Regime Legitimacy in Contemporary China

Institutional change and stability

Edited by
Thomas Heberer and
Gunter Schubert
Regime Legitimacy in Contemporary China

Using in-depth case studies of a wide-range of political, social and economic reforms in contemporary China this volume sheds light on the significance and consequences of institutional change for stability of the political system in China. The contributors examine how reforms shape and change Communist rule and Chinese society, and to what extent they may engender new legitimacy for the CCP regime and argue that authoritarian regimes like the PRC can successfully generate stability in the same way as democracies.

Topics addressed include:

- ideological reform,
- rural tax-for-fees reforms,
- elections in villages and urban neighbourhood communities,
- property rights in rural industries,
- endogenous political constraints of transition,
- internalising capital markets,
- the media market in transition,
- the current social security system,
- the labour market,
- environmental policy reforms to anti-poverty policies and NGOs.

Exploring the possibility of legitimate one-party rule in China, this book is a stimulating and informative read for students and scholars interested in political science and Chinese politics.

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Thomas Heberer
Gunter Schubert
Introduction
Institutional change and political stability in contemporary China

Thomas Heberer and Gunter Schubert

China still claims to adhere to socialism, albeit with ‘Chinese characteristics’. Its reform and modernization process is mainly linked to the capitalist transformation of the country’s economy. Other reforms within the political system and social systems are often discounted. Many observers do not believe that those measures – as direct elections at the local level, modifications of the party ideology or the introduction of labour market reforms – are sustainable under one-party rule. At the same time, little is known about those reforms striving at the establishment of a capital market and the struggle for a new social security system. Consequently, the current degree of system stability is hotly debated, though not always well understood.

The contributions in this volume follow an institutional approach. Processes of social and political change are usually interlinked with institutional change. Here, institutions are understood as the formal and informal rules of the game regulating human action and organizing a society. Moreover, there exists an interaction between rules (and norms) and social mechanisms. Both are decisive for human (inter-)action. At the same time, this volume is based on a wider concept of institutions which – apart from formal organizations, procedures and government structures – encompasses conventions, norms and customs. Individuals and groups may attempt to rationally plan and design their actions for realizing specific economic, social and political goals. However, institutional factors condition their decisions and actions while decisions are not necessarily rational, as people do not always act rationally anyway. Finally, alterations of one institution may have the effect that an institutional arrangement is no longer suitable and new arrangements will have to be developed. In scrutinizing processes of transition and change, institutionalist approaches to change and stability are, therefore, helpful, although new institutionalism in general does not build on a single theoretical pattern but comprises diverse schools or concepts (Peters 1999).

Institutions impact upon social processes and human action. Concurrently, they have a stabilizing effect on society. It is the question of the possible generation of stability and legitimacy under conditions of one-party rule in contemporary China that stands in the centre of this volume’s analytical focus. In political science, the concept of stability is closely tied to the political system. The latter
is constantly interacting with its environment while stimulation of and change (including crisis) within its sub-systems or within the environment do all impact on the system’s overall equilibrium. By successfully adapting to an ever-changing environment and hence preserving this equilibrium, a political system produces stability. Stability is thus to be defined not only as the outcome of sound structures but also of positive functionability and political performance. Efficiency, legitimacy, civil order, consistency and other factors are all indicators of stability. Moreover, features like the existence of a constitutional state, the absence of violent social conflicts or disorder, the continuity of governments or economic prosperity are manifestations (and requirements) of political stability.

In his seminal work *Political Order in Changing Societies*, Samuel Huntington has explained stability from a modernist perspective. He argues that rapid social and economic change ‘undermines traditional sources of political authority and traditional political institutions’, thus incurring political instability. Therefore, institutions must change (1996: 5). Interestingly, Huntington argues that the key issue of stability in transformation societies is whether a strong political party exists that is capable to integrate the masses, to represent a broad variety of economic, social and political interests and to successfully produce legitimacy and stability (1996: 90–91). This suggests at least some leeway for China’s Communist Party to prolong its monopoly of power, though it should not be able to do so indefinitely.

According to German political scientist Wolfgang Merkel (1999: 58), a political system faces five challenges to its stability, if not existence: (1) political and social integration; (2) mobilization of resources; (3) maintenance of peaceful and orderly relations with other countries; (4) political participation of the population; and (5) a fair distribution of GNP by state intervention. A political system can only uphold stability if it manages to respond successfully to these challenges and modify its structures and modes of operation according to the necessary changes. The conditions permitting or preventing such adaptability must be properly examined in order to understand a system’s prospects for survival.

This volume attempts to shed light on the significance and consequences of institutional change for stability of the political system in China. We argue that although in mainstream political science the capability to produce system stability is restricted to democracies, authoritarian regimes like the PRC may also be quite successful in generating stability by reforming the political system vis-à-vis internal and external pressure for change. As H. Lyman Miller has pointed out in an attempt to explain the relationship between (in)stability and change in contemporary China, the juxtaposition of these terms is somewhat misleading. China is certainly unstable, because it constantly changes (Lyman Miller 2000). The question is, however, if and how far this ‘natural’ instability does affect the sustainability of one-party rule or might explain which has been prominently called the PRC’s ‘authoritarian resilience’ (Nathan 2003).

This volume aims at providing the reader with sound analyses and in-depth case studies of a wide range of political, social and economic reforms in contemporary China, asking in what way they shape and change Communist
rule and Chinese society, and to what extent they may engender new stability (and legitimacy) for the CCP regime. Some of the volume’s guiding questions are: How do the reforms help the Communist Party stabilize its rule and/or how do they possibly weaken it? How is the relationship between the Party and different ‘strategic’ groups (e.g. intellectuals, local cadres, peasants, or workers in state enterprises) affected by the reforms and how does this impact on the regime’s stability and legitimacy? By tackling these complicated issues, the reader will also be informed on current trends in the (Western) social sciences investigating the PRC’s third reform decade. Most of the authors are members of the Association of Social Science Research on China (ASC) within the German Association for Asian Studies, Germany’s leading academic grouping for studying political, economic and social change in contemporary China from a multidisciplinary perspective.

Heike Holbig focuses on the relationship between ideological reform and institutional change and its consequences for regime legitimation, making a point for ‘the relevance of ideological discourse in the real world of present-day China’. Ideological change, which conditions institutional change, is path-dependent as it results from a cost–benefit analysis foregoing any decision to modify the existent ideological framework of the political system. This path-dependency can only be understood by a thorough look at the relationship between ideological change and political legitimacy. Drawing on the work of David Beetham, Holbig explains that ideology is assigned the task of laying the ground for rightful authority, defining criteria for assessing government performance, and mobilizing popular consent, especially of those groups relevant to state legitimation. Fulfilling these tasks makes ideology important in times of social disorientation during a process of system transformation. In her subsequent analysis, Holbig turns to the ‘Three Representations’ as the main ideological source of rightful authority, as the rhetorical foundation for transforming the new economic elites into ‘advanced’ production forces, and as a tool for populist mobilization. The new populism bestowed upon the ‘Three Representations’ in the Hu Jintao era by linking it to other concepts – most prominently the ‘harmonious socialist society’ (shehui zhuyi hexie shehui) – has invoked both Confucian values and modern liberal norms, and a new official sensitivity to the question of equality. As Holbig argues, this was necessary to avoid a legitimacy crisis caused by the elitist connotations that had been given to the ‘Three Representations’ by Jiang Zemin. However, the Communist Party seems to face a serious danger: Ideological change has brought about new political legitimacy by lifting the people’s expectations on steadily increasing national welfare and social equality. But, if the government’s performance fails to deliver on these expectations, or if they are left to their own course, rapid delegitimization might follow suit and topple the current regime.

Christian Göbel gives a critical account of China’s rural tax-for-fee reforms (RTFR), which were gradually implemented since 2000 after the negative consequences of the 1994 fiscal reforms for sub-provincial finance and social stability in the countryside became increasingly pressing. Targeting the heavy
peasant burden of paying agricultural taxes and multiple legal and illegal fees in an environment of local ‘dukedom economies’ that cared little for government target policies and regulations, RTFR also aimed at re-balancing the distribution of power between the central and the local state. While the ‘main reform’ of RTFR aimed directly at reducing the peasant burden and standardizing the local tax system, ‘complementary reforms’ were to provide for better village and township administration, mostly by outsourcing services, reducing personnel and cutting the number of administrative departments. If that system worked, as the author points out, sub-provincial autonomy would be substantially reduced. Most notably, township and village authorities would be deprived of their income and reduced to mere service provision centres for the upper administrative levels. Looking more closely at the experiences of Anhui province, Göbel meticulously unveils RTFR’s shortcomings: The peasant burden was only slightly reduced by taking on taxes and fees while the counties ran into serious financial difficulties, inducing them to impose illegal levies again. Government subsidies could not make up for the income losses. As Göbel shows, the unwillingness to restructure local government and to downsize the cadre bureaucracy explains much of the reforms’ failure. The practice of imposing illegal levies and fees has prevailed in much of Anhui province as in the rest of the country. Also, local cadres have been seriously alienated from the political system because of constant pressure to rationalize service and personnel, and find funding to make ends meet. At the same time, the positive net effect of village elections on local governance (see Schubert’s chapter) is offset by the devaluation of village and township governments to county field offices. The centre carries its good part of responsibility for this situation as it declines to set clear and verifiable targets within its guidelines and to supervise the whole reform process more strictly. Therefore, it is doubtful that the government’s new development focus on the countryside will entail significant change concerning the peasant burden and local finance any time soon.

