qinglan and asked for 25,610 mou of land.\textsuperscript{18} While some of the pledged donations never materialized due to the economic downturns beginning in 1994, a sizeable sum did arrive: several interviewees (No.2, 8 and 33) estimated that something between RMB30-50 million were available to Zhu. This was a huge amount in view of the fact that in 1994, the budgetary revenue for the entire county was only RMB 77 million.

\textsuperscript{16} It has become increasingly important that a cadre needs all round experiences by leading a locality to get further promotion. This trend is evident at both the provincial and the central levels.

\textsuperscript{17} \textit{Hainan ribao}, 15 August, 1993, p.1. According to several interviewees, the donations also included two Mercedes Benz 500, which Zhu initially used as his limousines, but after the central level prohibited local leaders to use luxurious foreign cars, they were sold.

Zhu Mingguo clearly understood the longing of local people, particularly cadres and the people living in the county seat, for an improved environment and new construction. This trait set him apart from Ma Zhanguo, who was considered to have plenty of reform ideas but lacked a workable political strategy. In addition to the road and county office projects, Zhu devoted considerable resources and energy to improving other roads and beautifying the environment in the county seat. Cadres at the county level were also thankful to him for securing full salaries for them, and he therefore enjoyed considerable support among them. Some cadres even said that it did not matter whether he was corrupt or not. What mattered was that he really did something to the county, and left something behind when he departed. Even the peasants who benefited little from his initiatives quoted these as Zhu’s contribution to Wenchang.

Zhu Mingguo had played a wise political game in Wenchang. He tried to accommodate the interests and needs of the county level cadres, even though, when he left Wenchang to take up a position in the provincial leadership, it was estimated that he had left a debt of close to RMB50 million. Soon after he had left, many of the local cadres started to see the negative impact of his daring and resolute leadership, and more negative views of him began to spread. The reason is not far to seek, because they needed to be concerned with how the county would be able to take care of what he left behind. In addition to the maintenance of the road and the debts, there were considerable demands for moving back the entire county government to the county seat. Although this was no longer viable, several interviewees suggested that the bureaux that still kept ownership of offices in the old county seat might move back eventually.
A Predatory State? Evidence of Increasing Peasant Defiance in Wenchang

While the local governments in Wenchang do not even come close to the local developmental state image presented in the literature, they were also not predatory, in the sense that they did not impose too many levies on impotent peasants, or force peasants to grow unprofitable produce as happened in Guizhou and Yunnan.\(^{19}\) I was surprised to find that the peasants in Wenchang had few direct levies other than the unified fees \((tongchou kuan)\). The local governments almost completely left the peasants alone. There seemed to be more cases of peasant defiance than blatant coercion by local officials. In many cases local governments were impotent before the peasants or were simply stretched to their limits in cat and mouse games. This not only made tax collection difficult, but also made it inefficient and expensive. Given widespread reports of levies in other parts of rural China, this obviously demands an explanation.

In Wenchang, most peasants came into contact only with township governments. Peasants were required to pay agricultural taxes \((nongye shui)\), unified fees \((tongchou kuan)\), and village retention fees \((cun tiliu)\). If the peasants were engaged in growing special agricultural products like vegetables and watermelons (and in Dongjiao, coconuts), they also needed to pay taxes for special agricultural produce \((nongye techan shui)\). Other than

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these areas, the most important point where peasants confronted local governments concerned birth control. Since in recent years Hainan had increasingly relied on fines to enforce birth control, family planning too had increasingly acquired the character of revenue collection.

Agricultural Taxes

Among agricultural taxes, unified fees and village retention fees, most peasants were only willing to pay agricultural taxes. They tended to consider agricultural taxes more legitimate, but increasingly more and more peasants refused to pay even these voluntarily. Collecting agricultural taxes was less difficult in those townships such as Wenjiao where the peasants paid taxes in grain. In Wenjiao township, the township finance office sent some officials to the village committees to collect the grain during the harvest. It was not necessary to go to every household to collect taxes. In Dongjiao township, however, collecting agricultural taxes from the peasants was more difficult. Because there were few rice fields in the township, most peasants normally paid agricultural taxes in cash. The tax collectors from the township's finance office said that if the peasants were not pressed, no one would pay the taxes. As the township finance office had only eight to nine officials, it was impossible for them to visit every household to collect the taxes. Hence, with the consent of the township government, the finance office agreed to pay village officials and other agents to collect the agricultural taxes from the peasants. A township official said, "the system of paying village officials to collect taxes started in 1994 after the fiscal contract system. This was mainly because township officials were not able to collect taxes. Sometimes, you had to go at night, and very often even if you went at night, you were not
able to collect the money. In recent years, we've mainly relied on village officials to do the job" The village officials were paid 10% of the total taxes collected.

In many townships in Wenchang, more and more peasant refused to pay up for many years in a row even after repeated pressure from government officials and tax collectors. In both Wenjiao township and Dongjiao township, the total accumulated unpaid taxes were well in excess of one year's total agricultural taxes. Each year, the total agricultural taxes collected were only 70% to 80% of potentially collectable taxes. Tanniu township collected even less than that: only 50%-60%. In 1998, the total unpaid taxes in Tanniu township amounted to 2.5 times the township's total annual agricultural taxes. It should be noted that, as can seen from Table 1.5, Tanniu's hamlets are among the smallest in the county, which, as argued above, was one of the main factors contributing to the weaknesses of local state administration at the township level and below.

A measure of the problem of tax arrears was the widespread practice of linking payment of agricultural taxes to the issuing of marriage certificates or certificates to study or to go abroad. All of the five townships where I did research introduced this practice. Because collecting agricultural taxes was particularly difficult in Tanniu township, its officials even decided to collect tax arrears from primary and middle schools. In 1998, there was a plan to expose at school the names of the peasants who had tax arrears, although officials in the township finance office suggested that this would not be linked to enrolment.

During an interview with a peasant from Baoluo township I was advised that in her village, a village of less than 20 households and about 4 kilometer from the market town,
almost no-one ever thought of paying agricultural taxes. She had not paid them since signing the land contract in the early 1980s, and only paid the unpaid taxes because she needed a certification from the police office to apply for a visa to go to Hong Kong in 1998. Because the peasants did not pay taxes voluntarily, in Baoluo township the township government set up check points in the market town during harvest periods. Peasants who had records of unpaid taxes were not allowed to do business at the market fair. But that was it.

In additional to the conventional agricultural taxes, since 1994 Hainan started to collect special agricultural taxes on growing and selling of vegetables and fruits. In Wenchang, taxes on watermelons had become an increasingly important source of revenues for the township governments. However, in part because of the short history of these taxes, and in part because of the inherent difficulties of collecting them, tax collectors faced even greater difficulties. Unlike conventional types of agricultural taxes, information on this produce was not always available. In order to collect these taxes, tax collectors and township officials needed to keep a constant watch on the growers and their activities. For instance, tax collectors mentioned that they needed to know when the watermelons would

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21 Not all townships in the county are endowed with the lands needed for growing watermelons. Because a piece of land used for growing watermelons once needs to be laid idle for about five years before it can be used against, the revenue from taxes on watermelons would decline for those townships that are not well endowed in lands. For example, Wenjiao and Dongjiao both are not particularly well endowed, while the township adjacent Wenjiao, Changsa, has more lands available for growing watermelons and vegetables.
be ripe for harvest, and during the couple of days when the watermelons were about to be harvested, they would spend the whole nights at the fields to prevent the growers from selling the watermelons secretly at night and running away without paying taxes.

Because collecting agricultural taxes had become so difficult and costly, township governments came to rely on other types of taxes. Very often agricultural taxes were a last resort, and collecting them a sign of desperation. In Dongjiao township in 1998, because the construction of the new township government office had thrown the township government into debt, extraordinary measures were taken to collect tax arrears from the peasants and to encourage the village governments (cunwei hui) to compete in collecting agricultural taxes, but even these extraordinary measures were not very effective.

Because many townships had linked payment of agricultural taxes to legal services, many peasants gradually acquired the view that if they did not need legal services from the government, they needed not pay taxes. Only peasants who really needed the township governments to do something for them would voluntarily hand in their tax arrears and other unpaid fees. According to Chinese law, not paying agricultural taxes was a crime and was liable to punishment, but activating a legal process was not only difficult but also costly. While in Dongjiao in July 1998, I had attended an education session for the most serious cases, peasants who had accumulated unpaid taxes for as many as 10 years. The township government asked a cadre from the county procuratorate (jiancha yuan, which is responsible for prosecution) and a police officer to join a deputy township head and the head of the finance office to convince the peasants to pay the taxes they had owed for more than 10 years. Through village cadres, the finance office notified (tongzhi) the 25
most serious cases in the township to attend the meeting. Only four turned up. While they appeared to be quite scared, they bargained hard when asked to sign a contract with the township government on paying the tax arrears in installments. The township official had to negotiate with them at every detailed step to make sure that they did come back with money. The meeting took a whole morning. At the end, the four peasants agreed to go home to sell the valuable things they had in order to clear the tax arrears. But does this prove that the local state was predatory?

**Unified Fees (tongchou kuan)**

Peasants did make a distinction between agricultural taxes on the one hand, and unified fees and village retention fees on the other. The head of a small hamlet in Wenjiao township said, "The agricultural tax was state policy, while tongchou kuan and cun tiliu were all local policies. In our village almost everyone paid agricultural taxes willingly. Nobody owed agricultural taxes. If you do not pay taxes, you lost face among fellow villagers. Not paying fees determined and collected by local governments was different." Others in this village made more or less the same distinction in separate interviews. This village was therefore very different from the village in Baoluo township noted above.

There were great variations across different townships. The county level only set very general guidelines according to national policy about peasant burdens, allowing township governments a high level of autonomy in setting the level of unified fees, and the means of collection. In Wenjiao township, each adult villager was required to pay RMB 20 each year. However, when it was introduced in 1998, the township government asked the peasants to pay the unified fees for five years at once (1994-1998). As expected, most
peasants did not pay. The township government again linked it to government services and certificates. As a township official observed to me, "it is all right for the peasants not to pay taxes and the unified fees, but then they should not expect anything from the township government." A villager in the township knew this clearly too. He said, "the township government isn't concerned that a peasant could escape from paying the unified fees (nizou buliao). Once you need a certificate from the township government, you would behave nicely and hand in your money."

In theory, the unified fees should be managed by the township's rural management station (jingying guanli zhan, jingguan zhan for short). However, in some townships this station did not function at all. For example, in Dongjiao township the rural management station did not even keep records of who had paid the unified fees. As a result, the township was not able to link the payment of unified fees to government services and certificates. The township government therefore relied on schools to collect the fees from students. Unlike Wenjiao township, Dongjiao did not demand five years of unified fees, but set the annual fees at RMB50. Because the unified fees were collected by schools from students for the township government, the rate was in fact set at RMB50 per student each year. As a result, households that did not send their children to school did not pay unified fees at all, while those families that had more children in schools paid more.

22 "Hainan sheng renmin zhengfu guanyu guanqie shishi 'nongmin chengdan feiyong he laowu guanli tiaoli' de tongzhi" (18 September, 1992).
23 The head of the rural management station operated a restaurant at the market town. According to township officials, he was too occupied with his own restaurant to work for the station. At the same time, township officials that they did not allow the rural management station to manage the unified fees. Whatever unified fees were collected were directly controlled by township government.
The township cadres whom I interviewed reckoned that, despite these various strategems, on the whole only about 15-20% of the total collectable unified fees were actually collected. Township officials also admitted that although central government required that unified fees should be used only for specific purposes, township governments had great flexibility. In Dongjiao, because the township government relied on the primary and middle schools to collect unified fees, the schools were allowed to keep about one third of the collected revenue.

Village Retention Fees (*cun tiliu*)

Unlike unified fees, village retention fees provided revenue for village welfare and communal activities. Because the revenue was supposed to be kept by the hamlets, the township governments did not have much interest in its collection. As a result, nobody bothered to collect the revenue or pay the fees. In theory, the village retention fees to be paid by peasant households were calculated according to the quality and quantity of land contracted from the villages. For example, during the second round of land contracts carried out in 1998, contracting fees were set at three different rates, depending on the quality of the land. The contracting fees for the first category were set at RMB 10-12 per *mou* annually, and for the second and third categories, were RMB 8-10 and RMB 6-8 per *mou*. According to several cadres who were part of the work teams sent to implement the second round of land contracts, most of the land in Wenchang was classified as belonging to the third category.

However, village retention fees were not collected at all. The following case is illuminating. During that second round of land contracts, the county government asked the
work teams to collect both the unpaid village retention fees and the new contract fees. According to a work team member, the work team was only able to collect a small amount of the new contract fees, and in the end, because only a small percentage of the households paid the contract fees, his work team decided to return the collected money to the peasant households. As a result, although the county government required the work teams to collect 85% of the outstanding and current unified and village retention fees, in effect most work teams did not collect any at all.

On the one hand, villagers did not want to pay the village retention fees. On the other, hamlet heads did not want the village retention fees because these fees would place them in confrontation with fellow villagers. The head of a hamlet in Wenjiao township said, "if I obtain any benefits from the village retention fees, I will have a difficult relationship with fellow villagers." He cited as an example the response of the hamlet elders to the pressure from the work team on collecting village retention fees. When the work team urged the village officials to help collect the village retention fees and said that this revenue belonged to you, many hamlet elders responded that because this belonged to us, we decided not to want it, and you should not ask the villagers to pay them.

Family Planning Fines (jihua shengyu fakuan)

Family planning was described as the most difficult task under heaven (tianxia diyi nan).\(^{24}\) It had certainly become the second most important task for township governments other than tax collection. However, since the emphasis on family planning task was always on
collecting fines for having unplanned children, it had increasingly become similar to tax collection. In this area, the money involved was at times exorbitant. Family planning fines were called *chaosheng fakuan* (meaning literally fines for giving birth to more children than permitted), and since 1995 Wenchang has imposed hefty fines on giving birth to children outside the family planning plan. For the peasants, having a second child less than four years after the first child was liable to a fine of RMB5000, and a third child brought a fine of RMB22,488. As a result, some peasants had accumulated huge fines. For some families, even the fines incurred before 1995 were way beyond their means.