By a detailed assessment of the extensive literature combined with his own fieldwork, Gunter Schubert investigates the impact of Chinese village elections on peasant political awareness and participation, the (potential) rise of the peasant citizen, and the significance of this institutional reform for the Communist regime’s legitimacy. His contribution shows that the direct ballot and its consequences have indeed changed the matrix of political power in many parts of China’s countryside, although no coherent trend can so far be identified. Taken as a whole, although village elections have not dramatically altered the political supremacy of the Party, accountability has become a major factor of cadre legitimacy. Moreover, most villagers feel empowered by the introduction of direct elections, albeit objectively this may not always be the case. Whereas economic development and access to an affluent village economy make local officials inclined to ‘buy off’ peasants in order to perpetuate their unchallenged control over the village, the poorest peasants are more concerned with their daily survival than any type of engagement in village politics. It is somewhere in the middle of these two extremes, in those places with moderate economic develop-
ment, where village elections change the situation on the ground the most. At this point, Schubert introduces the category of ‘trust villages’ to point to a positive outcome of the implementation of village elections for both the regime and the peasants. Elections reinforce a relationship of reciprocal trust between the cadres and the villagers that make the former more responsive to the peasants’ demands and enhance their political legitimacy at the same time. ‘Trust villages’ seem to be the alternative to those ‘complainant villages’ where conflict and ‘rightful resistance’ may turn into open violence and the quick erosion of legitimacy, both of local officials and the regime per se.

Thomas Heberer analyses institutional reforms and political participation – most notably indirect and direct elections of residential committees (RC) – in China’s urban neighbourhoods and communities (shequ). He shows that these elections are not meaningful to the majority of city dwellers at present as the RCs have little decision-making power and no revenues generated by a collective economy as in most of China’s villages. RCs are primarily important to those weaker strata of society who depend on the state to be provided with social services and financial support – tasks that the RCs are forced to assume on behalf of higher government authorities. Nevertheless, the author finds that as limited the significance of – and knowledge about – RC elections in the daily lives of China’s urban dwellers are, they still have some influence on political awareness and participation. For instance, they make people voice their opinions more in their shequ, which may be a good starting point for more direct interference in local political affairs soon to come. Heberer emphasizes that RC elections have been introduced in order to enhance regime legitimacy but suggests that they may spur democratization by the rise of accountability as a conditioning factor of this legitimacy, and by electoral ‘habituation’ as a transition stage to full democratic commitment. While ‘security first, participation second’ seems to be the order of the day and the ‘freedom of politics’ is still more important than a concern for RC elections and shequ affairs, it remains to be seen if those elections may not soon trigger off a meaningful drive for political participation in China’s cities.

Markus Taube deals with the evolution of China’s rural property rights structure since the eve of marketization by particularly drawing on the example of the Hengdian Enterprise Group in Zhejiang province. He explains why the establishment and later development of Township and Village Enterprises (TVEs) did not follow the path of conventional theory claiming that political systems tend to produce ineffective property rights. In the case of China, where ideological change paved the ground for a private property rights regime in the early 1990s, close cooperation, if not a symbiotic relationship, between the TVEs and local governments constituted the best solution in a complex political setting with many restrictions for the TVEs to operate independently. Also, in a fuzzy market environment the TVE-government nexus provided for huge rents profitable to each side of the arrangement. However, as Taube explains, since regulatory structures have changed a lot in recent years, the transaction costs for clear-cut private property rights have been enforced below the threshold level, making the
current arrangement between TVEs and local governments less advantageous to
the former. Consequently, as the author suggests, China’s property rights struc-
ture is changing and should be heading to its theoretical ideal in a fully fledged
market economy.

Carsten Herrmann-Pillath points at the necessity of Evolutionary Political
Economy for an adequate understanding of China’s market transition by linking
it to the concept of Competitive Governments. Equally important in his theo-
retical framework are ‘strategic groups’ as the driving forces of institutional
change and the endogenization of political constraints. It is the emergence and
diffusion of cognitive models, a special logic of redistribution, and political
entrepreneurship – foregoing the formation of strategic groups – which con-
dition the mutual relationship between collective action and institutional change.
The territorial dimension of this process can only be understood in terms of
investigating competing subunits of government with different degrees of auto-
nomy, and the specific fiscal and property rights systems that have evolved at
those levels over time. As Herrmann-Pillath underlines, in order to explain
divergent development in contemporary China, these subunits must be smaller
than those usually referred to by statistical aggregation. By inserting four case
studies on evolutionary political change in China, the author analyses ‘fiscal fed-
eralism’, the unequal relationship between farmers and local elites, especially on
the issue of land use rights, the formation of an ‘urban middle class’, and the rise
of cognitive models impacting on local development policies. By this, it is illus-
trated what the author means by ‘medium-level analytical constructs’ and a
‘sinicization of the methodology of social science’, concepts which he advocates
to enrich the conceptualization of the political economy of transition in China.

Svenja Schlichting addresses the issue of internationalizing China’s capital
markets. Though capital markets are core institutions of a market economy they
have gained both considerable size and significance over the course of economic
reforms. Schlichting’s chapter looks at the effects of internationalization on the
development and the political economy of China’s capital markets since 2001.
Consecutively, the market side – including the market entry of foreign firms and
the rapidly internationalizing market environment for domestic firms – and the
regulatory side, e.g. the internationalization of the regulatory regime, are
analysed. The increasing competition and cooperation between foreign and
domestic firms and the effects of China’s participation in schemes of inter-
national cooperation and exchange on its main securities market regulator, the
China Securities Regulatory Commission (CSRC), are analysed. Through this,
the chapter aims to offer a detailed picture of important changes in the political
economy of China’s capital markets, and to shed some light on the role of trans-
national actors and markets in influencing domestic reforms and changing
domestic actor constellations, an aspect that has often been overlooked in the
analysis of China’s capital markets. The main interest of her investigation,
however, lies in the political effects of market development. As far as capital
markets are part of the political system and the resources they allocate have
political significance, internationalization thus also alters the foundation,
mechanisms and scope of CCP rule. Internationalization contributes to a new understanding of both the role of the state in the emerging market economy and the extent to which the CCP controls both state institutions (regulators) and market actors (domestic financial firms). Internationalization therefore not only has economic significance, but – along the growing role of capital markets in resource allocation – reshapes the regulatory control of the CCP over the economy. Changing patterns of resource allocation in turn may significantly challenge established distributional networks and thus party legitimacy.

Doris Fischer’s contribution is concerned with institutional change in China’s media. Originally perceived as part of the political system and strictly controlled by the Party, China’s media are identified as powerful economic players since the second half of the 1990s. In the West, the hope arose that economic liberalization would gradually limit political control and thus lead to a general relaxation of media content. Fischer argues, however, that one cannot speak of a major turnaround, albeit some change has occurred. Media control – as goes a basic argument in her chapter – has somewhat shifted from direct intervention and propaganda to self-censorship. Currently, the authorities are striving to adjust contractual arrangements to ensure effective self-censorship. Also, in recent years the political authorities have made tremendous efforts to reinforce self-censorship. Financial incentives were increasingly linked to political correctness, and the government has promulgated numerous new media regulations. Nevertheless, those changes might result in the destabilization of the former institutional equilibrium, as protests of editors are increasing and people feel no longer obliged to stick to political correctness.

Barbara Darimont sheds light on the reshaping and evolution of the social security system in China. As the latter has always been regarded as a great achievement strongly legitimizing CCP rule, the negative consequences of the market transition for the established system of social security required comprehensive reforms in this sector. On the one hand the state was no longer capable to provide welfare benefits as part of the ‘iron rice bowl’, on the other hand the implementation of new social policies demanded a legal basis in terms of a new social rights catalogue. To look at Western concepts has not helped as those ‘models’ increasingly found themselves in financial distress and were no longer sustainable. The Chinese government has therefore been searching for new solutions as, for instance, transferring social issues to grassroots entities (like neighbourhood communities in urban areas) or implementing collective forms of security (like the reimplementation of community-sponsored medical service, called hezuo yiliao) in rural areas. By this, the political leadership hopes to minimize social upheaval which can easily turn out to be most detrimental to regime stability and legitimacy as it mobilizes the lower strata of society against a party representing the interests of peasants and workers.

Jutta Hebel and Günter Schucher discuss the transition of China’s labour market and the emergence of a ‘socialist market labour regime’. By introducing the concept of ‘labour regime’ and particularly looking at institutional path dependence, the authors recall the characteristics of the old socialist labour
regime and then analyse six major institutions that have shaped the changing Chinese labour market: the system of socio-political control, the production regime, industrial relations, the welfare regime, family and kin and the education system. What has resulted of this transition is a regime of institutional heterogeneity in which socio-political control has been diminished by the demise of the urban danwei, the state’s supremacy in allocation of employment has been replaced by contractualism in most sectors of the economy, a new – though still insufficient – welfare regime has been put in place with the family figuring as an all-important backbone institution, and the education system has become much more sophisticated and compatible with market demands. However, although the Chinese labour market is no longer socialist, it has not yet evolved into a genuine labour market. Considerable distortions and inequalities in different segments of labour remain, making ‘socialist equality’ a precarious term. Moreover, the ‘socialist market labour regime’ depends heavily on the family as a safety net for those many who are not taken care of adequately by the current welfare regime. Taken together, the Chinese labour market faces big challenges and still needs much engagement on the part of the state in order to fit the demands of a capitalist economy.

Bettina Gransow offers an examination of China’s anti-poverty policy and the role of NGOs in poverty alleviation. The new strategy of ‘small government, big society’ requires the involvement of social organizations and NGOs as part of the state’s efforts to increasingly transfer public tasks to society. Concurrently, the government is strictly controlling such organizations, fearing that they might challenge established political structures and, finally, the political system as a whole. Gransow’s objective is to scrutinize the emergence of NGOs and the third sector by the example of anti-poverty policies. In doing so she finds an ambivalent development: On the one hand, China’s NGOs might be understood as an integral part of an emerging civil society; on the other hand, they are to be placed within a model of state corporatism, as the party-state attempts to steer and regulate them through a strictly corporatist framework. Institutional change in the field of poverty alleviation, Gransow argues, is shaped by the development of a third sector vis-à-vis the state and the market. She develops three future scenarios of a neo-liberal market (1), a centralized state strengthened by new (participatory and internationalized) forms of governance (2) and a globalizing welfare society (3) to highlight how China’s NGOs could develop in the field of anti-poverty policy.

Andreas Oberheitmann sketches China’s environmental policy reform. Environmental degradation has negative repercussions on macro-economic welfare as their growing external costs lead to an unfavourable allocation of resources. Hence, environmental policy is closely connected to economic policy and economic policy decisions. However, the current role of environmental policy within the concert of other policy fields in China, especially regarding international or global issues, is still a minor one. For China as a developing country, economic development and social welfare are still more important policy objectives. Oberheitmann’s chapter analyses the changes of China’s
environmental policies in terms of their successes and existing shortcomings. His study provides a qualitative and quantitative description of the current situation concerning the atmospheric environment (urban air quality, emissions of global greenhouse gases), water, soil and solid wastes as the main fields of Chinese environmental policy. His contribution ends with a discussion of future perspectives for containing emissions of CO₂ and SO₂. Finally, he analyses China’s environmental policy reform by looking at specific patterns which have changed over time, i.e. extension, institutionalization, economization and internationalization.

References

Part I

Politics
1 Ideological reform and political legitimacy in China
Challenges in the post-Jiang era

Heike Holbig

1.1 Ideology in decay?

There is a widespread conviction among Western China scholars that economic reforms in the PRC over the past 25 years have rendered ideology obsolete. According to conventional wisdom, economic performance is left as the only factor to bestow regime legitimacy to the Chinese party-state, implying that Communist one-party rule will immediately plunge into a serious legitimacy crisis should economic success one day falter. Ideology, on the other hand, is said to have degenerated from a set of formerly quasi-religious beliefs into a mere façade of a ‘Communist’ regime that has long taken the ‘capitalist road’.

This conventional wisdom contrasts with the enormous resources spent by the Chinese Communist Party (CCP) day by day for the production, reproduction and reform of official discourse and ideology. Taking into consideration the time-consuming, labour-intensive practices to ‘spread the word’ and make sure that relevant multipliers – media representatives as well as political, economic and social elites – grasp the ‘spirit’ of current discourse and know how to implement it correctly, one has to wonder indeed how these huge investments should ever pay off if ideology remains, at best, an object of popular cynicism.

The following chapter challenges this conventional wisdom and argues instead that in present-day China, ideology – understood as a unified system of meanings for which political actors claim exclusive authority (cf. Herrmann-Pillath 2005: 13) – does indeed matter as an important factor for the ruling party to uphold its regime legitimacy. Based on Douglass North’s theory of institutional change and on David Beetham’s theory of political legitimation, the chapter introduces a theoretical model to explain the mechanisms of generating regime legitimacy for one-party rule under the conditions of rapid economic transition. Using empirical data from the ideological campaign of the ‘Three Representations’ introduced in early 2000 under party leader Jiang Zemin and reinterpreted under his successor Hu Jintao since fall 2002, the chapter goes on to demonstrate the relevance of ideological discourse in the real world of present-day China.
1.2 Ideology matters: the path-dependence of ideological and institutional change

In his theory of institutional change and economic performance, Douglass North emphasizes the role of ideology\(^1\) as an important factor shaped by, and at the same time, shaping the process of institutional change.

Ideas and ideologies matter, and institutions play a major role in determining just how much they matter. Ideas and ideologies shape the subjective mental constructs that individuals use to interpret the world around them and make choices. [...] People’s perceptions that the structure of rules of the system is fair and just reduce costs; equally, their perception that the system is unjust raises the costs [...]\(^2\)

According to North’s theory, ideological change is determined by relative prices, i.e. the costs and benefits of maintaining an ideology. At the same time, due to their subjective nature ideologies mediate the very perception of relative prices, thus assuming a partly autonomous role in institutional change. In other words, by influencing the perceived costs of institutional change and the choices individuals make, ideology has a direct impact on institutional change (North 1990: chapters 9–11 passim).

To understand this basic relation between ideological and institutional change, case studies of countries undergoing rapid economic and social transition seem most fruitful. Transition-type systems are not only characterized by a high speed of institutional change, but at the same time by a high volatility of social perceptions of this change. Applying North’s theoretical approach to transition-type systems, the perceived costs of institutional change can be expected to depend very strongly on subjective assessments of relative prices of institutional change, thus giving ideology a most crucial role in mediating these perceptions.

The rapid economic and social transition we are witnessing in many post-Socialist and some remaining Socialist countries today poses a difficult test to regime legitimacy as social expectations of future institutional change are facing fundamental uncertainty. Specifically, transition challenges the perceived capacity of existing political institutions to guarantee compensation to the ‘losers’ of transition. In this situation, the provision of a stable ideological discourse can play an important role, as it may support the perception of sufficiently stable political institutions capable of arranging redistribution between different social groups. In other words, ideological continuity can help to stabilize social expectations and reduce anxieties and resistance, particularly of those who find themselves among the less privileged in the transition process (cf. Herrmann-Pillath 2005). At the same time, however, official ideology has to be flexible enough to adapt to changing social values and expectations in order to support the perception of a ‘smooth’ transition. If properly designed, ideological reform that is able to mediate the subjective assessments of the costs and benefits of transition may
create manoeuvring space for adapting institutional arrangements and enhance social tolerance of incremental institutional change.

In transition-type systems, the social perception of institutional change appears to be conditioned to a particularly high degree by ideological change, which itself is determined by the perceived costs and benefits of maintaining the existing ideology. In this sense, we observe a path-dependence with regard to ideological change, which in turn impacts upon institutional change. In other words, ideological change is a path-dependent process, which can be seen to circumscribe the corridor of institutional change.

1.3 Ideological reform and political legitimacy in socialist systems

According to the classical work of Seymour Lipset, legitimacy can be most broadly defined at the macro level of political systems as ‘the capacity of the system to engender and maintain the belief that the existing political institutions are the most appropriate ones for the society’ (Lipset 1981: 84). While Lipset’s research has concentrated on democratic systems and processes of democratization, this definition of legitimacy with its focus on political institutions can be applied universally to all kinds of political systems, be they democratic, authoritarian or positioned somewhere within the wide range of hybrid or transition-type regimes. However, if we agree with Douglass North that institutions have to adapt to an ever-changing environment, political legitimacy has to be constantly reproduced. Therefore, a dynamic version of the notion of legitimacy is necessary to allow for the conceptualization of institutional change.

David Beetham has presented a more detailed model of political legitimacy, which takes into consideration the ongoing process of ‘legitimation’ in terms of communicative interaction in society aiming at reproducing regime legitimacy, and of the role of ideology in this process. According to Beetham, irrespective of the political system, power can be said to be legitimate to the extent that (i) it conforms to established rules (conformity of rules), (ii) the rules can be justified by reference to shared beliefs (justifiability of rules), and (iii) there is evidence of consent by the subordinate to the particular power relation (legitimation through expressed consent).

Conformity to established rules – be it formalized rule of law or informal conventions – is a necessary but not sufficient criterion for legitimacy. A breach of rules, however, will result in the perceived illegitimacy of political power (i). The second criterion implies the normative justification of these rules in terms of the rightful source of political authority and in terms of the proper ends and standards of government. In most ‘modern’ states, according to Beetham, the propagation of governing for the ‘common interest’ of society holds an important position in the justification of power. A legitimacy deficit will arise to the extent that the rules cannot be validated in terms of shared beliefs (ii). According to the third criterion of legitimacy, the withdrawal of popular consent, or the active articulation of dissent, will lead to the delegitimation of political power (iii) (Beetham 1991: 15–16) (cf. Table 1.1).
All three criteria have to be fulfilled in order to safeguard the legitimacy of political power. The erosion of political legitimacy might start in one dimension and then proceed to affect others, resulting in a vicious cycle. The collapse of Communist systems in the Soviet Union and in other East European countries suggests a specific pattern of potential legitimacy ‘breakdown’: the process is typically triggered by a perceived failure of governments to effectively pursue the ‘common interest’ and other performance criteria (ii). The growing legitimacy deficit accentuates the lack of conformity of state power to constitutional or otherwise established rules (i), and thus, further undermines its legitimacy. Lacking conformity to rules provokes active articulations of popular dissent (iii) which, in turn, escalate into open breaches of established rules by state power. This eventually leads to a widely perceived illegitimacy of political power (i) and to the total withdrawal of popular consent (iii) (Beetham 1991: chapters 1, 2).

To maintain regime legitimacy and to avoid this vicious cycle of legitimacy breakdown in Socialist-type systems, ideology is assigned a crucial role: first, it has to provide the normative foundation for the rightful source of political authority; second, ideology has to define the performance criteria of government, particularly the ‘common interest’ of society and how this goal should be pursued; and third, it has to serve as a stimulus to mobilize popular consent or, at least, assent of social groups relevant to legitimizing state power.

1.2.1 The rightful source of political authority

Ideological doctrines used in Socialist countries to define the rightful source of political authority have always been characterized by a formal paradox. While
the dominant Communist Party claims the monopoly of political power, formal principles of ‘democracy’ and ‘popular sovereignty’ are emphasized at once as important fundaments of this claim. This seeming paradox of ‘popular sovereignty under Communist one-party rule’ can be resolved, however, by reference to the political analysis of Soviet-type regimes in Eastern Europe by Brunner and Markus in the early 1980s.