In family planning, the township and occasionally county officials had the authority to take more drastic measures against the peasants. Although birth control and related activities were carried out on a day-to-day basis at the township level, there were two major family planning campaigns each year, which drew upon almost all of the resources available to the township governments. Since 1997, the county government also organized a separate campaign to collect family planning fines. Unlike the normal family campaigns, which mainly relied on township officials, the campaign to collect fines was carried out by a work team with members both from the county level and township governments. The participation of county officials was deemed necessary, because, in the words of a county cadre who was once involved in the campaign, "the peasants were not afraid of township officials, and township officials always found it difficult to take stern measures."

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Each year the county level set specific targets to be fulfilled by the township governments. For example, in 1998 the county level set the sterilization target for families with only girls at 600 and sterilizations for other families at 3,400 for the whole county. Each township was also given a target. For example, Dongjiao was required to sterilize 46 households with only girls and 263 other households. The county level also set the total family planning fines to be collected by each township. Dongjiao obtained a target of RMB426,000 for 1998.

Township officials were caught in cat and mouse games. In family planning, they were unlikely to have any assistance from village and hamlet officials. As a hamlet head said, "I will never do anything to help the township officials relating to family planning. I will not do so even if you kill me. If I provide information to township officials, I will not be able to live in the village. Cadres of village committees are also very reluctant to be the guides. At best, they just point out the houses of the targets to the township officials from outside the hamlets and leave before anything happens." Without the assistance of village and hamlet cadres, township officials sometimes were not even able to find the location of their targets. And when they did locate the targets, they had to try to catch them. According to township officials, this was the most tiring part of family planning work. Township officials always had to leave for the hamlets at night clandestinely. A peasant likened this to the Japanese invaders when they secretly searched villages for communist guerillas during the period of Japanese occupation.25

25 In Chinese, "jiuxiang riben guizhi xiacun yiyang."
The recalcitrance of the peasants explains why routine controls were not adequate and why campaigns involving all of the resources available to the township governments were needed. Very often, to get successful sterilizations considerable force was needed. A peasant from Baoluo township told me that in her hamlet, a woman who had already given birth to three girls had refused to consider sterilization even after repeated visits and warnings from township officials. She finally yielded to the pressure when the township government sent more than ten officials to threaten her. Township officials that I talked to stressed that it was necessary to send a large number of officials just to scare their targets.

Family planning work in Wenchang falls into the following three areas: to force pregnant women to have abortions if their pregnancies fall outside the plan; to force the targets who could become pregnant to have sterilizations; and finally to extract money from the people who withstand the above two exercises. Partly because the fines for giving birth to children outside the plan were set unrealistically high, most of fines were not fully paid. In every township, quite a few peasant families who had extra children owed the township government large sums of money. For example, a cadre of Dongjiao township's family planning office estimated that the township's total unpaid family planning fines stood at RMB4 million. However, the township did not disclose this figure to the county level. Instead, it told the county level that the total unpaid penalty was only RMB1.2 million. The township government did not submit too high a figure to the county level because, the cadre reiterated, this was an important factor affecting the amount of fines the county level required the township government to collect.
During the campaigns to collect family planning fines, township and county cadres were empowered to take away whatever valuables the peasants possessed to pay for their outstanding fines. In most cases, these were far from adequate to fully pay the fines. Then the officials would force the peasants to sign agreements to pay their fines in installments. However, not many families who had signed the agreements paid the installments as agreed. They would be required to sign agreements again in the next campaign without a guarantee that the agreements would be honored. While central and provincial policies did allow local officials to take drastic measures to extract more money from the peasants that had violated family planning rules, the peasants had not hesitated to utilize their advantages. They could always run away or hide their valuable assets before the township officials arrived. As a result, almost all township governments linked payment of family planning fines to government services and certificates. However, in some cases the township governments found it impossible to require a full repayment of fines to qualify for a government certificate because to do this was simply unrealistic.

**Levies on State Employees and School Teachers**

While there were not many cases of levies on the peasants in Wenchang, and as discussed above, the levies were effectively resisted by recalcitrant peasants, there were many complaints about levies on state employees and in particular on teachers. Government officials had a lot of complaints about teachers' salaries, saying that they were too high due to the central government's policy in recent years to enhance the status of teachers. They were also jealous that teachers were the only group of employees still enjoying full medical benefits. County and township governments imposed all kinds of levies on teachers simply
by deducting these from their salaries without asking for their consent. A primary school teacher from Baoluo township whom I interviewed in July 1999 said that she never got the full salary that the township government was supposed to pay to her. Even that the salary was already about 20% less than it should have been because since 1994 the township government had pushed a portion of the salary off budget. Among the most important deductions was a monthly one of RMB 12 as a reimbursement of grain subsidies. When the county government organized a campaign to help the decommissioned soldiers, the township government deducted RMB 50 from her salary bill. A secondary school teacher in Dongjiao township had similar complaints. When I interviewed him in April 1998, his salary bill had just been reduced by RMB 50 to contribute to the construction of an indoor stadium at the county seat. All these were regarded as voluntary contributions, but in fact they were forced levies. This kind of levy differs from the levies on peasants in that it was almost effortless.

The increasing popularity of forced levies of this type suggests a very weak local state. Similarly, the fact that the township governments had to rely on withholding basic government services such as marriage certificate or identity certificates also suggests a very weak local state. Such a state could hardly be predatory, because it did not have the means or will to extract much from the peasantry. But why was this the case in Wenchang? What were the circumstances that made the local state so impotent? I discuss these questions together with Wenchang's growing dependence on revenue from private lottery and gambling activities in the next section.
Increasing Dependence on Private Lottery and Gambling

The small streets and markets of Wenchang's market towns were lined with numerous stalls selling private lottery tickets (*sichai*). In recent years, particularly after Zhu Mingguo's call for the government to abandon controls (*fangkai*) in July 1997, this and more explicit forms of gambling had boomed not only in market towns, but even in the villages. In the streets of the county seats and market towns, the liveliest scene was the crowd listening to people hawking their analyses of the trends in the private lottery. The most talked about stories were how some people dreamt of a set of numbers and won first prize. The lottery operated differently from the public lotteries (*gongchaj*) operated by the national and provincial governments for raising funds for specific purposes such as welfare or sports.26 Unlike the public lottery, in a private lottery the individuals operating the lottery stalls freely determined the prize level and took the risks: if nobody won the prizes, they made a handsome profit; if the prizes were claimed, they might lose heavily. Because the prize level of a public lottery was considered unattractive, and many people thought that there was hidden manipulation in the public lottery, in Hainan since the late 1980s the public lottery had been edged out.27 In Wenchang, as in other counties on the island, the lottery market was completely occupied by the private lottery. Although the provincial government called for suppressing the private lottery from time to time,28 these calls hardly had any effect at all. In Wenchang, the private lottery has gradually become legal.

An indicator of its legal status was that when the provincial government sent a squad to suppress gambling in the county, county leaders would require all gambling operators to stop business during the inspection, but private lottery ticket sellers were allowed to continue.

The private lottery and gambling were difficult to eradicate, because the county and township governments have become dependent on the revenue derived from these operations. Unlike the levies on peasants and the family planning fines discussed above, the revenue from that private lottery and gambling did not require too much effort, and did not put township officials and tax collectors in direct confrontation with the peasants. Because they were illegal, their existence hinged entirely on the tolerance of township governments and of the offices representing county bureaux at the townships. This made taxing these operations relatively easy, although, as discussed in the next chapter, there has been considerable conflict between the township governments and the offices representing county bureaux.

The county and townships governments had been heavily involved in taxing private lottery stalls. Townships officials reckoned that more than 20% of the turnover went to different types of taxes and fees (detailed in the next chapter). As a result, the main difference between the public and private lotteries was not that the former was taxed while the latter

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29 For an excellent investigative report on the popularity of private lottery and the local governments' involvement in its operation across Hainan, see Nanfang zhoumo, 24 October, 1997, p.2.
was not. Rather, the public lottery was taxed by government bodies at higher levels and the revenue went entirely to them, while the private lottery was taxed by county and township governments and the revenue was kept locally, making the latter lottery far more in the interests of the latter governments.

In the several townships where I did interviews, the private lottery and, recently, more explicit forms of gambling had become the most important sources of revenue for the township governments. While the private lottery had become all but legal, the provincial government was less tolerant of gambling operations involving, for example, poker machines and the like, or Chinese dominoes (*paijiu*). However, due to the protection and in fact encouragement of local officials, these forms of gambling blossomed at the county seats and market towns. As in private lottery, township governments and their partners taxed these operations, some on a daily basis and others on weekly. An official likened the benefits to the township government of a Chinese dominoes stall to those of a factory, saying that the revenue contribution from such a stall well exceeded the tax revenue from a factory that was medium size by local standards. The township government was likely to gain more, he said, from a dozen Chinese dominoes stalls and poker machine shops than from a dozen factories.

In many townships, revenue from the private lottery and gambling accounted for a large chunk of the total revenue of township governments. In Wenjiao township, the head of the tax office admitted that gambling-related taxes accounted for some 45%-50% of the total revenue collected by his office. Because there were a number of small factories in Dongjiao township, the dependence on gambling-related revenue was not as high as in
Wenjiao, but the head of the township's finance office still reckoned that more than 30% of the township's revenue came from the so-called entertainment sector (yule ye, a euphemism for gambling and prostitution).

Concluding Discussion

The first part of the chapter has argued that while the local state in Wenchang did make every effort to lure investors to invest in the county by creating an attractive investment environment, the county and township government's behavior was only superficially similar to the roles of the local developmental state. Instead, the alleged developmental projects were initiated either because they provided opportunities for corruption or because they helped advance the political careers of local leaders. It is instructive to view the roles and impact of Zhu Mingguo's leadership in Wenchang in light of those associated with imperial magistrates from outside who, in the words of Philip Kuhn, "seemed sometimes like a man-made plague, a disaster hitting society from the outside; more often destructive than protective, more often exploitative than supportive." The central problem is still the old problem that had plagued scholars for generations: how can local
power be made to serve social ends? Hainan's strict implementation of cadre avoidance and rotations, rather than providing a solution to this problem, has underscored the relevance of Kuhn's comments even today to local state administration in China.

The other theme that this chapter has a bearing on is whether the local state is predatory. The evidence offered above clearly suggests that unlike other parts of China where local officials have imposed heavy levies on a powerless peasantry, in Wenchang local officials have experienced great difficulties just in collecting fully the legal agricultural taxes. In these circumstances, illegal levies have been few and far between. In both tax collection and the extraction of family planning fines, the style of the local state's dealings with the peasantry could be labeled as guerrilla administration. In such a game, the peasants have possessed two important resources: they have greatly outnumbered the local officials, and they often left the officials in the dark.

These problems have been further aggravated by the paralyzed organizations at the former brigade level. As shown in Chapter Four, the townships in Wenchang typically have more than a hundred hamlets, which are far too many for township officials to exercise effective control over. While these hamlets were organized into about a dozen administrative villages governed by village committees, most of these village committees hardly functioned. Township officials were keenly aware of the importance of getting the

33 This phenomenon was recognized by Chen Suhou, formerly deputy governor of Hainan province. For example, he pointed out that in Hainan peasants generally did not pay, or even refused to pay, irrigation fees, resulting in unpaid irrigation fees of RMB 2.23 million in 1984-85 in Han counties. See Chen Suhou, Hainan tequ nongye fazhan renshi yu shijian, p.265.

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assistance of village cadres, but they always found that they did not have the assistance they wanted, because village cadres were little motivated to help the township cadres. While during the collective era, the brigade cadres had held a strong incentive to be the agents of the state because there were opportunities for promotion, in Wenchang during the reform era there have been extremely few opportunities for village cadres to gain formal positions in township governments. According to several village cadres whom I interviewed in Dongjiao, in the whole county only one or two village cadres were promoted to the township level over the last ten years. The importance of the village level to effective local state administration was fully recognized by Chen Suhou, a former deputy provincial governor responsible for agriculture, who wrote in 1994:

If the basic level cadres are not motivated, we will not be able to mobilize the rural areas, and there will be many gaps in agricultural work. As such, state administration in the rural areas cannot be consolidated, and the rural economy cannot develop. At present, some rural areas have public security problems, feudalistic and superstitious activities are serious, private lotteries and gambling cannot be effectively suppressed, and the policies of the party and government cannot be executed at the grass-roots level. While there are many reasons for these phenomena, the most important reason is that the basic level cadres have not been fully motivated.34

The relatively low level of levies on peasants in Wenchang should also be explained in light of the following two factors: the existence of an alternative source of revenue from the private lottery and gambling, and the ability and freedom of the township cadres to push the fiscal burden off budget. As discussed above, the private lottery and more recently gambling had provided the township governments with an easy source of revenue. Compared with other taxes and levies whose collection often obliged local officials to act

34 Ibid., p.430.
in a guerrilla fashion, with cat and mouse games, the private lottery and gambling were readily taxable because their survival hinged on the protection and tolerance of the local governments. Although the revenue derived from the private lottery and gambling might prove as socially harmful as, or even more harmful than, direct taxation and levies from the peasants, it did allow local officials not to become involved in direct confrontations with the peasantry.