Georg Brunner’s distinction between ‘autonomous-consensual’ and ‘heteronomous-teleological’ legitimacy doctrines is particularly helpful here. Brunner uses the notion of ‘heteronomous-teleological’ legitimation to describe the typical legitimacy doctrines propagated in East European countries to justify the authority of the party under Communist one-party rule. Thus, in official ideology, historical materialism (‘histomat’) serves to establish the historical mission of the working class to carry out the Socialist revolution, exercise leadership and realize the visionary goal of Communism as an objective, quasi-transcendental law. Building on this general social-philosophical context of legitimacy, the ‘Scientific Communism’ shaped by Lenin’s ‘doctrine of the party’ confers a monopoly of knowledge on the Communist vanguard party (and an advanced consciousness vis-à-vis the population), which is then translated into a monopoly of leadership. Brunner characterizes these doctrines as ‘heteronomous’, since they appeal to ‘objective laws’ and thereby justify authority independently of any human decision; and as ‘teleological’, as legitimacy is derived from the projection of the eschatological goal of the classless Communist society (Brunner 1982).

This top-down mode of ‘heteronomous-teleological’ legitimation has been supplemented in all East European countries by a mode of ‘autonomous-consensual’ legitimation, that is, the bottom-up legitimation of state authority through the proclamation of the principle of popular sovereignty. In Brunner’s words, ‘state authority is legitimate because it rests on the consent and the consensus of the people’. This claim has been enshrined in national constitutions of all Socialist countries in Eastern Europe (Brunner 1982: 33) and, in China, even in the national appellation (People’s Republic of China). The typical ‘procedures used for producing autonomous-consensual legitimacy’ identified by Brunner in various East European countries are: elections to popular representative bodies at different administrative levels, which rarely afford the possibility of choice between political alternatives, but rather serve the goals of integration, mobilization and the demonstration of the unity of the people; public discussions of important draft laws; consultative referendums; reports to electors; and, last but not least, petitions and submissions by citizens.

(ibid.: 36–42)

It is very interesting to note here that the two modes of legitimation have been combined most neatly in the constitutions of most Socialist states in Eastern Europe, as well as in the PRC: While the preamble of the Chinese constitution,
for instance, elaborates in much detail the historical mission of the Communist Party and explicitly states its leadership monopoly (the ‘heteronomous-teleological’ legitimation according to Brunner), the main body of the constitution does not mention the Communist Party at all. Here instead, the principles of popular sovereignty, culminating in the role of the National People’s Congress as the ‘highest organ of state power’, are reflected in a neat institutional order of civil rights and representative state organs (Brunner’s ‘autonomous-consensual’ legitimation).

While this pattern of normative justification of the Communist Party’s rightful source of authority has been basically the same in all Soviet-type systems, efforts to adapt these doctrines to a changing environment have varied over time and across states. In the Chinese case, Communist ideology has been reformed in the post-Mao era and particularly in recent years by emphasizing formal elements of popular sovereignty, legal norms and constitutionalism. The explicit goal of these reforms, however, is not to signal an institutional shift to a multi-party democracy and rule of law regime, but to strengthen the normative and functional basis of one-party rule and the ‘party’s capacity to govern’. While this has resulted in a gradual reshaping of the landscape of political institutions (emphasizing rule by law and the authority of the constitution, upgrading the National People’s Congress, promoting ‘intra-party democracy’, stressing collective and transparent leadership) it illuminates at the same time the path-dependence of institutional change which is anchored to the ideological repertoire of legitimacy doctrines justifying the rightful source of political authority.

Moreover, Communist legitimacy doctrines can be coloured by informal traditional justifications of the rightful source of political authority. As Guo Baogang has shown with respect to the Chinese case, traditional concepts such as the ‘mandate of heaven’ (tian ming), ‘rule by virtue’ (ren zhi), ‘popular consent’ (min ben), as well as early political theories of governing by ‘established rules’ (he fa), ‘benefitting the people’ (li min) and ‘equal distribution’ (jun fu) have been reinvented time and again by the various leadership generations in the PRC as ‘modern’ ideological norms to support the Communist Party’s claim to power (Guo Baogang 2003). The ‘Three Representations’, which will be the object of the subsequent analysis, are a vivid illustration of a most intimate crossing of Communist and Confucian legitimacy doctrines justifying one-party rule.

1.2.2 Definition of ‘common interest’ and other performance criteria

Besides providing the normative justification of the rightful source of political authority, ideology has to justify the proper ends and standards of government by defining its performance criteria. In systems which are undergoing rapid economic and social change, this is probably the most challenging task of ideological reform. If it is true, as conventional wisdom holds, that economic performance is the most important source of regime legitimacy in all modern states (and the greatest danger to regime legitimacy if it is lacking), then ideology has a potentially crucial function in ‘framing’ the success of transition and
the achievements of economic performance, that is, in the creation of a collective framework to perceive and interpret the ongoing transition process. Supposedly unambiguous concepts such as ‘economic growth’, ‘social equality’ or ‘government effectiveness’ are actually quite complex notions that do not reveal themselves as objective realities to everyone in the same way. Particularly in transition processes which, by their very nature, tend to produce different social groups of ‘winners’ and ‘losers’ with antagonistic interests, the subjective assessments of what constitutes the ‘common interest’ and the perceived costs and benefits of transition will hardly be the same for all groups concerned. Rather, such concepts represent socially constructed realities depending on mental constructs, cognitive schemes and social interests whose perception and interpretation can be shaped or ‘framed’ by official ideology.

As Beetham has concluded from the experience of former East European states, political legitimacy has often started to erode due to a perceived failure of state power to pursue the ‘common interest’ – a core criterion of legitimacy in Socialist systems – and to fulfil other criteria of proper social and economic performance. To avoid a growing legitimacy deficit, ideology therefore has to adapt to a changing socioeconomic environment and to be reformed time and again to frame the government’s performance in a positive light.

1.2.3 Mobilization of consent

Last but not least, ideology has to mobilize popular consent. According to Beetham’s model, political legitimacy is not given once and for all, but demands ongoing legitimation through expressed consent. While consent is expressed in liberal democracies mainly through an institutionalized system of elections (electoral mode of popular consent), in Socialist systems it has typically been mobilized from above via ideological campaigns and other mass activities (anniversaries, rallies, work place activities, etc.) launched and controlled by a tight hierarchy of party organizations reaching from the top level down to the grassroots of society (mobilization mode of popular consent). As observed above, although elections are formally institutionalized, they are rarely competitive, but rather serve the goals of integration and the demonstration of the unity of the people. The positive legitimating effect assigned to this ‘mobilized’ consent is reflected most clearly in the notorious efforts on the part of Socialist states to prevent the withdrawal of popular consent and the resulting delegitimation of political power. The regime is constantly on guard against all kinds of dissenting discourses and activities and attempts to suppress or, at least, prevent them from gaining publicity. The rigid control of the public sphere in Socialist systems, therefore, should not be regarded as an alternative to the legitimation of political power, but rather as its concomitant; legitimation and control work hand in hand (Beetham 1991: 150–155, 179–188).

However, ideological commitment, which is an important driving force in revolutions, is difficult to perpetuate in their wake. As Douglass North has argued, this is particularly true for Socialist rule in the post-revolutionary period:
Although ideological commitment is a necessary condition for mass support or a revolution, it is difficult to sustain. Giving up wealth and income for other values is one thing in the face of a common and hated oppressor, but the value of the trade-off changes as the oppressor disappears. Therefore, to the extent that the new formal rules are built on an incentive system that entails ideological commitment, they are going to be subverted and force reversion to more compatible constraints, as modern socialist economies have discovered.4

Facing this problem of decreasing returns on resources spent for ideological mass campaigns, Socialist systems have typically devised a strategy of segmentation, that is, deploying different legitimation modes for different sections of society: on the one hand, efforts to mobilize ideological commitment are focused on political elites, particularly on Communist Party cadres who form the rank and file of the administrative staff at all levels of party, state and military hierarchies. Thus, ideological commitment of this elite cannot only be used as a test of political loyalty vis-à-vis the regime, but also be publicized as representing the consent of the whole populace based on doctrines of the Communist Party as the ‘vanguard’ of the masses.

For the rest of society, on the other hand, many former Soviet-type regimes have deployed a less costly mode of legitimation that Ferenc Fehér has labelled ‘paternalism’: To safeguard at least the tacit assent of the ‘masses’, people are provided basic existential guarantees and a restricted range of choice regarding their basic needs in exchange for social immobilism and political loyalty (Fehér 1982). While this mode of paternalism remains short of legitimation through expressed consent, it still has proved to be a rather stable mode of legitimation, provided that sufficient legitimacy can be generated via government performance. As will be shown below, however, the Chinese case is different from the experience of former Soviet-type countries, as economic reforms have eroded the basis of paternalist legitimation and social immobilism and instead paved the way for some liberal elements into the otherwise authoritarian ideological framework of Chinese Socialism.5

Though the role of ideology in (re)producing regime legitimacy should not be overestimated, the vast resources spent for the formulation and propagation of ideology do in some way ‘pay off’. Particularly in systems that are undergoing rapid economic and social transition, thus leaving people with fundamental uncertainties concerning future institutional change, ideological reform may help to legitimize political power by stabilizing social expectations, smoothing the transition process and framing the perception of the state’s modernizing achievements.

1.3 The ‘three representations’: populist re-interpretation of an elitist concept

Ideological reforms undertaken by the Chinese leadership in recent years reveal the role of ideology in maintaining political legitimacy. A prominent example of
the delicate balance struck in the course of rapid transition in China between ideological continuity and adaptability is the formulation and re-interpretation of the theory of ‘Three Representations’. The precise wording of the formula has remained constant since its first formulation by the former CCP general secretary Jiang Zemin in early 2000. The official definition goes:

‘Three Representations’ (san ge daibiao): on the importance of the communist party in modernizing the nation – representing the demands for the development of advanced social productive forces [1], the direction of advanced culture [2], and the fundamental interests of the greatest majority of the people [3].

The message, as well as the usage of the discourse, however, has changed significantly since then. In the following, the changing discourse of the ‘Three Representations’ will be analysed with respect to its specific role in framing the CCP’s rightful source of authority, (re-)defining the ‘common interest’ and mobilizing popular consent. It will be shown that the discourse has been highly relevant for reproducing the legitimacy of party rule, while at the same time it has circumscribed a very narrow corridor for institutional change of the political system.

1.3.1 Rightful source of authority: framing the CCP as an ever-innovative organization

Ever since its launch in early 2000, the concept of ‘Three Representations’ has been advertised as the core of an ideological reconstruction of the CCP’s legitimacy as ruling party: in the words of Jiang Zemin, the ‘Three Representations’ is the ‘foundation for building the party’ (li dang zhi ben), ‘the cornerstone of its governance’ (zhizheng zhi ji) and ‘the source of its strength (liliang zhi yuan)’ (Lu Hao 2000). Most interestingly, in the discourse of the ‘Three Representations’, legitimacy is not claimed with reference to the CCP’s long revolutionary history and firm ideological dogmas, but, to the contrary, by emphasizing the innovativeness of party theory and the vitality of the CCP resulting from its ability to adapt to an ever-changing environment.

At the time, commentators suggested that the new concept – which in spring 2000 became a mandatory object of study for party cadres nation-wide – was a last attempt by the party’s ‘third-generation leader’, Jiang Zemin, to leave his personal imprint on party theory before handing the leadership over to his successor. By ascribing a canonical status to the ‘Three Representations’, on par with Marxism–Leninism, ‘Mao Zedong Ideas’ and ‘Deng Xiaoping Theory’, Jiang Zemin was said to claim a position in CCP history equal to that of his predecessors (Holbig 2000). Irrespective of these speculations about Jiang Zemin’s personal ambitions, of course, the media were eager to publicize the new concept as an innovative product of the collective wisdom of party leadership.

The very message of ideological innovativeness also underlay Jiang Zemin’s
The practice of the eighty years tells us that it is imperative to always persist in integrating the fundamental principles of Marxism-Leninism with the specific situation in China, persist in taking scientific theories as guide and unswervingly follow our own road. [...] Marxism is not a dogma. Only by being correctly applied and constantly developed in practice, does it exhibit great vitality. [...] In terms of theory, Marxism develops with the times. If we dogmatically cling to some individual theses and specific programs of action formulated for a special situation by authors of Marxist classics in the specific historical conditions in spite of the changes in historical conditions and present realities, then we will have difficulty in forging ahead smoothly and we may even make mistakes because our thinking is divorced from reality.7

As this rhetoric reveals, while the continuation of traditional doctrines is accorded due respect, emphasis is also placed on signalling the ever-innovative character of party ideology. Stated in a dialectical logic, the basic tenets of party theory can be upheld only through a constant adaptation to the present reality. In the language of Beetham’s model of political legitimacy described above, the CCP’s rightful source of authority is thus dynamically justified in terms of its ideological adaptability, that is, the capability to apply its historically derived monopoly of knowledge in an innovative manner. The ‘Three Representations’, however, do not only signal the innovative character of CCP rule at a rhetorical level. As will be shown below, at least in the early version presented by Jiang Zemin, the notion itself embodies this claim by introducing an innovative interpretation of the ‘common interest’ represented by the CCP.

1.3.2 Elitist redefinition of common interest: Jiang Zemin’s theoretical breakthrough

That Jiang Zemin’s speech on 1 July 2001, received so much domestic and international attention was mainly due to the fact that it could be read as clear evidence of the CCP leaders’ willingness to expand the ruling constituency of the party and to justify the recruitment of new economic elites, particularly private entrepreneurs (Lin Gang 2003). Less attention, however, has been given to the ideological operations behind this ‘breakthrough’ in party theory.

Within the rhetorical framework of the ‘Three Representations’ presented in Jiang Zemin’s speech, the emphasis is clearly on the CCP’s representation of the development of ‘productive forces’ (1). Attention is thereby shifted away from the corresponding notion of the ‘relations of production’ which, according to Marxism-Leninism, create the contradictions between classes and determine
whether a social system is either Capitalist (exploitative) or Socialist (non-exploitative). By actively supporting the development of the most ‘advanced’ production forces, class struggle becomes irrelevant. The conceptual shift away from Marxist class theory then allows the coexistence of different ‘social strata’ (shehui jieceng) to be framed, including the ‘new social strata’ – among them entrepreneurs and managers – in a positive light. Further, according to this logic, the representation of the ‘new social strata’ (quietly doing away with ‘classes’) as the ‘most advanced productive forces’ becomes the foremost task of the CCP and the precondition to live up to the third proposition of the ‘Three Representations’, that is, the representation of ‘the fundamental interests of the greatest majority of the people’ (zui guangda renmin de genben liyi) (3).

As sensitive Chinese readers seem to have understood very early on, this notion of ‘the fundamental interests of the greatest majority of the people’ (3) – which at first glance simply appears to iterate the Maoist concept of the ‘mass line’ – implies a substantial redefinition of the ‘common interest’ represented by the party. In former revolutionary visions, the CCP had defined itself as the ‘vanguard of the working class’ in the sense of the majority of (proletarian) workers and peasants led by a revolutionary elite. In the early reform period, the very category of the ‘working class’ was expanded to include intellectuals – a far-reaching signal to rehabilitate a group of people which had been purged since the late 1950s and particularly during the Cultural Revolution due to its ‘bourgeois-liberal’ class background. Most interestingly, during the months preceding the official launch of the ‘Three Representations’ in early 2000, state media hailed the positive role of Chinese intellectuals as harbingers of the Communist movement in the first half of the twentieth century. An article published by a prominent party theorist in the journal ‘Theoretical Trend’ (Lilun Dongtai) in autumn 2000 discussed the inclusion of intellectuals and other professional elites – among them entrepreneurs and managers – into the ‘working class’ in a positive light and thus paved the way for a new round of redefining the ‘common interest’ represented by the CCP.

Building on this experience of one and a half years of internal discussion among party theorists, Jiang Zemin’s speech from 1 July 2001, indeed marked a theoretical breakthrough by expanding the ideological concept of the ‘working class’ in a way that allowed for the inclusion of the new economic elites. As formulated in Jiang Zemin’s speech, the ‘greatest majority of the people’ comprises in particular

[...] entrepreneurs and technical personnel employed by scientific and technical enterprises of the non-public sector, managerial and technical staff employed by foreign-funded enterprises, the self-employed, private entrepreneurs, employees in intermediaries, and free-lance professionals.8

In a most conspicuous slight of hand, entrepreneurs and managers are grouped together with all types of professional employees to form a kind of white-collar elite without a particular ‘capitalist’ class background. Semantic operations
support this blurring of ideological boundaries between ‘capitalist’ and ‘proletarian’ categories. A crucial passage in Jiang Zemin’s innovative delineation of the ‘working class’ states:

Now, we have adopted the basic economic system under which public ownership plays a dominant role in the national economy while other forms of ownership develop side by side. […] Consequently some workers have changed their jobs. But this has not changed the status of the Chinese working class. On the contrary, this will serve to improve the overall quality of the working class and give play to its advantages as a group in the long run.9

In other words, entrepreneurs are rendered as ‘workers who have changed their jobs’ (yixie gongren quanzhong de gongzuo gangwei fasheng bianhua, literally: ‘some among the working masses have experienced changes in their job placements’) simply by chances of fate in the country’s transition from plan to market economy. Connotations of the ‘exploiting’, ‘capitalist’ class that used to be almost automatically associated with private entrepreneurs in Marxist and Maoist discourse are thus totally avoided. Based on these theoretical arguments and semantic operations, the CCP’s ruling constituency is ideologically reconstructed to include the representation of private entrepreneurs and managers without giving up its original role as ‘vanguard of the working class’. According to this new definition of ‘common interest’, the CCP no longer claims to represent the ‘revolutionary forces’ of proletarian workers and peasants, but instead a new trinity of political, intellectual and economic elites (compare also Lin Gang 2003). While formally justifying the CCP’s political authority in the name of representing the interests of the whole ‘Chinese nation’, legitimacy of CCP rule is thereby tied to its mission of economic modernization, a mission that gives priority to the interests of the new economic and professional elites.

1.3.3 Mobilization of consent: populist re-interpretation under Hu Jintao

This elitist definition of the ‘common interest’ implied in Jiang Zemin’s version of the ‘Three Representations’ was confirmed very clearly by the strong resistance met by the concept not only within the CCP but also the populace. Among the earliest evidence of inner-party criticism was an article in a party theory journal by Zhang Dejiang, then party secretary of Zhejiang province (the cradle of private business in China) in summer 2000. He accused the party leadership of ‘muddle-headed thinking’ which overlooked the fact that private entrepreneurs were indeed private owners of the means of production and, therefore, could not be legitimately recruited into the party. ‘Otherwise’, Zhang Dejiang warned,

it will make indistinct the party’s nature and its standard as vanguard fighter of the working class and mislead people into thinking that ‘he who is rich
has the qualifications to join the party’. The basic masses of workers and peasants who knew just too well the pains of what it was like in the old society when people fawned on the rich and looked down on the poor would be led to misunderstand the party ideologically and distance themselves from the party emotionally. This will affect and weaken the mass basis of the party.10

In June 2001, party theorist Lin Yanzhi formulated an even harsher criticism of Jiang Zemin’s proposal to allow ‘capitalists’ into the party. According to his view, the ‘Three Representations’ had brought about an ‘erroneous situation’, which resulted from confusing production relations with essential factors of production and extrapolating an erroneous understanding that ‘current capitalists are labourers’. Instead of allowing the ‘nascent class of capitalists’ into the party, the CCP had to control and lead this emergent class in order to manage economic development and prevent social polarization.