Just as important as the availability of an easily collectable revenue was the ability of the county and township governments to push fiscal responsibilities off budget. Since the implementation of the fiscal contracts with the township level in 1994, the county government had succeeded in assigning to the townships the fiscal burden of supporting primary and middle education. At the township level, the township governments likewise pushed their fiscal burdens off budget by unilaterally deciding to pay only a portion of the salaries to employees falling within their fiscal responsibilities. Even when township governments had adequate revenue to pay full salaries, township officials preferred to keep the revenue for the benefit of the smaller number of township officials. This flexibility also significantly reduced the needs for the township government to impose unpalatable levies on the peasantry.
Chapter Six
INVOLUTIONARY GROWTH OF THE LOCAL STATE

This chapter builds on the analyses in previous chapters, and integrates them with a study of the amorphous growth of the local state in the county and in particular at the township level. The main argument of this chapter is that the patterns of local state growth in Wenchang cannot be understood in terms of state building, a concept implying enhanced bureaucratic control, rationalization and efficiency. Rather, it is shown below that during the reform era, as a result of fiscal shortages and expedient improvisations, the local state has grown in an amorphous fashion. Hence, the apparent growth of the local state in such aspects as state organs, employees and revenue and so forth hides the structural complexity, confusion and tension that had built up within the local state.

This chapter argues more fully than in previous chapters that the concept of state involution, originally coined by Prasenjit Duara to study the pattern of state growth during the Republican period, is more useful for understanding the pattern of local state growth in Wenchang. However, what is described as state involution here, while sharing some essential features of Duara's original concept, also differs from state involution during Republican China. Two important differences distinguish contemporary developments from what occurred in the first half of this century under Republican China: (1) it does not involve replication and elaboration of an established form; and (2)

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the cause for state involution during the reform era originated from within the state itself. Like the earlier state involution, the mode of local state growth in Wenchang also exhibits a diminishing efficiency of inputs, and a decline in overall control over revenue and resources.

The chapter is divided into four sections. The first will discuss the amorphous pattern of local state growth in Wenchang, showing the bewildering complexity and confusions within the local state. The confusion was created by the dual attempt to push administrative agencies off of the administrative establishment (xingzheng bianzhi) and off-budget. Section two documents the growing importance to particular individual bureaus of non-salary income and benefits. Again, what has emerged is a local state that is miles apart from a Weberian bureaucracy with its standard provisions of remuneration and benefits. Section three focuses on the simultaneous intensification of revenue collection and depletion of revenue to both the county and township levels. This section examines the constant conflicts between the township governments and the so-called ambassadors of the county bureaux at the townships, and discusses the limitations of recent efforts to enhance bureaucratic controls. The concluding section discusses how the features described in the previous three sections resemble, and differ from, the state involution that developed during the Republican period.

Amorphous State Growth in Wenchang

If the figures in the records of the county personnel bureau are correct, the entire bureaucracy in Wenchang had not grown much in the last decade. As Table 6.1 and 6.2 (and Table 4.3 in Chapter 4) indicate, the formal growth of the local state bureaucracies
in Wenchang during the last two decades occurred mainly before 1985. Table 6.1 shows the composition and growth within cadre ranks in Wenchang for the period 1983-96. As cadres (ganbu) were different from (and fewer than) employees (zhigong), in Table 6.2 and Table 4.3 the corresponding figures are bigger. On the other hand, not all of the cadres in Table 6.1 were paid through budgetary revenue, as was the case with enterprise cadres, listed in the final column of the table. The growth in the number of cadres in the service-organization category was mainly due to the growth in the number of teachers in recent years.3

However, the figures given in Table 6.1 and even Table 4.3 do not cover all of the cadres and employees in Wenchang. As will be discussed below, because there were many categories and much confusion among them, these figures have severe limitation that underestimate the size of the local state bureaucracies. A more straightforward measure of local state growth is the number of employees whose salaries were covered by the county's fiscal revenue.4 In an article published in 1991, two officials with the county finance bureau gave the figures presented in Table 6.3. Since there had not been any major cutback of the county bureaucracies since the 1980s, it is unthinkable that the total employees covered by budgetary revenue in 1996 (9,590) were fewer than the total number of employees paid through budgetary revenue in 1989 (11,860). As Table 6.1 shows, since 1989 the number of cadres in service organizations had grown noticeably, from 4,129 to 5,003.

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3 In 1998, as had been the case in the past, the county was still required to accept all graduates of teacher colleges. However, starting from 1999, graduates of teacher colleges would be treated similarly as other university graduates and would not be guaranteed employment.
Table 6.1  Composition and Growth of Numbers of Cadres, Wenchang, 1983-1996

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Administration</th>
<th></th>
<th></th>
<th>Service Org.</th>
<th>Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Party</td>
<td>State</td>
<td>County</td>
<td>Township</td>
</tr>
<tr>
<td>1983</td>
<td>6,150</td>
<td>411</td>
<td>1,471</td>
<td>1,259</td>
<td>623</td>
</tr>
<tr>
<td>1985</td>
<td>7,559</td>
<td>380</td>
<td>1,884</td>
<td>1,582</td>
<td>682</td>
</tr>
<tr>
<td>1988</td>
<td>7,787</td>
<td>349</td>
<td>2,097</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1989</td>
<td>7,792</td>
<td>348</td>
<td>2,162</td>
<td>1,825</td>
<td>685</td>
</tr>
<tr>
<td>1990</td>
<td>7,851</td>
<td>342</td>
<td>2,172</td>
<td>1,781</td>
<td>733</td>
</tr>
<tr>
<td>1995</td>
<td>7,399</td>
<td>211</td>
<td>1,578</td>
<td>1,314</td>
<td>475</td>
</tr>
<tr>
<td>1996*</td>
<td>7,527</td>
<td>138*</td>
<td>1,481</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Personnel and Labour Bureau, Wenchang.
*1996 figures do not include cadres of township party committees.

Table 6.2  Total Numbers of Employees and Total Wages of Administrative Organs, Wenchang, 1970-1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
<th>Wages (0,000 RMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>1,447</td>
<td>94</td>
</tr>
<tr>
<td>1977</td>
<td>1,664</td>
<td>109.6</td>
</tr>
<tr>
<td>1978</td>
<td>1,802</td>
<td>118.1</td>
</tr>
<tr>
<td>1980</td>
<td>2,191</td>
<td>166.0</td>
</tr>
<tr>
<td>1981</td>
<td>2,191</td>
<td>184.6</td>
</tr>
<tr>
<td>1982</td>
<td>2,855</td>
<td>235.8</td>
</tr>
<tr>
<td>1983</td>
<td>3,001</td>
<td>277.6</td>
</tr>
</tbody>
</table>

Sources:

4 These employees were referred locally as belonging to either caizheng gongzi or chi caizheng fan.
Table 6.3  Growth in Budgetary Expenditures and Employees, Wenchang, 1980-1989

<table>
<thead>
<tr>
<th>Year</th>
<th>Budgetary Expenditure (0,000 RMB)</th>
<th>Employees Supported by Fiscal Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1,290</td>
<td>6,788</td>
</tr>
<tr>
<td>1981</td>
<td>1,260</td>
<td>-</td>
</tr>
<tr>
<td>1982</td>
<td>1,584</td>
<td>-</td>
</tr>
<tr>
<td>1983</td>
<td>1,774</td>
<td>-</td>
</tr>
<tr>
<td>1984</td>
<td>2,200</td>
<td>-</td>
</tr>
<tr>
<td>1985</td>
<td>3,138.9</td>
<td>-</td>
</tr>
<tr>
<td>1986</td>
<td>3,113.3</td>
<td>-</td>
</tr>
<tr>
<td>1987</td>
<td>3,400.8</td>
<td>-</td>
</tr>
<tr>
<td>1988</td>
<td>3,851.4</td>
<td>-</td>
</tr>
<tr>
<td>1989</td>
<td>4,833.5</td>
<td>11,860</td>
</tr>
</tbody>
</table>

Sources:

Table 6.4  Additions to and Reductions of Cadres, Wenchang, Various Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Additions</th>
<th>Total Reductions</th>
<th>Net Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unified Allocation*</td>
<td>Retirement</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>401</td>
<td>218</td>
<td>173</td>
</tr>
<tr>
<td>1985</td>
<td>496</td>
<td>170</td>
<td>102</td>
</tr>
<tr>
<td>1988</td>
<td>330</td>
<td>244</td>
<td>107</td>
</tr>
<tr>
<td>1989</td>
<td>263</td>
<td>222</td>
<td>213</td>
</tr>
<tr>
<td>1990</td>
<td>285</td>
<td>207</td>
<td>167</td>
</tr>
<tr>
<td>1995</td>
<td>451</td>
<td>175</td>
<td>291</td>
</tr>
</tbody>
</table>

Source: Personnel and Labour Bureau, Wenchang.
*Unified allocation includes unified allocation of graduates from colleges and technical colleges, and decommissioned soldiers.
In an interview in September 1997, the head of the county finance bureau said that the wage bills for 1996 stood at RMB 86 million, which was significantly higher than the corresponding figure (RMB 66 million) given in Table 4.3. Another way of looking at this is to see what had been the net increase in cadres over the years. Table 6.4 refers to the net additions and reductions of cadres in selected years from 1983 to 1995. It suggests that during this period, every year there was a net increase in cadre numbers. Moreover, although the net increase demonstrated a decreasing trend, this was due not mainly to a slow down in the increase, but to increases in retirements in recent years.

Since the figures in Tables 6.1 and 6.2 were obtained from the county's Personnel Bureau, it is likely that these figures did not cover all of the different types of cadres and employees funded by fiscal revenue. The fact that the figures provided by the finance bureau were substantially higher than the figures available in the files of the Personnel Bureau is instructive. This inconsistency in itself supports the main argument of this section: the local state's growth was amorphous, and even not all of the employees funded by fiscal revenue fell into the categories maintained and controlled by the Personnel Bureau.

As pointed out in Chapter Four, the total number of cadres at the township level in Wenchang had not increased much in recent years. As of 1998, actual employees at the township level were below the administrative establishment approved for the townships, which is surprising given the mounting pressure for bureaucratic expansion at the local level in China. It suggests that in Wenchang the biggest growth occurred at the county
The confusion in the cadre figures and total wage bills in the county noted above, according to a cadre from the county organization and establishment commission, stemmed from there being different types of cadres in the county, ranging from the formal state cadres (guojiagantu), to the less formal cadres and casual workers employed by different bureaux. Formal state cadres and employees were subject to more centralized and institutionalized controls. The county's organization and establishment commission (jigou yu bianzhi weiyuanhui, or bianwei for short) exercised an overall control over the growth in the numbers of these cadres and employees.

The less formal cadres and employees were not subject to the same degree of control. These people were employed by separate bureaux and some of them were paid by the self-raised revenue of these bureaux. Although the organization and establishment commission had tried to gather information about the numbers of these people, the bureaux employing them were typically not willing to co-operate. Therefore, precise information about the size of the ranks of the less formal cadres and employees did not exist! Since 1996, the county government had further decided to loosen controls and to recognize them locally or within their systems as regular employees or even cadres. More than half of the employees of the county industrial and commercial administration bureau belonged to this type.

5 During my fieldwork, I discovered that one of the most common topics conversation among township cadres concerned transferring to the county seat.
In recent years, both the county public security bureau and the police offices at the township level employed a large number of security officers (zhian yuan or baoan yuan) who did not have a formal status, although they were sent from time to time to enforce the laws. As discussed below, at the township level the security officers were recruited and employed by the local police offices, while the finance and tax bureau and its offices at market towns employed a large number of temporary tax assistants (linshi zhu Zheng yuan). In many townships, the number of security officers exceeded the number of regular police officers. In Wenjiao, for example, in 1997 there were ten security officers, but only four policemen. Tanniu township's police office used to have as many as nine security officers, but in 1998 it fired three of them for disciplinary reasons. Each township's finance and tax offices employed a number of temporary tax assistants. In 1998, for example, Dongjiao's tax office had five tax assistants.

The management of temporary tax assistants, however, was different from that of the security officers employed by the police office. The temporary tax assistants were recruited and managed by the county finance bureau, and therefore could be transferred from one township to another, or from the township level to the county seat, just like formal tax officers. In fact, they wear the same uniform as the formal tax officers. Some of the temporary tax assistants who had good connections with the leading cadres of the county bureau were even able to get transferred to the county seat. However, because they were not formal state cadres, they were not allowed to work in the county finance bureau, which was classified as an administrative agency. As a result, although these temporary tax assistants actually worked in the county finance bureau, their files were left with the township finance offices. Some of the temporary tax assistants had been
employed for as long as ten years, and had therefore become regular employees. As shown in Table 6.5, both the regular and the contract staff of the finance and tax bureaucracies had grown considerably since 1990, but the contract staff had grown twice as fast as the regular staff in both bureaucracies.

In comparison, because the security officers were recruited by the individual township police offices according to their needs and revenue situations, they could not be transferred among townships. Furthermore, the history of security officers was not as long as the history of temporary tax assistants. In 1998, the county public security bureau was thinking of centralizing the recruitment and management of security officers at the county level, but due to opposition from the township police offices, this was not implemented.

Table 6.5  Numbers of Employees of the Finance and Tax Bureaus, Wenchang, 1990-1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Finance Bureau</th>
<th>Total</th>
<th>Tax Bureau</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regular</td>
<td>Contract</td>
<td></td>
<td>Regular</td>
</tr>
<tr>
<td>1990</td>
<td>144</td>
<td>95</td>
<td>49</td>
<td>217</td>
</tr>
<tr>
<td>1992</td>
<td>166</td>
<td>108</td>
<td>58</td>
<td>241</td>
</tr>
<tr>
<td>1994</td>
<td>178</td>
<td>113</td>
<td>65</td>
<td>269</td>
</tr>
<tr>
<td>1995</td>
<td>185</td>
<td>118</td>
<td>67</td>
<td>278</td>
</tr>
<tr>
<td>1996</td>
<td>201</td>
<td>122</td>
<td>79</td>
<td>296</td>
</tr>
<tr>
<td>1997</td>
<td>214</td>
<td>129</td>
<td>85</td>
<td>309</td>
</tr>
<tr>
<td></td>
<td>48.6 %</td>
<td>35.8 %</td>
<td>73.5 %</td>
<td>42.4 %</td>
</tr>
</tbody>
</table>

Sources: Finance Bureau, Wenchang.