If we allow the party of private entrepreneurs in, this will be equivalent to wasting the important historical experiences and lessons of the party. If we heal old wounds and scars and forget our pain so quickly, this will cause the people to feel concerned about whether we have the ability to handle new and complicated scenarios. If we allow the party of private entrepreneurs in, it will create serious conceptual chaos within the party, and destroy the unified foundation of political thought of the party that is now united, and break through the baseline of what the party is able to accommodate in terms of its advanced class nature. […] Expanding opportunities for private entrepreneurs to join the party carries the important function of ‘sowing discord’, or sowing discord between the party and its relationship with the masses of workers.11

What we find in these passages are explicit warnings that the ‘Three Representations’, with their new definition of ‘common interest’ as advocated by Jiang Zemin, have crossed the boundaries of ‘proper’ ideological discourse and thus have endangered the political legitimacy of CCP rule. Also, it is interesting to note that this harsh criticism is based on ‘traditional’ Marxist class analysis, an approach, as was shown above, intentionally avoided by the authors of the ‘Three Representations’. Obviously, proponents and opponents of the new concept are not only clinging to different ideological doctrines but, as a consequence, they are also speaking in different ‘tongues’ which appears to have made theoretical debate inside the party very difficult. While bitter controversies seem to have revolved around the specific criteria for admission into the CCP of ‘outstanding elements from the new social strata’ (cf. Holbig 2002), widespread resistance could not hinder the ‘Three Representations’ from entering the party constitution. After two years of internal debate, the ‘important thought of Three Representations’ was enshrined into the party constitution at the 16th Party Congress in November 2002 as the personal legacy of retiring
CCP general-secretary Jiang Zemin, and with it the possibility of the admission of ‘workers, peasants, soldiers, intellectuals and progressive elements from other social strata’ into the CCP’s party statute.12

Since late 2002, and throughout the following year, the Internet was a welcome forum for educated elites to ventilate their anger against what they regarded as state protection of the exploiting classes and their illegally generated incomes. In December 2002 a Beijing high school professor warned publicly of a looming ‘capitalist fascist dictatorship’ (Kuang Xinnian 2002), and other Internet users followed in 2003 to rage against the ‘nouveaux riches’ and ‘capitalists’ who had made huge profits by criminal means and now even found their way into the establishment of the Communist Party, which was doomed to degenerate with the admission of capitalists. Public anger grew so vociferous that the party leadership decided in August 2003 to prohibit further debate of the issue in the media, in party organizations and in academic circles and effectively banned all public discussion of the topic (Heilmann et al. 2004).

Faced with the delegitimating potential of such vehement articulation of dissent inside and outside the CCP, the new party leadership under Hu Jintao, while it could not openly work against Jiang Zemin’s legacy, took to a populist re-interpretation of the ‘Three Representations’ in order to prevent a further withdrawal of popular consent. At first glance, the new leadership opted for ideological continuity, at least formally, in that the formula remained omnipresent in official discourse. Due to their prominent position in the party constitution, the ‘Three Representations’ have formed a reliable stereotype in documents emanating from the party leadership and in official media coverage since late 2002 until the present. Accordingly, the ‘Three Representations’ have become a core element of the basic knowledge which must be mastered to qualify for CCP membership, as well as for higher posts in the party’s hierarchy (e.g. Yue Qiwei 2003). At the same time, however, if we look at the new authoritative exegesis of the canonical text of the ‘Three Representations’, we find a subtle re-interpretation of the formerly elitist notion in more orthodox populist terms. Rhetorically, this is done by shifting the emphasis from the ‘first’ to the ‘third representation’, that is, to the ‘representation of the fundamental interests of the greatest majority of the people’ (Yue Qiwei 2003: 15–16). The complex theoretical edifice built under Jiang Zemin to allow for the admission of new economic elites into the CCP while upholding its role as the ‘vanguard of the working class’ (and of the whole Chinese nation) has been rendered more or less obsolete since Hu Jintao assumed power. Instead, the ‘Three Representations’ have been boiled down to an ideological formula generally reflecting a new ‘people-centred’ mentality of the fourth generation leaders.

Thus, in a speech at a seminar on the ‘important thinking’ of the ‘Three Representations’ in February 2003, Hu Jintao translated the ‘Three Representations’ into the ‘Three People’, stating: the party must ‘exercise its power for the people, have passion for the people, and seek benefits of the people’ (quan wei min suo yong, qing wei min suo xi, li wei min suo mou) (RMRB, 19 February
Similarly, since late 2002, the essence of the ‘Three Representations’ has been widely interpreted in official discourse as ‘establishing a party that is devoted to the public interest and governing for the people’ (li dang wei gong, zhizheng wei min) (RMRB, 2 July 2003). In a speech given by Hu Jintao in February 2005, the ‘Three Representations’ formula is conspicuously absent from a eulogy of Jiang Zemin’s contribution to party theory. Instead, it is employed only in later paragraphs as a general guiding principle for social construction under the new leadership generation. With this disconnection of the ‘Three Representations’ from Jiang Zemin’s authorship, the elitist notion of the concept seems to have lost most of its former ideological and political relevance (RMRB, 27 June 2005).

The populist re-interpretation of the ‘Three Representations’ sounds very much like a face-lifted version of Maoist tenets such as ‘serving the people’ (wei renmin fuwu), the ‘mass line’ (qunzhong luxian), the party’s ‘flesh-and-blood ties’ (xue rou lianxi) with the masses, or even older traditional concepts such as ‘popular consent’ (min ben) or ‘benefiting the people’ (li min). Among others, these traditional concepts have been identified by Guo Baogang as elements of a specific cultural repertoire of legitimacy doctrines, mostly derived from Confucian and other philosophical thoughts of ancient China, and used time and again by various leadership generations in the PRC to justify their rule (Guo Baogang 2003). From the perspective of maintaining political legitimacy, Hu Jintao’s people-centred policy, with its Confucian–Communist blend of imperial and Maoist legitimacy doctrines, thus appears as a rational reaction to what seems to have been perceived as a looming legitimacy crisis in the wake of Jiang Zemin’s elitist re-definition of the ‘common interest’. The ‘Three Representations’ seem to have been re-interpreted under Hu Jintao in a way that aims to re-justify Communist Party rule in terms of tried and tested norms of the rightful source of authority and common interest in order to counter the risk of widespread withdrawal of popular consent.

1.4 Grappling with ideological innovation: from the ‘Three Representations’ to a ‘harmonious Socialist society’

With its revival of traditional legitimacy doctrines to support its new populist outlook and thus to re-mobilize popular consent, the new leadership also seems eager not to lose the aura of innovativeness that had been ascribed to the formula under Jiang Zemin. As reflected by an article in People’s Daily of July 2005, state media are still stressing the innovative and ‘scientific’ character of the ‘Three Representations’:

The important thinking of the ‘Three Representations’ has for the first time […] profoundly revealed the scientific connotation of the party’s progressiveness from the angle of the combined intrinsic quality and actual role of a Marxist party, and clearly answered the questions of what the party’s progressiveness is and how to maintain it under new historical conditions.
As this passage reveals, while the ‘Three Representations’ have been reinterpreted in populist terms, they are still employed to reflect the Party’s efforts to reconstruct the CCP’s legitimacy as a ruling party capable of ideological and institutional innovation. To substantiate this claim of innovative party-state rule, other, more specific concepts have been introduced in official discourse over the past years under Hu Jintao.

One of these new concepts is the so-called ‘scientific development concept’ (kexue fazhan guan) of ‘comprehensive, coordinated, and sustainable development’, which was formulated in early 2004 and adopted as new guidelines for social and economic development by the National People’s Congress in March of the same year.14 The new concept received positive publicity among international donor organizations, as it appeared to react in a constructive manner towards long-standing criticisms by Western economists that China’s quantity-driven growth could not be maintained for an indefinite period. By stressing ecological and other qualitative aspects of economic and social development and by integrating the term ‘sustainable (kechixu) development’ into official policy, the Chinese leadership aimed to demonstrate its innovative capacities. In the domestic context, particular emphasis is given to the ‘scientific’ (kexue) character of the concept, signifying the objective qualification of the party-state to formulate and implement this progressive concept. The scientific qualifications of the party-state are reflected specifically in the so-called ‘five overall plans’ (wuge tongchou) attached to the new concept: according to party documents, implementing the ‘scientific development concept of comprehensive, coordinated, and sustainable development’

[…] means that we must make overall planning for urban and rural development, for regional development, for economic and social development, for the harmonious development of man and nature, and for domestic development and opening the country to the outside world.15

In light of a dominant perception of growing income disparities and social inequalities in China, the ‘overall planning’ envisaged here seems to legitimize social expectations that the party will not let this trend go unheeded, but actively arrange for mechanisms of compensation between urban dwellers and peasants, between East and West China, and between the socio-economically privileged and the underprivileged, at least in the long run. This is a clear departure, at least at the ideological level, from the elitist orientation of the previous leadership under Jiang Zemin, which had held that ‘to gradually achieve common welfare, one should widen the income gap in a rational manner, but prevent [social] polarization’ (heli lakai shouru chaju, you fangzhi liangji fenhua, zhubu shixian tongtong fuyu).16 At the same time, social expectations of compensation between social groups encouraged under Hu Jintao support the legitimation of the party-state as the only authority capable of commanding a ‘fair’ redistribution of resources and of guaranteeing effective institutional mechanisms for compensation. In this way, the ‘scientific development concept’ not only claims to present
an innovative embodiment of the new leaders’ populist outlook, but also projects a specific redistributive role of the party-state in pursuing social equality and ‘common interest’ which, in turn, supports the normative justification of its leading position in the country’s modernization process.