Although the agencies at the county level are more formal in status, they also had experienced the kind of growth seen at the township level. The growth of the contract
staff in the finance and tax bureaucracies presented in Table 6.5, as noted above, included the staff working in the county bureau. A vivid example of state growth beyond the rigid confines of bureaucracy is provided by the status of the traffic police force. Partly because Wenchang was granted the status of a city and traffic in the county became increasingly busy, and partly also because the county faced pressure to absorb de-commissioned soldiers from the PLA and the para-military force, the county created a traffic police brigade (jiaojing dadui) in 1996. It had a headquarters at the county seat, and seven divisions (zhongdui) located in the townships that had busier traffic. However, more than a year after its establishment, the status of this force remained uncertain. There was considerable disagreement about whether the traffic police force should be included as part of the formal cadre force.

Two issues were at stake. The first was the implications of this force for the county's fiscal revenue. On the grounds that it would substantially increase the fiscal burden of the county, the county finance bureau refused to provide the revenue to cover expenditures on the salaries of the traffic police. Another issue concerned the violation of procedures stipulated by the civil service code passed in 1993. Despite these disagreements, the traffic police force was already exercising its powers in the streets of the county seat and townships. Because the finance bureau refused to pay wages to its staff, the brigade found it necessary to go out to collect revenue to pay its staff. As the traffic police fined more drivers and motorcyclists than was reasonable (for example, they fined motorcyclists

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6 The interviewee from the county organization and establishment commission pointed out that because Wenchang sought to improve its relationship with the PLA, it always managed to accommodate the de-commissioned soldiers without hesitation. Each year, the county accepted about 200 de-commissioned soldiers. See also the column “unified allocation” in Table 6.4.
visiting market towns for wearing slippers), they aroused complaints from county and township officials, and grievances from the peasantry as well. The dissatisfaction of township officials was obvious: because the traffic police were too keen to fine motorcyclists and drivers, it drove people away from the market towns and adversely affected tax collection. Because many peasants used motorcycles to commute between their hamlets and the market towns, if the traffic police was too stern in enforcing traffic regulations, they would go to the adjacent market towns. Wenjiao and Dongjiao both suffered from having a traffic police division stationed in their townships. An official from Wenjiao’s tax office blamed the traffic police for the drop of license fees and taxes collected from motorcycles in 1998, saying that the much smaller adjacent township was able to collect more because the traffic police had driven the motorcyclists from Wenjiao to this adjacent market town. Township officials brought their complaints to county leaders, who had already started to worry about the impact of the behavior of the traffic police force on the county’s economic activities. As a result, in late 1997, the county government ordered the traffic police force to undertake a rectification (zhengdun). In July 1997, when Zhu Mingguo called for abandoning government intervention and control in Wenchang, he referred specifically to traffic management, saying that Wenchang should abandon controls so that more vehicles would come to the county from adjacent counties.7 Township officials also succeeded in persuading the county government to prohibit the traffic police force from checking motorcycles and vehicles during market days.

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7 This was considered necessary because many vehicles in use in Wenchang and in particular in the adjacent Qionghai county were smuggled cars.
As a result of the loss of bureaucratic controls in the early 1980s, the central state set very tight limits over the growth of the administrative establishment. However, the establishment for service organizations (shiye bianzhi) was not subject to the same degree of control. As a result, across China much of the state growth had been disguised under the establishment for service organizations. In the 1980s, it was a common practice for the newly created or expanded organs to be classified as service organizations to circumvent the tight and rigid controls over the administrative establishment. In Wenchang, the police offices, commerce offices, finance offices and tax offices established at the township level were all listed under the establishment for service organizations, regardless of the fact that they are quintessentially administrative organs.

A similar confusion existed about the status of cadres. As mentioned above, some cadres were formal state cadres and others were recruited by individual bureaux. But in recent years there has emerged a new category of cadres, who are called “cadres under contract” (pingyong zhi ganbu). This term may lead one to think that these cadres were employed for a given contracted period, but this is not what it means. As formal state cadres, contract cadres also have a high degree of job security. Many of them were also paid by budgetary revenue. The only difference between this type of cadres and the more formal cadres seems to be that they were recruited and managed outside the conventional channels of recruiting state cadres. To further complicate the picture, contract cadres were divided into two types, one approved by the province and the other by the county.

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8 For the numerous examples of this practice, see Zhongguo xingzheng gaige daqushi, pp.229-376.
9 Ibid., pp.231-33.
itself. Apparently, the former is supposed to be more formal, but it is not clear how much more formal it was than the other type.

**Proliferation of Non-Salary Income and Benefits**

Not only were more officials classified in confusing categories; regular state bureaux and cadres also found that they had been partially pushed off budget, in the sense that a considerable part of their income and benefits derived from the revenue of their own bureaux or organizations. This was not merely because the local state was unable to pay the full salaries to its cadres and employees. A more important reason was that different functional state bureaux had their own sources of revenue, much of which never showed up as budgetary revenue (see below). While officials and teachers falling within the township's fiscal responsibilities had not received full salaries starting in 1994, county level cadres and teachers received full salaries, although there had been delays from time to time. Hence, the growth of non-salary income, particularly for county level cadres, was not mainly due to the inability of the local state to pay salaries, but to the bewildering variations in the revenue situations among different state bureaux.

This phenomenon set the local state in Wenchang further apart from the Weberian bureaucracy. Because the income of state cadres did not depend entirely, and in some cases mainly, on the income they received from the local government, the formal salary scale was only a partial guide to the actual income of the state cadres. Enormous inequality emerged among different state bureaux. This inequality was not based on bureaucratic ranks and positions, but on the cadres' organizational affiliations. *Danwei,* therefore, still counts a lot in determining the status and well-being of cadres.
In Wenchang, a crucial factor affecting incomes is whether they fall within the fiscal responsibilities of the county level or those of the township level. Before 1994, this factor was not as important, although county cadres still earned more than their counterparts at the townships. This was because, before 1994, the township level was not an independent fiscal level. The salaries of township employees and the expenditures of township governments were borne by the county level. In 1994, the new party secretary Zhu Mingguo introduced a significant fiscal reform under which the township governments were allowed to keep the revenue in excess of a relatively low base, but were also required to be responsible for all expenditure increases at the township level. One of the most significant impacts of this was that the county government managed to push the burden of supporting the township administration and in particular education at the township level off its budgetary responsibilities.

Another impact of the fiscal reform is that it has further enlarged the wide gap between the county and township levels. As discussed in Chapter Four, in Wenchang (and in the poor regions of China) even before 1994 cadres and teachers were desperate to get relocated to the county seat. This problem was aggravated as a result of the new fiscal system of 1994, because, since then, township officials and teachers had only received partial salaries.

This was related to the nationwide salary increase ordered from Beijing in 1993. When the national government decided to introduce the civil service system, it decided to increase the salaries of all state cadres and employees covered by budgetary revenue by 40%. However, on the grounds that the provincial level did not provide adequate funding
for the salary increase, the county level determined that only 50% of the increased salaries should go into the calculations that served as the basis of the fiscal contracts between the county government and township governments. In yet another more controversial move, the county level assigned all teachers of primary and middle schools at the township level to be the fiscal responsibilities of the township governments.

As a result, the wide gap between the county and township levels had been enlarged. In the 1990s, county cadres and teachers received full salaries, but township officials and teachers only received about 80% of their nominal salaries. Moreover, the differences were larger because in general county cadres were more likely to receive bonuses from their respective bureaux than the township cadres.  

The actual income of county cadres varied greatly from one bureau to another. During 1992-1993, when Hainan’s bubble economy had not yet burst, many of the county bureaux in Wenchang were able to earn considerable revenue. These bureaux set up companies, but unlike the business undertakings described by Jane Duckett in Tianjin, these companies were basically rent seeking in nature. Some of them made use of their official connections to obtain the permits (piwen) to import vehicles and then resell them for a profit. A more common way to earn revenue was to get permits to sell land in the development zones. During 1992-1994, the land in Wenchang’s development zones

10 The differences in actual income between county and township teachers seemed to be the greatest, because county schools were generally better schools and therefore were more able to generate income from self-financing students. Wenchang Middle School, the provincial key-point middle school, each year took in more than 200 self-financing students, and earned a couple million yuan from this activity alone.

(especially Qinglan) was in great demand.\textsuperscript{12} Although only the top county leaders (the county party secretary and county magistrate)\textsuperscript{13} could approve the sales of land in these zones, bureaux could buy land at cheaper prices first and resell them to a third party. The general offices of the county party committee and government were strategically located to profit from this type of rent seeking. When the head of these two offices was promoted to head the propaganda department in 1994, he managed to transfer RMB200,000 from the general office to the propaganda department.\textsuperscript{14}

Whether a county bureau or department was rich or poor depended a great deal on its ability to raise revenue. In the case of the general offices of county party committee and government just mentioned, the ability to raise revenue was a function of their closeness to top county leaders. The revenue raised by selling permits for imported vehicles or land in development zones often belonged to individual cadres, but according to several interviewees a portion of such revenue was also for the use of the whole office. In other cases, county bureaux or departments charged fees for their services, taking a cut from the revenue collected, or from the contribution of the units under their supervision. Some of the revenue (such as revenue from the reselling of permits) bordered on corruption, but others were more legitimate and lawful (such as retentions from collected fiscal revenue).

\textsuperscript{12} There are six developmental zones in Wenchang. One of these, Qinglan, was designated by the province as a provincial development zone. All others were designated as developmental zones by the county itself. See, \textit{Hainan ribao}, 11 May, 1994, p.2. According to a report in \textit{Hainan ribao} in 1993, investors requested a total of 25,610 mou of lands, and pledged to invest more than RMB1.3 billion. See \textit{Hainan ribao}, 15 August, 1993, p.1.

\textsuperscript{13} Until September 1994, county party secretary and county magistrate were separated.

\textsuperscript{14} This was a promotion because, as pointed out in Chapter Four, the head of the propaganda department was also a standing committee member.
Of course, not every county bureau could collect revenue in these ways, and this explains why enormous inequality existed among different bureaus and departments.

The cadres in the county had some idea about the revenue situation of different bureaus and departments. Almost every person I encountered during my fieldwork in Wenchang said that the public security bureau, the newly created traffic police brigade,\textsuperscript{15} the finance and tax bureau, the organization department, and the land management bureau were all considered good danweis. In contrast, the county gazette editing office, the party history office, the women’s association, the Communist Youth League committee and the like were to be avoided because they did not have any income to supplement their personnel’s regular salaries.\textsuperscript{16} One of the richest bureaux in the county was the land management bureau, which was able to give its staff several hundred yuan each month – almost amounting to the regular monthly salaries, in addition to such benefits as a payment for gas fees and other benefits in kind. It was estimated that the total benefits the bureau’s staff received were two to three times their regular salaries. Table 6.6 presents the estimated percentage of non-salary income to the salaries of the staff in selected county units in Wenchang in recent years. With the exception of a few bureaux such as the county archive office and the office for receiving people’s complaint, the component

\textsuperscript{15} It is instructive that the interviewees suggested this, because, as noted above, as of 1998 the status of the traffic police remained uncertain and the finance bureau refused to pay wages to many of its staff. This perception suggests that even though the traffic police force did not receive full fiscal support, it still managed to collect good revenue to make itself an attractive unit.

\textsuperscript{16} Because it was too sensitive for me to ask directly about income and bonuses, I asked my research guide to research this specific issue for me. He asked his colleagues in a number of bureaux in an informal way about how much they earned. Because in general cadres in the county were not afraid of revealing their actual income to their colleagues in other bureaux, the information he collected was reliable. This is reported in Table 6.6.
outside regular salary constituted at least 40% of the salaries for many officials and employees in Wenchang.

Very often, the offices of the bureaux also reflected their revenue. Normally a rich bureau had better furniture, while the office of, say, the party history office, was hardly provided with any furniture at all. Local cadres also liked to use another indicator to differentiate a rich county bureau from a poor one: whether it had a car and the type of the car. While in the early 1980s very few county bureaux could afford their own cars, in recent years almost every bureau or department has bought a car (in some cases more than one) for the use of its head and deputy heads. Only very poor departments like the party history office and the party gazette office did not have their own cars. However, not all the cars used by the county bureaux were legal. The rich bureaux normally could afford to buy legal cars which could be used in the entire island. In recent years, many county bureaux had

Table 6.6 Estimated Bonuses of Difference Types of Employees, Wenchang, 1998

<table>
<thead>
<tr>
<th>Estimated Bonus/Year (RMB)</th>
<th>Percentage of Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Party Offices 2,800</td>
<td>40</td>
</tr>
<tr>
<td>Police 6,000</td>
<td>75</td>
</tr>
<tr>
<td>Township Officials 2,500</td>
<td>40</td>
</tr>
<tr>
<td>County Teachers 3,500</td>
<td>-</td>
</tr>
<tr>
<td>Township Teachers 2,000</td>
<td>-</td>
</tr>
<tr>
<td>Finance/Tax 4,500</td>
<td>60</td>
</tr>
<tr>
<td>Party History Office 600</td>
<td>-</td>
</tr>
</tbody>
</table>

17 The new government office near Qinglan has a huge car park at the back. During office hours, the car park was parked with a few dozen cars. Although the county government bought four coaches to shuttle twice a day between the county seat and the new
purchased cars smuggled into Hainan by the nearby Qionghai county. These cars were generally in good condition, but because they came through illegal means, they could only be used within Wenchang and the county that smuggled them, Qionghai. As these cars were sold at much reduced prices (RMB 40,000 compared with RMB 150,000 for a used legal car), many county bureaux and township governments could afford to buy their own cars. However, because these cars could not, for example, be used to travel to Haikou, the best-off bureaux still preferred the legal cars. Therefore, the county water resource bureau owned a legal car, while the county Youth League committee could only afford an illegal car bought for a bit less than RMB40,000.

However, the actual benefits that came with the one’s organization were in some cases larger than monthly and yearly bonuses and normal benefits in kind. One of the most important benefits in recent years was subsidized housing. As a result of Hainan’s status as a special economic zone, the housing system reform was introduced in Hainan ahead of most other parts of the country. Starting from the early 1990s, all of the apartments that were originally rented to state employees at a nominal rent were sold to the occupants. Since then, the county government has stopped providing housing benefits. Instead, it encouraged individual bureaux to build apartments to sell to their staff at a subsidized price by providing them with free land in the county seat. This measure was welcomed because it provided a channel for individual bureaux to turn their revenue into government office, the heads of many bureaux shuttled between the county seat and new government office by their own cars.

According to a senior county cadre, the proceeds from selling these apartments were spent (or used) by Zhu Mingguo partly on building the new government office.
employee welfare. In the early 1990s, when county bureaux were able to earn revenue easily from reselling permits for imported vehicles and land, many were able to pay for more than half of the total construction cost for their staff. With the bursting of the bubble economy in 1994, they found it increasingly difficult to continue this level of subsidies. However, as recently as early 1998 when I was doing fieldwork in the county, some bureaux were still able to subsidize one-third to a half of the construction cost. The subsidies varied among organizations, ranging from the subsidies of about 50% of the construction cost in some bureaux to no subsidies at all in others. The amount of money involved was great: the difference between 50% in subsidies and no subsidy at all might involve the sum of several years of a cadre's regular salaries.¹⁹

The great differences among county bureaux in actual income and housing subsidies help explain why some people were still willing to pay a large amount of money to get a job in the so-called good organizations. A secondary teacher at Dongjiao township whom I interviewed did not want to be assigned to a township middle school when he graduated from a teacher college in 1996, and he tried to get a teaching post in one of the county middle schools. He trusted the task to a county cadre he knew indirectly, and gave this cadre RMB 10,000 to pay for, in his own words, "the necessary expenses." This was not successful, he said, because it was not the right person and the money was too little. When I interviewed him, he was still keen to be transferred to the county seat, saying that even if he needed to pay RMB 20,000, it was still worth it. Several recent graduates who

¹⁹ In Chinese, this is called jizi fang. Strictly speaking, the capital investment should come from individual cadres, but most often danweis contributed a large portion of the investment.

²⁰ In 1998, the average monthly salary in Wenchang was around Y550. See Table 4.3 above.
had been waiting a couple of years for jobs told me that their parents were willing to pay as much as RMB 50,000 to RMB 60,000 to get a job in a good organization— in terms of gaining perks through off-budget revenue— such as the traffic police.

So far this section has mainly focused on the existence of great disparities in income between the county and township levels on the one hand, and among different county bureaux and departments on the other. The following factors affect whether a bureau will have adequate off-budget revenue: the ability to charge fees for the use of administrative services, the proportion of revenue from fees for administrative services retained by the bureau, and the contributions from the units under its control.

The last source of revenue was only available to the organizations that had other profitable organizations under their control. A case in point here is the propaganda department. As elsewhere in China, the propaganda department in Wenchang had a wide ambit, covering such functional areas as culture, broadcasting, the bookshop and even education.  

Because the head of the propaganda department was a standing committee member, the department was therefore in a position to lead a number of county bureaux. Each year, the propaganda department received considerable contributions from its subordinate units. While some of the revenue went into the personal pockets of the head of the propaganda department, a portion of it was used for the collective welfare of the entire department. Because of its wide ambit and the authority of its head, the propaganda department was also in a position to request *ad hoc* revenue from the county finance

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21 *Xinhua shudian*, as the bookshop was called, was among the richest units in Wenchang, because it made wide investments in the past. It was neither an administrative unit nor a service organization, but an enterprise. However, because of its nature, it still fell under the authority of the propaganda department of the county party committee.
bureau. As a result, the propaganda department was in a relatively comfortable situation. For example, the head of the department before 1995 was able to buy a brand-new four-wheel drive for RMB 400,000 from the revenue of the department. The cadre that headed the department when I did research was not as extravagant as his predecessor, but he still managed to buy a new car for RMB 200,000.\footnote{Once she learned that she would be removed from the headship, the outgoing head sold the almost new four-wheel drive, bought an old car for RMB 100,000 for her successor, and divided the revenue among the staff of the department before she left.} Whenever the propaganda department needed revenue, it always turned to the units under its supervision. The rich units such as the broadcasting bureau required the support and protection of the propaganda department to resist pressures to incorporate its revenue fully into the county's budgetary orbit. In one case, the county finance bureau demanded that the revenue collected by the broadcasting bureau should be turned over to the county's budgetary pool (see the discussion on extending budgetary control over administrative fees in the next section).\footnote{The broadcasting bureau collected a considerable amount of revenue from installation of cable TV connection and monthly rental fees. The report of the disciplinary inspection commission mentioned below suggested that the broadcasting bureau charged RMB 380-400 for an installation, which was substantially higher than the approved standard.} The broadcasting bureau appealed to the head of the propaganda department and asked him to resist the pressure of the finance bureau. Because the head of the propaganda department is concurrently a standing committee member, he had informal influence over the finance bureau and other county leaders, and succeeded in keeping the revenue at the broadcasting bureau. However, the majority of the county bureaux were not like the propaganda department. For these bureaux, the main sources of revenue were their charges for the use of administrative services, and the cut they took on the revenue collected. For example, the
county land management bureau was better off than other bureaux because it collected handsome revenue from administrative fees and took a cut from these. I turn to these two related issues in next section.

_Revenue Increases and Revenue Depletion at County and Township Levels_

**Administrative and Service Fees**

A report of the county disciplinary inspection commission disclosed that in 1996 232 units in Wenchang (not including middle and primary schools) collected administrative and service fees (xingzheng shiye shoufei). Of these 232 units, 51 were at the county level and 181 were at the township level. Some of these units charging fees were administrative agencies, but others were service organizations. The county level units collected 106 types of administrative and service fees, while the township units collected 49. In 1996, the county level units collected more than RMB20 million, but less than 30% (RMB 6 million) of the revenue was turned over to the budgetary revenue. All of the rest was retained and used by the units themselves. At the township level, more than RMB 22 million was collected in 1996, but only about 25% of the revenue was turned over to the budgetary pool. The report also suggested that the revenue that was actually turned over to the budgetary pool was less than the amount the units claimed to have turned over to the finance bureau.

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24 The report was based on a survey done by the commission in the first half of 1997. The figures were reported by the units charging administrative and service fees. Therefore, these figures were likely to be underestimation of the actual level of revenue from administrative and service fees. See Zhonggong wenchang shi jilu jiancha weiyuanhui, "wenchang shi xingzheng shiye danwei shoufei wenti de diaocha."
The figures presented in this report seem to have underestimated the actual number of administrative and service fees. When the county finance bureau moved to bring administrative and service fees under control in 1998, it listed more than 160 types of administrative fees and more than 120 types of service fees collected by the county's administrative agencies and service organizations.25

The disciplinary inspection commission pointed out in its report that there were considerable irregularities in the collection and management of administrative and service fees. For example, many units continued to collect fees that the central and provincial levels had abolished.26 As another example, more than 50 units used unofficial receipts when collecting administrative and service fees.27 Chapter Five points out that there were not many direct levies on the peasants in Wenchang, and township governments found it necessary to link the collection of taxes and unified fees to the provision of necessary government services and issues of certificates. This argument is consistent with what was discussed above. The proliferation of administrative and service fees, and the irregularities in their collection and management, suggest that government and semi-government units extracted revenue in keeping with their administrative powers. An official of the county finance bureau that I interviewed said that county bureaux relying on administrative and service fees faced fewer problems in revenue collection than township governments. This is just an indirect way of saying that when the peasants did

25 "Wenchang shi caizheng shuiwu ju guanyu wenchang shi xingzheng xing shoufei shixing chaizheng yuxuan guanli de yijian."

26 This is called luan shoufei (arbitrary charge of fees), one of three arbitrariness (the other two are luan tanpai and luanfakuan).

27 This was a common problem at both the county and township levels. Not using official receipts allowed the organization concerned to shirk financial control.
not have anything to ask from the local state, revenue collection was arduous; when they needed some things from the local state, it was easier to ask for money.

The incomplete findings of the report prepared by the county disciplinary inspection commission suggested that revenue increases did not necessarily mean that they were available to the local state to carry out its functions. Even the self-reported figures suggested that the majority (more than 70% at both county and township levels) of the revenue collected was used by the units collecting these fees. Although some of this revenue was used for paying for necessary administrative expenses, a considerable amount was spent on staff bonuses and other benefits. For example, the county forestry bureau overspent more than half a million RMB of administrative fees it collected in 1996. Of this, more than RMB100,000 were used for building apartments for its staff.\(^{28}\)

Table 1.4 in Chapter One suggests that the budgetary revenue and expenditures of Wenchang grew very fast in the past two decades. The fastest growth occurred since 1993, after the fiscal reform and making the township level a separate level of fiscal management. The fiscal reform and the ever-increasing expenditure pressures had given clear signals to township officials. Top township officials knew very well what they should do and what was their first priority. When asked whether birth planning was his priority, Touyuan’s party secretary replied immediately that his main task was to increase revenue so that the township government had money to spend (youqian hua). “We should make sure that our revenue exceeds the base set by the county in the fiscal contract, or

\(^{28}\) Zhonggong wenchang shi jilu jiancha weiyuan hui, "Wenchang shi xingzheng shiye danwei shoufei wenti de diaocha."
else we will not have money to spend, and this can be very painful." The party secretary emphasized this a number of times during the less than two-hour interview.

**Taxing Private Lottery and Gambling at the Townships**

To encourage the township level to intensify revenue collection, the county government not only allowed the townships to keep and use all the revenue in excess of the base set in the fiscal contracts, it also gave a green light to the townships to collect revenue from gambling operations. Before the fiscal reform, the private lottery had fully developed in Wenchang, but township governments were not directly involved in taxing it. Sometimes the township governments were involved and shared the revenue collected from the private lottery stalls, but in most cases the revenue was divided by the police office and commerce office, because they had the administrative powers to stop and fine these activities. As a result, paradoxically, the fees they collected were called penalties and confiscation revenue (*famo shouru*).\(^{29}\) After paying the fines, the private lottery stalls were allowed to do business.

The county government quickly recognized the great potential of a private lottery as a source of revenue for the township governments. It obviously had lobbied the provincial government to give it a semi-legal status or at least to turn a blind eye to its existence. After the fiscal reform, with guidance from the county government the township governments began to place the private lottery under more regular management and started to tax it more heavily. They not only increased the fees to be paid by each lottery stall, but also bargained for a larger share for themselves in the revenue collected from

\(^{29}\) This was clearly not an arbitrary fine, as suggested by the term *luan fakuan*. The sarcastic aspect is that the penalties gradually became regular budgetary revenue.
the private lottery. Before 1994, the police office collected fees separately from the private lottery stalls, as did the commerce office. After 1994, in recognition of the importance of this source of revenue, the township governments determined that the township’s tax office should collect the revenue under the leadership of township governments. However, in most townships the police offices still separately collected RMB50 per week from each private lottery stall.

However, a greater role for the township governments in managing and taxing the private lottery did not mean that the police office and commerce offices no longer gain benefits. In recognition of their powers (they could still impose fines, as an official of the commerce office said) and their revenue shortage, the police and commerce offices were still given a big share. The shares of the township governments, the police station and commerce office varied from one township to another. Typically, each unit of a private lottery paid RMB450 each week to the tax office and an additional RMB50 each week to the police station. The RMB450 collected by the tax office consisted of three different components: taxes, penalties and confiscation revenue, and administrative fees. The county finance bureau had a guidance that the tax component should account for at least 50% of the revenue collected from the private lottery, but not all townships heeded this instruction. In Wenjiao township, for example, the head of the tax office said that the tax component of the township’s revenue from the private lottery was lower than 50%.

Whether the revenue was collected as taxes or not affected the interests of the main actors at the township level. If more was collected as penalties and confiscation revenue, the police office and commerce office were able to claim a bigger share. If more was
collected as administrative fees, the township governments benefited more because it went entirely into the fund directly controlled by the township governments. If more was collected as taxes, the tax office benefited, although the town government benefited too. This was because, according to a regulation set by the county finance bureau, the tax office was entitled to take 8% of the taxes up to a revenue base (*jishu*),\(^\text{30}\) and a much higher percentage of the portion in excess of the revenue base. The county finance bureau once instructed that the tax office should be entitled to at least 20% of the taxes collected in excess of the revenue base, but, again, not every township heeded this guideline. In some townships, the tax office was only allowed to take 13% of the tax revenue in excess of the base. In other townships, like Taniu township, a progressive rate was adopted so that the tax office was entitled to take as much as 30% of the tax revenue when it exceeded the revenue base by a certain margin.\(^\text{31}\)

The main actors in the townships were in constant conflict over the sharing of the revenue from the private lottery. Since 1994 the township governments had in theory been given authority over all of the functional units located at the township level, but their actual influence was limited. One of the reasons for this was that the functional offices could always count on the support of the county bureaux to resist the control of the township governments. For example, in Wenjiao, the township government in early 1996 decided to take away the share of the police office in the private lottery revenue. This was met with strong resistance from the police office and the county public security

\(^{30}\) A base (*jishu*) in this case means the minimum level of tax revenue the tax office was required to collect in a given year.

\(^{31}\) This helps explain why the tax office of Taniu township was able to afford an old Beijing Jeep. Normally, in Wenchang only the township government and in some cases the police office could afford a car.
bureau. The county bureau had a direct stake in the distribution of revenue at the township level, because a portion of the revenue going to the township police offices would be handed over to the county bureau. When the share of the township police office was cut, the county bureau’s interests were hurted. Therefore, when the township government of Wenjiao insisted on taking away the share of the police office, a deputy director of the county public security bureau went to the township to intervene, and threatened to withdraw the support of the police office in managing the private lottery operations. Eventually the township government conceded to the pressure and went back to the old scheme in which both the police office and commerce office shared the revenue.