With the concept of a ‘harmonious Socialist society’ (shehuizhuyi hexie shehui) the party leadership introduced another formula which takes up and refines the party’s management of social expectations implicit in the ‘scientific development concept’. The concept of a ‘harmonious society’ was first mentioned in the resolution of the 16th Party Congress in November 2002 and defined at the fourth plenary session in September 2004 as a society built on ‘democracy and rule of law, justice and equality, trust and truthfulness, amity and vitality, order and stability, and a harmonious relation with nature’. With respect to social relations, the new vision was described as a society ‘in which all the people will do their best, each individual has his proper place, and everybody will get along in harmony with each other’.17 The concept’s relevance to the legitimacy of CCP rule was made very clear in Hu’s February 2005 speech when he stated that the creation of a ‘harmonious Socialist society’ was ‘essential for consolidating the party’s social foundation to govern and achieve the party’s historical governing mission’.18

While this concept, at first glance, seems to be just another manifestation of the new leadership’s populist outlook, it contains at least two innovative aspects. First, the notion of a ‘harmonious Socialist society’ starts from the acknowledgment of serious social contradictions that have arisen in the process of transition. Besides the well-known problems of economic imbalances, energy and infrastructure bottlenecks, Hu Jintao named among the most pressing social problems ‘people’s growing and increasingly diverse material and cultural needs’, ‘the increasingly complex interests in different social sectors’, and ‘the greater fluidity of personnel flows, social organization and management’. Also, he admitted ‘the appearance of all sorts of thoughts and cultures’, the fact that ‘people’s mental activities have become noticeably more independent, selective, changeable, and different’ as well as ‘people’s heightening awareness of democracy and the law and growing enthusiasm for political participation’.19 Quite different from former party rhetoric which emphasized the fundamental need of maintaining social stability through rigid instruments of party-state control, we find here an explicit recognition of social complexity, of diverging social interests and of pluralist tendencies translating into demands for political participation. The discourse of a ‘harmonious society’, of course, should not be misread as a signal to launch democratic reforms. Rather, it appears as a strategic attempt of the new leadership to rationally resolve the root causes of growing social contradictions which are increasingly perceived as a risk to social stability and to the political legitimacy of CCP rule (cf. Tomba 2005).

Second, and corresponding to these acknowledgements, the concept of a ‘harmonious society’ as expounded by Hu Jintao presents a new form of management of social expectations. By projecting the ideal of a society ‘in which all the people will do their best and each individual has his proper place,’ the party
gives rise to social expectations that it will not only satisfy people’s basic material needs, but create conditions that allow everyone a fair chance to develop his or her individual abilities to the fullest extent and thus to contribute to the ‘creative vitality of society as a whole’ (shehui de chuangzao huoli) (RMRB 27 June 2005). At the rhetorical level, this vision goes far beyond the ‘paternalist’ mode of legitimation in many former Soviet-type societies, where people were provided basic existential guarantees in exchange for social immobilism and political loyalty (Fehér 1982, see above). Rather, it seems to approach more ‘liberal’ governance styles in modern industrial states that guarantee equal opportunities to their citizens while assigning them with the responsibility of taking risks which involve individual choice. In this idealized vision, the legitimacy of one-party rule is validated in terms of social expectations of equal participation in national welfare, of individual entitlements vis-à-vis the party-state and of a more symmetric contribution of rights and responsibilities between the individual and the state.

Realistically, of course, one has to bear in mind that this new form of ‘liberal’ governance, for the time being, does not apply to the whole populace but only to the educated and affluent urban elites, which, in fact, appear as the main protagonists in the vision of a ‘harmonious society’. At least in the eyes of these new social elites, the concept assigns to the party a central role in the dynamic process of economic development, social engineering and nation building. This seemingly ‘liberal’ approach, however, converges in a peculiar way with traditional ‘Confucian’ modes of governance: on the one hand, urban elites are ‘responsibilized’ to develop their individual potentials to the full and thus to contribute to the nation’s material development. On the other hand, they are expected to subscribe to traditional schemes of social self-governance based on Confucian ethics of individual self-discipline and thus to contribute to building a ‘spiritual civilization’ (cf. Tomba 2005, forthcoming; Sigley 2004). Here again, the CCP seeks to justify its ‘historical governing mission’ and ruling position by reference to a unique blend of modern liberal and of traditional norms of social governance. While ideological innovation is regarded as a necessary concomitant of rapid social transition, it still remains anchored to the orthodox set of Confucian–Communist legitimacy doctrines, thus following a narrow path of ideological change.

1.5 Conclusion

As a Socialist country undergoing rapid social and economic transition, China presents a revealing case study on the role of ideology in the process of institutional change. The career of the ‘Three Representations’ and surrounding concepts in recent official discourse highlights the complex relationship between ideological reform and political legitimacy.

According to Jiang Zemin’s agenda, the ‘Three Representations’ implied an elitist redefinition of the ‘common interest’ represented by the CCP. The redefinition was designed to provide ideological justification for a potentially far-
reaching institutional reform: the co-optation of new social elites into the party and the expansion of the CCP’s ruling constituency. It was this elitist strategy, however, which provoked strong resistance inside and outside the party due to the renunciation of traditional Communist ideals. Perceiving an imminent danger of withdrawal of popular consent and a looming crisis of political legitimacy, the new party leadership under Hu Jintao since late 2002 presented a populist re-interpretation of the ‘Three Representations’. This new populist outlook served both to re-justify party rule in terms of orthodox ideological norms (Marxist tenets of the CCP as vanguard of the working class combined with traditional Chinese legitimacy doctrines) and to remobilize the consent and political loyalty, if not of the whole populace, at least among the rank and file of party cadres. Also, with more recent inventions in official discourse such as a ‘harmonious Socialist society’, the party tries to manage social expectations in a way that is conducive to a dynamic reconstruction of CCP legitimacy by portraying it as an ever-innovative organization capable of learning and adapting to an ever-changing economic, social and political environment. The new blend of traditional Confucian-Communist legitimacy doctrines and more ‘liberal’ norms of social governance introduced in this context at the same time confirms very clearly the path-dependent character of ideological change which, in turn, circumscribes a narrow corridor for institutional change.

Thus ideology continues to play a crucial role in sustaining the political legitimacy of the CCP and supporting the ‘resilience’ of authoritarian rule.20 This is true irrespective of, or rather, despite the regime’s economic success and the fact that the majority of people are better off now than in the past. Although the material well-being of most Chinese people can be expected to smooth the transition process and function as a kind of legitimacy buffer, the vulnerability of the Chinese party-state remains high due to the prominent role held by ideology. Any reforms attempting to reformulate core tenets of the dominant ideology and going beyond the Communist grand tradition run the danger of provoking a massive withdrawal of popular consent and a breakdown of political legitimacy. The remaining room for innovation in this path-dependent process of ideological change, while necessary to sustain regime legitimacy, holds a delegitimizing potential in the longer run: on the one hand, the legitimacy of one-party rule is linked in a positive way to social expectations of equal participation in national welfare and of individual entitlements vis-à-vis the party-state. On the other hand, party rule may be confronted with a growing legitimacy deficit if government performance fails to fulfil these expectations, or if social expectations develop their own individual dynamics, thus presenting a challenge to well-established social constructions of national versus individual identities. The dominant ideology thus poses to the Chinese party-state a legitimation dilemma that will be hard to resolve within the framework of authoritarian one-party rule. The new party leadership under Hu Jintao, at least, seems to have learned this lesson: other things being equal, if increased economic prosperity leads to more political stability, other things are rarely equal.
1.6 Notes

1 North defines ideology in a broad sense:

   By ideology I mean the subjective perceptions (models, theories) all people
   possess to explain the world around them. Whether at the micro level of indi-
   vidual relationships or at the macro level of organized ideologies providing inte-
   grated explanations of the past and the present, such as communism or religions,
   the theories individuals construct are coloured by normative views of how the
   world should be organized.

   (North 1990: 23, footnote 7)

2 North (1990: 76, 111).

3 On the theoretical concept of ‘framing’ cf. Snow and Benford (1986); Klandermans
   (1988); MacAdam (1996); for an application to the Chinese case cf. Derichs et al.


5 For a discussion of the introduction of liberal elements into Chinese political dis-
   course cf., for example, Sigley (2004) or Tomba (2005).

6 XNA, 25.2.00, 18.4.00.

7 Cited from the official English translation of Jiang Zemin’s speech given in XNA, 1

8 XNA, 1 July 2001.

9 Ibid.

10 Zhang Dejiang (2000).


13 RMRB website, 4.7.05, English translation cited from BBC Monitoring Global
   Newsline Asia Pacific Political File, 9 July 2005.

14 RMRB, 12.1.04, 22.2.04, 22.3.04. An earlier version of the concept without the
   attribute ‘scientific’ had been introduced in fall 2003; RMRB, 1.10.03, 30.11.03.

15 RMRB, 22.3.04.

16 Lu Hao 2000: 37.

17 Xinhua, 25.9.05.

18 RMRB, 27.6.05; English translation cited from BBC Monitoring Global Newsline
   Asia Pacific Political File, 2 July 2005.

19 Ibid.

20 For the illuminating debate about ‘authoritarian resilience’ in China cf. Nathan
   (2003); Dickson (2003); Gilley (2003); Pei Minxin (2003); Wang Shaoguang
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2 The peasant’s rescue from the cadre?
An institutional analysis of China’s rural tax and fee reform

*Christian Göbel*

2.1 Introduction

Displays of political will to tackle excessive peasant burdens have been a recurrent feature in China’s past. In the view of some authors, fiscal extraction has even been the driving force of Chinese history. A new dynasty, this view holds, begins with good relations between those governing and those governed. Gradually, however, the administrative apparatus grows. More and more funds are needed to sustain it, stifling productivity and hindering economic growth. In order to satisfy its ever-increasing needs, the bloated bureaucracy then applies predatory measures to extract funds from the (predominantly rural) populace, eventually leading to the large-scale popular uprisings that characterize dynastic decline (Zhang 2001: 36–37). The successor dynasty drastically simplifies the fiscal system and starts the same process all over again. The central leadership is well aware of this circle; hence the rising number of rural protests, petitions and large-scale riots taking place since the 1990s are regarded very seriously. In order to prevent rural instability and a regime breakdown, efforts have been made to reduce the peasant burden, improve local governance and close the ever-increasing gaps in wealth by developing the countryside.¹ The Rural Tax and Fee Reform (RTFR) has been the latest and most far-reaching of these efforts, and the name belies the scope of institutional change it has come to entail. Besides reducing peasant burden through the implementation of a standardized tax system, substantial local level institutional change comprises the major policy aim. So far, the RTFR has proceeded in three stages.