Compared with their relationship with the police office and commerce office, the township governments had better relationship with the finance and tax offices. The tax office benefited greatly from the practice of collecting a large portion (in many cases more than 50%) of the revenue from the private lottery as taxes. As noted above, the tax office was allowed to take a minimum of 8% of commission from all the revenue it collected. When the revenue exceeded the base level, the tax office was allowed to take a much greater percentage. In Tanniu township, for example, the commission on the portion above the base level was as high as 30%. This meant that for any RMB100 of revenue collected by the tax office above the base level, the tax office would take RMB30 as its commission. Only RMB70 was left for the township government. As a result, in Wenchang at the township level the tax offices were generally better off than the finance offices. In Wenjiao township, for example, the tax office had built a new office and apartments for its staff, but the finance office could only afford to stay in a
run-down house. This is because the finance office was responsible only for collecting agricultural taxes. Two conditions made the life of the finance office difficult. First, agricultural taxes had only grown slowly, and as noted in the last chapter, their collection was difficult, requiring a lot of hard effort. Second, unlike the tax office, which was allowed to take 8% of the collected revenue as a commission, the finance office was allowed to take only 5%. Because it was difficult to exceed the base level, the total commission of the finance office was substantially lower than that of the tax office.

In some cases, the township governments were not entirely happy with an arrangement that greatly benefited the tax office. Therefore, they tinkered with the components of the private lottery revenue to reduce the cut of the tax office. This was what happened in early 1998 at Dongjiacao township. The township government cited the negotiation of a new fiscal contract (the old contract, as noted before, ended in 1998) with the county level as an excuse, and proposed to collect the private lottery revenue entirely under administrative fees and place it under the control of the township government. The tax office, of course, was dissatisfied and fought against the decision, warning that it violated tax laws and that if anything went wrong no one would be able to take the responsibility. The townships officials, however, stood firm, and replied that nobody would be able to take responsibility if continuing to collect the revenue under taxes caused the county government to set a higher revenue base for the township in the new fiscal contract. Whether the township government was really concerned with the new fiscal contract was doubtful, because at that time it was under tremendous pressure to repay the money advanced by the construction team for building the government office.
The actors at the townships insisted on taking a cut of the revenue collected at the township level for several reasons. First, as noted before, since 1994 the township governments could pay only about 80% of the salaries of township officials and teachers. Another reason was that both the county bureaux and their township offices were given little funding for administrative expenses under the new fiscal system. Administrative expenses were calculated on the basis of RMB 30 for each employee a month. Because of the nature of its work, the police office was provided twice that amount. But almost everyone (including town government officials) agreed that this was unrealistically below what was necessary. As the head of Dongjiao township's finance office said, “the revenue for administrative expenses was not even enough to pay our telephone bills. If you only provided such a small amount of revenue for administrative expenses, how can you expect a police station to do its jobs?” he asked. In many townships, the police offices had their own cars, but no revenue was provided for petrol and maintenance.

As the private lottery had reached a plateau, townships across the county were under great pressure to permit or even encourage more explicit forms of gambling. In 1997-1998, many forms of gambling blossomed in the county seat and market towns. Unlike the private lottery, these new forms of gambling were suppressed from time to time by the special squads sent by the provincial public security department. However, the revenue from gambling was too attractive for county and township governments in Wenchang to be deterred by the infrequent inspections from the provincial level.

Interestingly, Zhu Mingguo, who almost went as far as encouraging gambling in Wenchang when he was party secretary in the county, was in charge of political and legal affairs at the provincial level in mid-1998. This created a funny situation, and made a joke of the propaganda on the mouthpiece of the provincial party committee concerning suppressing gambling and prostitution.
Moreover, county and township officials would unlikely be punished heavily even if they were caught. Basically, when taxing gambling the actors at the township level were involved in the same dynamic conflict as with the private lottery. Because gambling operations were less legal, however, the police office was now in a much stronger bargaining position and was able to wring greater concessions from the township governments.

While in theory the fiscal reform in 1994 strengthened the position of township governments vis-a-vis other actors at the township level, in reality the township governments were in constant conflict with these actors. A significant consequence was the fragmentation and depletion of revenue. Take the revenue from the private lottery as an example. In some cases as much as half of the revenue collected was divided by such units as the police, commerce and tax offices. A root cause for revenue depletion at the township level was the intervention of the county bureaux. The commission taken by the tax office also originated from above: the guideline that enabled the tax office to take a big cut on the revenue it collected was issued by the county finance bureau. Despite considerable attempts to strengthen the position of the township government and to prevent revenue depletion, recent developments clearly indicated that there were severe limitations to the initiatives seeking to enhance bureaucratic controls. Such initiatives did not stop the loss of revenue to functional units. Rather, they just helped to institutionalize and consolidate the claims of these units over scarce revenue.
The Nature and Limitations of Bureaucratic Controls of Revenue

After the fiscal reform in 1994, administrative fees, penalties and confiscation revenue accounted for almost half of all the revenue collected by the county level. Although some of these revenues were counted as budgetary revenue, they were not entirely controlled and allocated by the county government.\(^{33}\) Before 1995, administrative and service fees and revenue from penalties and confiscation were collected and used by individual state agencies. Since the late 1980s, this problem has become a main focus of reform in China.\(^{34}\) In contrast to common belief, local governments in China generally supported the attempt to bring administrative fees and related revenue under budgetary control, because this would enable them to control the large amount of revenue collected and appropriated by individual state agencies.\(^{35}\)

Following the central and provincial policies, the county government in Wenchang also tried to make a first attempt to bring the revenue collected and allocated by different county bureaux under budgetary control in 1995. What the county government did was to require individual bureaux to put the revenue they collected into bank accounts specifically created for different kinds of administrative fees, penalties and confiscation

\(^{33}\) Two officials of the county finance bureau noted in 1991 that only 50% of the budgetary revenue were under the control of the finance bureau. See Lin Shishou and Fu Xingquan, "Qiantan wenchang xian caizheng kunnan de yuanyin yu duice," in Chen Luguang (ed.), Hainan xian jingji fazhan yanjiu, Haikou, Hainan chuban she, 1991, p.313.

\(^{34}\) On the central documents relevant to this issue, see Caizheng bu caizheng jiandushi (ed), Yusuan wai zijin wenjian xuanbian (1996).

\(^{35}\) On the supports of local leaders on exercising budgetary control over the revenue separately collected by individual state agencies, and the views on the urgency of overcoming fragmentation in revenue allocation and utilization, see Huang Kehua, Difang caizheng tiaokong tanxi, Beijing, Zhongguo jingji chuban she, 1995; Lu Xin, Zhun yusuan guanli lun, Beijing, Zhongguo caizheng jingji chuban she, 1996. The author
revenue (caizheng zhuanhu) – accounts which the county finance bureau controlled. This arrangement served two important purposes simultaneously. It allowed the finance bureau to gain information about the size of administrative fees and related revenue collected by individual bureaux, and at the same time it enabled the county finance bureau to get hold of these revenues and use them according to the overall objectives of the county government. The finance bureau would return a portion of the revenues in these separate accounts to different bureaux according to predetermined ratios.

This practice differed from what existed before 1995 in three ways. First, now the county government claimed a share of the revenue collected by individual bureaux. Individual bureaus kept 30% to 50% of the revenues they collected as administrative fees, penalties and confiscations. The second difference was that in theory county bureaux were not permitted to spend the revenues until they got their shares from the finance bureau. In the past, county bureaux simply spent what they collected. Third, since the revenues were to be put into special bank accounts opened and monitored by the finance bureau, the county government was in a better position to know how much revenue was available to different bureaux.

However, as the report of the county disciplinary inspection commission pointed out, this attempt to extend budgetary control over the revenue collected by individual bureaux did not have much success. In 1996, of the more than RMB20 million revenue collected by the county level units, less than 30% was turned over to the budgetary pool, and of the revenue collected by the township level units, only slightly more than 25% was turned of the former book was head of finance department, Shangdong Province, and the author of the latter, deputy head, finance department, Liaoning Province.
over to budgetary revenue. Many bureaux simply did not follow the rules set by the finance bureau and continued to keep the revenues they collected in their own accounts. To circumvent the monitoring of the finance bureau, they even refused to use the official and standardized receipts issued by the finance bureau, and used their own receipts to collect revenue. This made it difficult if not impossible for the finance bureau to closely monitor the collection and use of revenue.

Hence, when the new county party secretary arrived in early 1998, he found it necessary to stress again the importance of exercising budgetary controls over the revenue controlled by separate bureaux. While moving along the same direction as the 1995 initiative, the attempt in 1998, in theory, had a number of improvements. First, it tried to extend the scheme downward to the township level, and empowered the township governments by giving them the powers to set the ratios of returned revenue for the units collecting revenues at the township level. Second, it tried to extend budgetary control over “the industrial and commerce administration” (gongshang xingzheng guanli), an area that the 1995 scheme did not cover. Third, in order to convince other county bureaux to cooperate, the finance bureau agreed to turn over its own revenue to the county’s budgetary pool. In 1995, the finance bureau was left out of the scheme. However, it was not sure whether the commission drawn from collected taxes would be counted as part of the revenue to be incorporated under budgetary management. Fourth, as shown in Table 6.7, the finance bureau set specific ratios for most of the county bureaux and service

36 Of the 8% tax commission taken by the tax offices in townships, a half of it went to the county finance and tax bureau. As a result, together with the commission drawn from the taxes it collected directly, the county finance bureau concentrated a large amount of revenue for its own use. Unlike at the township level where the finance and tax offices
organizations that collected administrative and service fees. The ratios of administrative fees to be returned to county units ranged from 30% for the land management bureau and the planning bureau to 80% for the people's court.

Table 6.7 Ratios of Returned Administrative Fees by Bureaux

<table>
<thead>
<tr>
<th>Unit</th>
<th>% to be returned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestry</td>
<td>60</td>
</tr>
<tr>
<td>Water Resource</td>
<td>30</td>
</tr>
<tr>
<td>Land</td>
<td>30</td>
</tr>
<tr>
<td>Environment</td>
<td>40</td>
</tr>
<tr>
<td>Planning</td>
<td>30</td>
</tr>
<tr>
<td>Traffic Police</td>
<td>50</td>
</tr>
<tr>
<td>Transport</td>
<td>40</td>
</tr>
<tr>
<td>Public Security</td>
<td>50</td>
</tr>
<tr>
<td>Culture</td>
<td>30</td>
</tr>
<tr>
<td>Broadcasting</td>
<td>40</td>
</tr>
<tr>
<td>Housing Reform</td>
<td>40</td>
</tr>
<tr>
<td>Public Health</td>
<td>40</td>
</tr>
<tr>
<td>Personnel</td>
<td>40</td>
</tr>
<tr>
<td>Family Planning</td>
<td>40</td>
</tr>
<tr>
<td>Court</td>
<td>80</td>
</tr>
<tr>
<td>Finance and Tax</td>
<td>30</td>
</tr>
<tr>
<td>Education</td>
<td>50</td>
</tr>
<tr>
<td>Industry</td>
<td>70</td>
</tr>
<tr>
<td>Industrial and Commercial</td>
<td>65</td>
</tr>
</tbody>
</table>

Do these attempts represent enhanced bureaucratic controls by the local state? In a sense, they do. They suggest that the county government in Wenchang does possess considerable authority over its subordinate agencies. The fiscal crisis has made the county government keenly aware of the need to tap the revenue collected by individual agencies, and it probably has also strengthened the county government's bargaining power.
power vis-a-vis these agencies as well. On the other hand, whether these initiatives really marked enhanced bureaucratic controls should be judged from how it has been implemented and the implication of the fixed ratios of returned revenue on the overall capacity of the local state. In this connection, the following three points are relevant to understanding the limitations of the attempts to enhance bureaucratic controls in the late 1990s. First, the attempts to bring administrative fees under budgetary controls were at best half-hearted. As the county government could not fully cover the administrative expenses of the county bureaux, it still had to allow them to keep a portion of administrative fees for their own uses. The ratios of returned revenue shown in Table 6.7 reflected the fact that the county government needed to compromise its objective of strengthening budgetary control to accommodate the interests and needs of its functional bureaux.

Second, the attempt to extend budgetary controls to the township level has been met with strong resistance from the county bureaux and their offices stationed at the townships. In July 1998, when the initiative of strengthening budgetary control was just introduced, many township officials were enthusiastic and optimistic. Developments since then proved that their optimism was unfounded. In late 1999, I had a chance to talk to two of these township officials again in Shenzhen. They were very frustrated by the failures of exercising controls over the offices representing county bureaux at the township level. In Dongjiao, a new head of a township police office was appointed in 1999, and as he was concurrently a deputy party secretary of the township, the township government found it very difficult to keep the police office under control. The office continued to keep the revenue it collected for its own use.
The 1998 initiative targeted more specifically the revenue of "the industrial and commerce administration". As noted in Chapter Four, at the township level the commerce office was the most difficult unit for the township government. The township officials pointed out that the measures aimed at bringing the commerce office and its revenue under control were not carried out at all. In 1999, following a provincial initiative to centralize tax collection and administration, the tax office, which had had a closer working relationship with the township government since 1994, was also made more independent of the township government.

Third, even if these initiatives were all fully implemented, they simply recognized the fragmentation of revenue allocation and depletion of revenue to functional state agencies that had existed for years. By setting fixed ratios to be returned to individual bureaux, these initiatives formally institutionalized the entitlements of individual agencies to the revenue they collected. It is still a far cry from effective bureaucratic control.

Concluding Discussion

This chapter has discussed the amorphous growth of the local state, the growing importance of bureau-specific income and benefits to the employees in individual county bureaux, and the fragmentation and depletion of revenue in the process of revenue growth in Wenchang. I choose to label this pattern of state growth state involution. The concept of state involution is appropriate because it illuminates the simultaneous growth of the local state and the lack of enhanced bureaucratic control in this process.
However, since state involution was originally coined to study the pattern of state growth during the Republican era, it bears repeating that the process of state growth examined in this chapter does not involve a core feature of the original concept: the replication and elaboration of a pattern inherited from a weak state. The sources of state involution during the Republican era lay with the thin presence of the local state and the local agents outside of government which the local state had to rely on to carry out its modernization efforts. In contrast, the main source of state involution discussed in this chapter lies within the local state itself. As a result, the loss of control in Wenchang is unlikely to reach the crisis level that state involution under Republican China led to. What is most likely to emerge is a symbiosis of some bureaucratic controls with a continuing involutionary mode of growth.
In this conclusion, I discuss the issues raised in this dissertation. The first section highlights the focus of the study and discusses how it differs from, and complements, existing studies on the rural local state in contemporary China. The next section considers the implications of the absence of direct levies and the apparent inability of local officials to tax the peasants in Wenchang. The third section places the case of Wenchang into perspective by discussing regional variations and the peculiarities of this case. The final section considers the problems and limitations of the concept of state involution, and discusses why it is still a useful concept for understanding the Chinese local state during the reform era.

A Focus on the Local State, and the Limitations of the Theory of a Local Developmental State

This study focuses on the complex processes going on within the state in the post-Mao period. In much of the current literature, although the local state is seen as playing important roles in orchestrating and pioneering local economic growth, the internal operations of the state have rarely become the focus of study. In the analyses positing a local developmental state, and to a lesser extent a local entrepreneurial state, the internal coherence, discipline, and capabilities of the local state are often taken for granted, resulting in analytical gaps in the literature. First, the argument that the local state in China has performed developmental roles comparable to the East Asian developmental states is not built on adequate studies of the local state itself.

Second, the impact of economic reform and in particular fiscal decentralization on the internal structure and capabilities of the local state has basically remained unexplored.\(^2\)

In a recent article, Andrew Walder notes that fiscal pressures have compelled government agencies to develop alternative sources of revenue by making direct investments in the market economy, but "it is one of the most underresearched dimensions of China's economy."\(^3\) An exception to this is Jane Duckett's study of the entrepreneurial state in Tianjin. Duckett focuses on the business undertakings of the state agencies, and stresses that they not only created rivalry among the state agencies, but also drew them into constant conflicts with the municipal government.\(^4\) The view of the local state in Duckett's study is therefore very different from that of the local developmental state or local state corporatism.

State agencies in a poor rural county such as Wenchang do not have the business opportunities that the state agencies in municipal areas have. They are less involved in profit-making business activities than their counterparts in the urban areas, but the


rural state agencies are under even greater fiscal pressures to develop alternative sources of revenue. In Wenchang, the state agencies at both the county and township levels were strongly motivated to take a cut of the taxes and revenue they collected. Although the county government had made efforts to extend its budgetary supervision over the revenue collected by separate state agencies, these efforts met only partial success. In some cases, as much as 80% of the revenue collected by the state agencies were kept for their own uses, resulting in a significant depletion of scarce revenue. At one time, according to the officials from the county finance bureau, only about 50% of the budgetary revenue was actually controlled by the finance bureau, with the rest in the hands of a large number of county bureaux. Recent attempts to strengthen budgetary controls have not fundamentally altered the situation. The state agencies that benefited from the old system of revenue retention succeeded in thwarting the measures to extend budgetary controls over their revenue.

This does not mean that the local state in rural China is not capable of taking grand initiatives to foster development. In Wenchang the county and township leaders are still able to venture into grand projects despite the revenue shortages. However, whether these projects truly serve developmental purposes should be viewed in connection with the specific motivations and strategies of the local leaders in question. In the writings that pursue the notion of a local developmental state, the motivations and strategies of local leaders, and the specific institutional arrangements shaping them, have not received much attention. Given the extremely important role of the leadership factor in the local context, this is a conspicuous neglect. As

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5 In contrast, studies focusing on the provincial level have attached great importance to the leadership factors. For two major examples of this type of studies, see Peter T.Y. Cheung, Zhimin Lin and Jae Ho Chung (eds.), *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics, and Implementation*, Armonk, NY, 265
governance is less restrained by rules at the lower reaches of the administrative hierarchy, the leadership factor is arguably more important there than at higher levels. In Hainan, the leadership factor has acquired additional significance since the establishment of the provincial government, because the higher levels’ fear of localism has led to a strong emphasis on strict implementing a cadre avoidance system. As many as eight of the most influential positions in the county party and government establishments are denied native cadres. In Wenchang, the leadership factor was even more important during the period of 1993-1998 because the party secretary had unrivalled authority and influence and an ambition to rise into the provincial leadership. Taken together, it is highly doubtful that the local state and officials have been given the right incentives to perform developmental roles.

The Township Level and Grass-Roots State Administration

Focusing on the county and township levels, this thesis fills yet another gap in the western scholarship on contemporary China: the lack of analysis of the township level and its relationship with the levels above and below it. In their study of Shulu county in Hebei province, Blecher and Shue noted critically that much of the research on China had focused either on the elite institutions in Beijing and the provincial capitals or on grass-root units such as villages, work units and urban neighborhoods, and viewed the state as "a behemoth with a head and feet but no body." They argued the need to study the county government, its institutions, routines, and processes.

However, Blecher and Shue limited their analyses to the county level, a level they described as "the lowest level of unalloyed state organization." On only a few occasions did they look further downward to the township level to discuss what occurred there. On the whole, the township level has received very little attention in the scholarship on contemporary China. As pointed out in Chapter One (pp.4-5, note 14), studies on rural China during both the pre-revolutionary and post-revolutionary periods have focused predominantly on the village level. The absence of analysis of the township level under imperial China is easy to understand, because this level of state administration practically did not exist before the 20th century. However, the lack of attention to it during the contemporary period is intriguing because the most frequent contacts between the rural populace and the local state now occur at this level. In Wenchang, for example, many peasants frequent the market towns (where the township governments are located) almost every day, but they rarely take the trouble to go to the county seat. (The most remote township is more than 70 kilometers away from the county seat). Except during major campaigns when county officials are organized into work teams to carry out specific tasks, the peasants rarely have direct contact with county officials and county agencies. In contrast, they came into contact with township officials on a regular basis in areas such as tax collection, dispute resolution and family planning.

What occurs at the township level merits more attention and study precisely because local state administration at this level has not been as fully developed as at the county level. State administration at the township level has been fraught with difficulties of

8 Tethered Deer, p.204.
9 See, for example, Tethered Deer, pp.39-41.

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all sorts, ranging from the unwillingness of cadres to live and work at the townships,\textsuperscript{10} to excessive control of the functional agencies by county bureaux. On the one hand, the establishment of the township as a separate level of state administration, and in particular the creation of the township level as a separate level of fiscal management, means that it should not be regarded as if it is merely a division of a large business corporation.\textsuperscript{11} On the other hand, as this study suggests, the township level has remained a very weak level in China's administrative hierarchy. In Wenchang, the weakness of the township level was the result of a combination of factors, including the widespread reluctance of cadres to live and work at the townships, frequent rotations of leading township cadres, the concentration of important resources and powers at the county level, and the heavy expenditures imposed on the township level as a result of the fiscal reform in 1994-1995, without additional funding.

Viewed from a historical perspective, the extension of state administration down to the township level represents a major achievement of state building by the communist regime. However, this study suggests that the township level is now placed at a very unenviable situation in the system of state administration. In Wenchang, the township governments were asked to perform some of the most daunting tasks in rural China, namely tax collection and family planning. Following the move to make the township level a separate level of fiscal management, extracting taxes from the peasants became the main responsibility of township governments. They were also required to

\textsuperscript{10} Blecher and Shue also note that in Shulu county, township assignments were regarded as hardship posts. However, it is interesting to note that in Shulu these hardship assignments were compensated by special subsidies, while in Wenchang, as discussed in Chapters Five and Six, township officials and teachers were only paid a fraction of their salaries while cadres falling within the county government's expenditure responsibilities received full salaries. See \textit{Tethered Deer}, pp.36-7.

\textsuperscript{11} For a tendency to treat the township level as a division of a big county corporation, see Jean Oi, "The Role of the Local State."
shoulder the heavy burden of paying the salaries of teachers of middle and primary schools.

The institutional arrangements regarding revenue and expenditure responsibilities had adverse effects on how the township governments performed their tasks. Blaming the county level for forcing the heavy burden of financing education onto them, township officials were encouraged, or at least allowed, to do only the minimum toward this responsibility. As a result, even though township governments had enough revenue in the late 1990s, they still refused pay full salaries to all of the personnel falling within their budgetary responsibilities. Rather, they kept the revenue to pay for bonuses and other benefits that were restricted to township officials and for construction projects, in which the leading township officials had a direct interest. Christine Wong noted that what happened in Wenchang was by no means exceptional. Nationwide, rural education remained a county level expenditure in about half of the counties, but a township expenditure in the other half. In addition to unfavorable fiscal arrangements, the township level is also plagued by problems from below. In the aftermath of the disintegration of collective agriculture, the separation of state administration and economic activity, and the weakening of the organizations at the village (former brigade) level, township officials often find that support and assistance from village officials are not forthcoming, resulting in inefficiency and ineffectiveness whenever township officials need to reach the peasantry. This has not only frustrated the efforts of township governments, but also

12 A township party secretary that I interviewed wanted to show to me his support for education. He boasted that he gave RMB10,000 to the township secondary school in 1996 and intended to give the same amount in 1997. This only showed how the very limited degree to which the township level was willing to support education.

13 Christine Wong (ed.), Financing Local Government in the People’s Republic of
set limits to the extent to which the local state could be directly predatory.

*A Predatory Local State?*

This study presents a view of the local state in post-Mao China that is very different from the images prevailing in the existing literature. The local state in Wenchang is certainly not developmental, but surprisingly, it is not directly predatory either. Rather than imposing arbitrary and illegal levies and fees on the peasantry, local officials even experienced great difficulties collecting fully legal taxes and levies like the unified fees. Increasingly, the element of voluntary compliance in paying taxes has disappeared. Local officials appear to be rather impotent and helpless before the recalcitrant peasants. As a result, they have found it necessary, and much easier, to turn to revenue derived from taxing the private lottery and gambling. Unable to collect taxes and fees from the peasants, almost all township governments in Wenchang also have resorted to the illegal practice of linking payment of taxes and fees to government services and issuing of certificates.

The analyses in this study suggest that the prevailing image of the local state as predatory, the proliferation of arbitrary fees, fines and levies, and the increase of the peasants' burden in post-Mao China need to be viewed in proper perspective. Local officials, particularly those locked in chronic fiscal crisis, certainly have strong incentives to raise more revenue from the peasants by whatever means are available to them. However, this is closely related to the bases of power of local officials during the reform period. In a study of the changing bases of cadre power in the village, Yan Yunxiang summarized the bases of cadre power in the collective era as involving control and even a monopoly over resources, an emphasis on political correctness and

political loyalty of the cadres to the party, support from the state, and the hegemony of communist ideology. Many of these conditions have disappeared as a result of de-collectivization, economic reform, the retreat of the state and de-politicization, and they help to explain the erosion of cadre power in the village.\textsuperscript{14} Although Yan's study focuses on the village level, the same logic and analysis are applicable to the township officials, except that township officials are less exposed to community pressure and are not subject to the constraints that come with the newly instituted village elections. The retreat of the state and de-politicization means that the peasants do not need to worry too much about becoming targets of political repression. At the same time, township officials no longer control many resources that ordinary peasants need in their daily life.

Township officials in Wenchang do not have many means by which to compel the peasants to comply. Being state officials, they are of course not as vulnerable as the village cadres to potential violence by the peasants, as discussed by Yan,\textsuperscript{15} but it is obvious from this study that township officials have experienced tremendous difficulties extracting taxes from the peasants. While the township officials could always resort to legal procedures and coercive measures to force the peasants to comply, these measures are not only costly but also politically risky given the importance the central government attaches to political stability in the rural areas.

Therefore, it is necessary to distinguish among the so-called three disorders (sanluan) and their different implications for relations between the local state and the rural populace. These three disorders mean arbitrary levies (luan tanpai), arbitrary


\textsuperscript{15} \textit{Ibid.}, p.230.
imposition of fees (*luan shoufei*), and arbitrary fines (*luan fakuan*), and they have often been lumped together as if one type is not different from another. In fact, the first type, arbitrary levies, is different in nature from the latter two. In the rural areas where household production predominates, there are natural limits to the imposition of fees and fines. Even though government agencies impose exorbitant fees for government services or certificates, powerless peasants can still avoid them by not using government services or not applying for government certificates. For example, schools could ask parents to pay exorbitant fees, but peasants could escape these fees by not sending their children to schools. However, for those peasants who really need to use these services or certificates, there is no way to avoid paying the fees.\(^\text{16}\) Arbitrary levies are different. They are demands on the peasants with no direct government services attached. The peasants do not pay levies to obtain a particular government service.

In Wenchang, the failure of the township governments to extract revenue from the peasants had forced them to link the granting of government certificates to the payment of taxes, unified fees and family planning fines to government certificates. However, the peasants could manage to avoid paying these fees as long as they did not use government services or need government certificates. The use of coercion to demand tax and fees arrears from the peasants was very rare.

Existing analyses of the proliferation of arbitrary levies have focused mainly on the attempts by the central government to prohibit local governments from imposing too

\(^{16}\) For some certificates or services that were in great demand, although the higher levels set nominally modest fees, the officials in charge asked for a lot more. For example, a peasant who wanted to apply for a visa to visit his/her relatives in Hong Kong often needed to pay about RMB 1,500. Of course, this went into the pockets of officials involved in the operation. In that case, the central government's attempt to
many levies on the peasants, and how these central measures have empowered the peasantry to actively resist the demands from rapacious local officials. The analyses in this study point to yet another explanation for the absence of direct levies and direct predation: local governments simply do not have the organizational resources and capacity to extract adequate revenue from an increasingly recalcitrant peasantry. Because the peasants in Wenchang did not even pay the fully legal taxes, fees and fines, the rightful resistance argument is obviously not applicable.

The absence of direct levies and the failure of the township governments to collect the legal taxes and fees in Wenchang, however, were closely related to yet another type of extractive behavior: revenue from the proliferation of the private lottery and gambling activities. As township governments taxed private lottery and gambling heavily, and the peasants paid these taxes willingly in an indirect way when they bought lottery tickets or gambled. The only significant difference is that, for local officials, taxing the private lottery and gambling was a lot easier than extracting revenue directly from the peasants. The increasing reliance of the township governments on this type of revenue is a measure of the weakness of the local state and the powerlessness of the local officials before the recalcitrant peasantry in Wenchang.

**Wenchang and Regional Variations in Rural China**

Wenchang is not typical of rural China, as no county is. Scholars studying rural politics and economic development in contemporary China suggest that rural regions in China vary along two dimensions: the degree of rural industrialization and the control the level of fees did not work.

ownership type of rural enterprises. In regions with a high level of rural industrialization and predominantly collective industrial enterprises, local governments continue to control key resources and therefore wield considerable political influence. This type of rural community stands in sharp contrast to rural communities with almost no rural industrialization and collective economic base at all. In this type of rural community local governments hardly control any resources and therefore do not have much influence over peasant behavior. The village studied by Yan Yunxiang noted above belongs to this category, as do the villages in Yunnan province studied by Unger and Xiong. Between these two extremes lies the type of rural community whose industrialization is characterized by private enterprises. Wenzhou, Nanhai, and Jinjiang of Southern Fujian all belong to this type. In this type of rural community, local government benefits greatly from the increases in tax collection from private enterprises, but it does not have direct control over the enterprises in the way that the local governments in regions where collective

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19 Jean Oi, "Fiscal Reform and the Economic Foundation."
enterprises predominate do.

Although this framework for studying regional variations is mainly used for studying the relations between rural cadres and peasants in villages, it nevertheless has important implications for understanding the problems facing township governments. First, township governments in regions with a relatively high level of industrialization face fewer difficulties in tax extraction and revenue, as industrial activities and operations not only provide more tax revenue but are also more amenable to taxation. Second, a strong collective economy at the village level is a great help to the township governments in many ways. It helps to sustain a strong and viable village government on which the township government can rely on to reach the peasants more effectively. Moreover, when the village has a strong collective economy, the township government can always tax the village as a whole instead of having to tax the numerous peasants individually.

Wenchang is a rural county with a very low level of rural industrialization and in which most townships and villages do not have any collective economy at all. The absence of industrialization means that the township governments has had to rely on taxeing the numerous peasants and agricultural activities. On the other hand, without a strong collective economy many village organizations simply did not function at all. The problems facing the township governments in Wenchang are likely to exist in rural communities sharing similar characteristics.

Another way of placing the case of Wenchang into context is to note that although Wenchang is a poor rural county, it is obviously not among the poorest counties in China. The 1993 budgetary revenue of Wenchang (RMB 65 million) was a bit higher
than the national average of RMB57 million, while the county's budgetary expenditures for the same year (RMB 105 million) were substantially higher than the national average of RMB 74 million per county (pp.17-8). Wenchang was obviously fiscally better off than, for example, Puding county in Guizhou Province, studied by Christine Wong, although it collected substantially less budgetary revenue than the other three (unrepresentative) counties in Wong’s study. In 1997, the per capita GDP of Wenchang ranked below only a few counties in Hainan.

A key factor that sets Wenchang apart from the really poor rural counties in China is that the county had more than 1.2 million out-migrants in overseas countries and Hong Kong and Macao. More than half of the county's population had overseas relatives. According to a report in 1992, each year the county received more than RMB 200 million in remittances from the out-migrants. In recent years, many people from the county took advantage of the opportunities while visiting their relatives in Hong Kong to work illegally, and brought home quite decent amounts of money by local standards.

Although local officials in Wenchang often stressed fiscal difficulties, it seemed that even during the most difficult times the fiscal situation in Wenchang had not reached a critical juncture that warranted really extraordinary measures. Both the county government and township governments had been able to survive by only modestly intensifying their revenue collection efforts. At the same time, the booming private lottery and gambling had provided local governments with a source of revenue requiring little effort and not involving unpleasant confrontations with the peasantry.

The case of Wenchang is different from the really poverty-stricken counties where the local governments were desperate to extract enough revenue to pay for their salaries and expenses, and where there were no other sources of revenue. Xiaolin Guo's study of the differences in the local governments' involvement in local economic processes supports this argument, but with a twist. In one township, because the county in which it was located was given a special status as an ethnic minority and poverty-stricken county, it received preferential treatment and additional subsidies from the state. Hence, local officials did not find it necessary to get directly involved in the economic activities of the peasantry. In the other township, because the local government could not expect generous assistance from the central state, as the county in which it was located was not given any special status, the local government found it necessary to force, sometimes by coercive means, the peasants to grow tobacco in a desperate attempt to raise revenue.25 Similar practices exist in adjacent Guizhou province, as reported in Yali Peng's study.26

Further Reflections on State Involution

The inefficiency and ineffectiveness of the local state vis-a-vis the peasants in revenue extraction, discussed above, are central to the state involution argument. I borrow and adapt the concept of state involution from Duara to capture the complex and simultaneously contradictory developments occurring within the local state during the reform era. State involution stands as an alternative to the concept of state building, which means not only extension of the reach of the state but also enhanced

24 Hainan ribao, 2 May, 1992, p.3.
26 Yali Peng, "The Politics of Tobacco: Relations Between Farmers and Local
bureaucratic controls and rationalization.

As the concept was coined originally to study the frustrated efforts of the republican state to extend its reach to the village level in China during the first half of the 20th century, it cannot be mechanically applied to the local state in contemporary China. In Duara's conception, state involution has two analytical dimensions. The first refers to the replication and elaboration of the old patterns and the failure of transformation, i.e. continuing to rely on local brokers to perform essentially state functions. The second dimension refers to the loss of bureaucratic control during the process of state growth and a depletion of state revenue. As a result, while the local state may nominally collect more revenue, as a result of revenue depletion during the process of revenue collection it does not exercise adequate controls over the increased revenue. While these two dimensions were closely related historically, they should be treated as separate analytical dimensions. Hence, loss of bureaucratic control and depletion of revenue may occur with or without the reproduction of the old patterns.

This study has argued that although the process of state growth and intensified tax collection during the post-Mao era in Wenchang had not involved a return to the century-old practice of relying of local brokers to reach the rural communities, they had occurred along with a loss of bureaucratic controls and rationalization, and a depletion of revenue. As a result of the disappearance of voluntary compliance and the weakening of supporting institutions at village level, the marginal return of tax collection efforts had also been declining. What distinguishes the current situation from the historical pattern is that unlike the past where revenue was lost to the local brokers over which the local state did not have much control, at present revenue is lost.


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to state agencies which are parts of the local state.

This difference is important. It raises questions about whether the developments described as state involution would be better labeled by the conventional concept of fragmented bureaucracy, or multi-stranded (as opposed to unitary) fiscal systems. Fragmented bureaucracy views the Chinese party-state bureaucracy as consisting of a multiple of interdependent but inadequately coordinated agencies, each fighting for its own interests and benefits. In this view, fragmentation develops and grows largely as a result of organizational complexity and the rising legitimacy of sectoral interests during the reform era. Blecher and Shue view the county fiscal structure as consisting of three pathways: namely the state, the vertical systems, and extrabudgetary funds. Similarly, the fragmentation of budgetary and other types of revenue can be approached in terms of the categories of budgetary revenue, extra-budgetary revenue and off-budgetary revenue (or the second budget).

While all of these concepts and categories are useful for studying issues relating to revenue collection and flows at both the county and township levels, their usefulness is limited for understanding the nature of the development of the local state in rural China. First, the concept of bureaucratic fragmentation is not entirely relevant in studying the county bureaucracy, which is far less complex than the national and provincial bureaucracies. More importantly, bureaucratic fragmentation cannot

accommodate a wide range of phenomena such as the loss of bureaucratic control, the direct involvement of separate state agencies in revenue collection and sharing, and the loss of revenue to state agencies.

The meaning of state involution in this study is broader in scope and more complex in substance than the triple-stranded model of county fiscal structure described by Blecher and Shue. In their study, the pathway of vertical systems mainly refers to the flow of revenue within the second light industry system (xitong). However, the fragmentation of revenue in Wenchang was far more entrenched and widespread than just that. Moreover, as a result of economic reform and privatization, in many localities the second light industry system has long ceased to exist. The conventional focus on the extrabudgetary and off-budget revenue also fails to fully grasp the extent of loss of revenue at the local level, because very often the state agencies take a cut not only of the extrabudgetary and off-budget revenue, but the budgetary revenue as well.

Most important of all, these conventional categories, while offering significant insights, do not prepare us to analyze the complex but seemingly contradictory developments occurring within the local state. The concept of state involution has the advantage of serving as an alternative to the concept of state building and capturing the full complexity of the growth of the local state, while putting some of the core issues in local state administration in a sharper focus. It also serves to underscore the striking similarities between the problems and issues facing the local state in the contemporary period and under earlier regimes. These similarities raise important questions about the political consequences of the involutionary mode of state growth pp.87-113.
in rural China today.

In Duara's analysis, state involution is seen as closely related to the erosion of the cultural nexus of the villages, the rise of "local bullies" and the proliferation of entrepreneurial brokerage, and ultimately the emergence of conditions conducive to communist mobilization and the communist revolution's success in 1949.\(^\text{29}\) State involution in China today is unlikely to have the same revolutionary consequences. For one thing, there is a limit to the loss of bureaucratic control during the reform era. While the local brokers under past regimes were scarcely disciplined by the local state, the fragmented agencies and officials at both the county and township levels work within certain parameters. At the same time, in the interest of maintaining the stability of the regime, China's central leaders have also been keenly aware of the danger of allowing local officials to abuse the peasantry. While the numerous decrees issued by the central level about alleviating the peasants' burdens and stopping the three disorders have not been fully followed, they do set some limits to the coercion of the peasants by local officials.

The state involution perspective also helps to explain the proliferation of levies, fees and fines in China today more satisfactorily. The existing analyses trace the cause to the local state itself. However, this study finds that very often it was the functional state agencies (the traffic police brigade and the township police offices, for example) that arbitrarily demanded revenue from the populace and business people. Concerned for the overall impact on local development as well as for the flow of revenue, county and township leaders often found it necessary to prohibit the functional state agencies from collecting revenue. As Duara explains, state involution has an internal logic that

easily leads to a proliferation of levies, fees and fines. The functional state agencies that are preoccupied with lining their own pockets have tended to be less restrained than local government leaders when it comes to making demands on the populace and flouting directives from the higher levels.

To suggest that state involution easily leads to the proliferation of peasant burdens, and that the local state in Wenchang was not directly predatory, is not contradictory. I have suggested that it is necessary to make a distinction between levies on the one hand and fees and fines on the other. The extent to which local officials can secure levies from the peasants has been limited by the recalcitrance of the peasants. Because the peasants refused to pay even the fully legal taxes and fees such as the unified fees, local officials knew very well that they would not be able to directly impose other levies on the peasants. When the township governments linked payments of taxes and fee arrears to government services and certificates, they were in fact altering their nature from taxes and legal levies to fees for government services. As a result, although state involution implies a proliferation of levies, fees and fines, whether the local state and its agencies succeed in collecting them is by no means guaranteed. Rather, it is contingent on a host of other factors, ranging from the attitude of the peasants, the organizational means and resources available to the local officials, and whether local officials are allowed to use coercion to extract money from the rural populace.
APPENDIX: LIST OF INTERVIEWEES

**County and Others**

2. Former standing committee member, county party committee.
3. Manager, Coach company under the County commercial Corporation
4. Deputy secretary, County Communist Youth League Committee.
5. Deputy general manager, County Commercial General Company.
6. Cadre, Bureau of Education.
7. Deputy director, Bureau of Education.
8. Press secretary, County Party Committee.
12. Head, County Bureau of Industry.
13. Former head, County Complaint Office.
14. Unemployed graduate at the county seat.
15. Cadre, Propaganda Department.
17. Head, Budgetary section, Finance Bureau.
18. Deputy head, Budgetary section, Finance Bureau.
21. A number of Motorcycle drivers at the county seat.
22. Deputy head, Office of Organization and Establishment.
23. Deputy principal, Wenchang Middle School.
24. Deputy director, county State Tax Bureau.

**Baoluo Township**

25. Former director, Agricultural Bank of China’s Office, Baoluo township.
26. Head, Baoluo Township Cultural Station.
27. Head, Luofeng Middle School, Baoluo Township.
28. Deputy party secretary and head of Township People’s Congress
29. Operator of a gambling stall
30. Peasant from a hamlet about 4 kilometers from the market town (interviewed in July 1999 in Hong Kong).
31. Former employee, Baoluo Supply and Marketing Co-operative, now living in an adjacent township of Qiongshan county (interviewed in April 1999 in Hong Kong).
32. Primary school teacher (interviewed in August 1999 in Hong Kong).

**Dongjiao Township**

33. Former cadre of Propaganda Department, and now head, Dongjiao township government.
34. Head, township Finance Office.
35. Cadre, township Finance Office.
36. Head, Township Tax Office.
37. Teacher, Dongjiao Middle School.
38. Cadre, township government.
39. Unemployed graduate.
40. Acting head, township Police Office.
41. Policeman, township Police Office.
42. Head, township Rural Economic Management Office.
43. Cadre, township, Family Planning Office.
44. Traffic policeman stationed in the township.
45. Deputy head, township Industrial and Commercial Administration Office.
46. Peasant (interviewed in Hong Kong in April 1999)

**Tanniu Township**

47. Head, township Tax Office.
48. Head, township Finance Office.
49. Head, township Police Office.
Touyuan Township

50. Cadre, township government.

51. Head, Agricultural Bank of China’s Office at Touyuan township.

52. Township Party secretary.

Wenjiao Township

53. Township Party secretary.


55. Cadre, township government.

56. Peasant.

57. Head, township Finance Office.

58. Head, township Tax Office.

59. Head of a hamlet.
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