First, a multitude of regular and irregular fees was rescinded at the price of a raised agricultural tax. This policy was implemented initially in Anhui province in 1999 and 2000, then extended to trial counties across China and finally realized nationwide in 2003. According to official figures, peasant burden was reduced at an average of 30 to 40 per cent during this stage. Because the reform bore serious flaws, however, in many places and for many individuals actual burden reduction was actually far below this percentage, local economic development being the major intervening variable (Bernstein and Lü 2003: 8). This and other factors prompted policymakers to announce grain subsidies and the gradual phasing out of the agricultural tax and the agricultural special products
tax in early 2004. Burden was further reduced, but so was local revenue. In
order to compensate the losses involved, the third step was to force the imple-
mentation of the so-called ‘complementary reforms’ (*peitao gaige*), which
entailed, among other measures, personnel reduction and administrative and
functional restructuring at the local level.

As the 28 per cent increase in the number of ‘mass incidents’ between 2003
and 2004\(^2\) indicates, the initial implementation of the RTFR did not pacify
farmers, but might instead have heightened peasant expectations and caused dis-
appointment when the promised reductions did not materialize. Furthermore, the
central government has alienated local authorities, because the ‘main reform’
resulted in fiscal losses for the latter, and the ‘complementary reforms’ impose
severe limits on their autonomy. To sum up, the reforms came at a great cost,
but had nonetheless achieved little before the agricultural taxes were completely

This chapter attempts the double task of providing a description of a very
significant, though heretofore under-researched policy, its implementation and
its impact, and of putting it into an institutionalist perspective. The first and
second steps of reform implementation build the primary focus and reasons are
discussed for the hasty decision to scrap the agricultural tax in 2004.\(^3\) It is
posited that the RTFR represents a serious, although inconsistent, attempt to
shift the balance of central–local relations towards the centre via stricter regula-
tion of county and sub-county politics. Specifically, I argue that the attempt to
restructure the intergovernmental distribution of important rights and
responsibilities is not matched by a necessary adjustment of the policy process.
As the former is pushed towards significant centralization, the latter remains
unchanged. More concretely, the centre has taken a results-oriented view of
central–local relations, a path that has begun with the implementation of a
planned economy, and not occupied itself with the formal regulation of the
policy processes that are supposed to create these results. At the same time, local
politics is path-dependent in the sense that Reform and Opening gave local gov-
ernments the incentive to create informal institutions to pursue their own eco-
nomic and policy goals,\(^4\) leading to ‘regionalism’ and ‘communalism’ (Heberer
and Taubmann 1998: 261–267, 300–301). With central and county politics
running along these two divergent paths, trying to change the polity in a way
that benefits only one of the players becomes impossible if the centre is not pre-
pared to apply massive coercion. Not only do such tactics fail to reduce social
tension, but they also produce additional political tension. These elements do not
bode well for sustained burden reduction.

### 2.2 The rural tax and fee reform

The RTFR is not a minor policy aimed merely at reducing farmers’ financial
burden by standardizing fiscal extraction.\(^5\) This is only one component of the
reform, the ‘main reform’ (*zhuti gaige*), which is accompanied by several
‘complementary reforms’ (*peitao gaige*)\(^6\) designed to ensure the former’s long-
term sustainability. Yet again, implementation corresponded to the model outlined in this chapter’s introduction: goals and targets were passed down without providing either guidelines or incentives for policy implementation.

2.2.1 The main reform

As is often the case with reform programmes in China, the RTFR is summed up handily in a linguistic trio, stating abstract and concrete aims of the reform as well as principles of their implementation. The overall aims are the ‘reduction’ (jianjing) of farmers’ burdens, the ‘standardization’ (guifan) of the collection and administration of taxes, fees and levies, and the ‘stabilization’ (wending) of tax and fee levels (Guofa 2003: no. 12). Before the concrete measures of the Main Reform can be introduced, it is important to first understand the nature of these ‘burdens’.

To begin with, many central and local taxes were collected at the village and township levels, among them the personal income tax, the stamp tax, the animal husbandry tax, the agricultural tax, the special agricultural product tax, the farmland-use tax, the land value-added tax, the banquet tax and the slaughter tax (Oi 1999: 217). However, as almost all tax revenue had to be turned over to the county and provincial governments, most of the infrastructural and administrative needs of village and township had to be financed by levies, both regular and irregular. The major regular levies were the ‘village retention’ (cun tiliu) and the ‘township comprehensive fee’ (xiang tongchou). The former financed three items: collective investments at the village level such as streets, bridges and schools; social welfare; cadre salaries. The latter was levied to finance five items: schools; the expenses for family planning; material and immaterial support for veterans; expenses for maintaining a local militia; road construction and maintenance. These levies, collectively known as the ‘three retentions and the five unifieds’ (santi wutong), should, by law, not exceed 5 per cent of the peasants’ income from the previous year. The salaries of village school teachers were not included in these levies, so villagers had to make additional payments into a village education fund.7

Apart from these obligations, villagers had to donate a certain amount of labour for construction and flood prevention each year. However, it has become common practice to have villagers meet their labour obligations by financial means, which created yet another fee. Finally, villagers were plagued by a host of irregular and ad hoc fees and funds, and the magazine and newspaper subscriptions that were demanded of the village Party branch were also apportioned among the villagers. Last but not least, additional revenue was extracted by wantonly fining villagers for absurd or fictitious offences (Bernstein and Lü 2003: 50f.; see also Li 2004).

In order to significantly lighten the aforementioned burdens, ‘three scrapings, one gradual scrapping, two adjustments and one reform’ (yige quxia, yige zhubu quxiao, liange tiaozheng, yi tao gaige) were demanded in ‘document number seven’ (qi hao wenjian), which formally initiated the reform in 2000
Along with the township comprehensive fee and the irregular fees, funds, allotments and fines just mentioned, the slaughter tax was rescinded. The latter has been a source of peasant discontent, as it was levied on a per capita basis regardless of the number of animals actually slaughtered by a person. The ‘gradual scrapping’ refers to compulsory labour (in whatever form), which was ruled to be phased out within three years. Adjustments were also foreseen for the agricultural special products taxes (ASPT) (Zhang 2001: 66). The pre-reform agricultural tax rate amounted to 15 per cent of the average yield in the three years after the ‘Agricultural Tax Regulations of the People’s Republic of China’ (Zhonghua Renmin Gongheguo nongye shui tiaoli) came into effect in 1958. As the rate was not adjusted to the rising yields of the subsequent years, in the 1980s it amounted to only about 3 per cent of the actual output (Bernstein and Lü 2003: 51). The RTFR set the rate at 7 per cent of the average harvest in a locality between 1993 and 1998, and the animal husbandry tax was to be lowered to a level below that of the agricultural tax. The ASPT, which had been much higher than the agricultural tax (it averaged 35 per cent) was to be standardized as well, although no specific tax rate was prescribed. Instead, standardization referred to the regulation of the point in the production and sales process when the tax could be levied, as well as the products it would include. Finally, collection of the village retention was to be changed. It would no longer be levied at the village level, but rather collected as a surcharge on the agricultural tax. This surcharge, not to exceed 20 per cent of the agricultural tax, was to be ‘administered by the township and used by the village’ (xiang guan cun yong). The reforms planned for additional money and labour needed for village level construction to be collected from the farmers following the democratic approval of each project (yi shi yi yi). However, the maximum annual per capita sum could not exceed 15 yuan. The collection and administration of these funds was to be made transparent, subject to the villagers’ supervision and township level auditing (Zhongfa 2000: no. 7).

The designers of the reforms probably foresaw that the implementation of the Main Reform had the potential to plunge grassroots governments into severe financial difficulties, further endangering the provision of local services. This awareness is summed up in the slogan of the ‘three guarantees’ (san ge quebao), which act as guiding principles for the reforms. Apart from the significant and sustained reduction of peasant burden, the smooth functioning of village administration and township level governments, and the availability of sufficient funds for rural compulsory education needed to be guaranteed (Guobanfa 2002: no. 25). Whereas the Main Reform was designed to reduce peasant burden, the Complementary Reforms were drawn up to address the other issues.

2.2.2 The complementary reforms

The slogan underlying the complementary policies was that local government at the county level and below should change its role from ‘managing’ or ‘administering’ (guanli) to ‘serving’ (fuwu) its constituency, and their aim was making it
more effective, more transparent and less costly. Abstract principles proffered by Deng Xiaoping during the initial stages of the Reform and Opening period, such as ‘separating the Party from the state’ (dangzheng fenkai), gained renewed currency. It was thus held that the role of the Party was merely to fulfil its leadership function and refrain from meddling in everyday politics. The executive in this scenario would also concentrate solely on its administrative tasks (Du 2003). As the RTFR progressed, documents began to stress the necessity to ‘transform government functions’ (zhuangxing zhengfu zhineng) (Zhongfa 2000: no. 7), distancing them not only from the Party but also from business. An official commentary suggested the disenfranchisement of townships and towns from their ‘collective enterprises’ (xiangzheng qiye) and the outsourcing of functions that could be better performed by private service suppliers (Du 2003). This would result in the reduction of the reliance on extra-budgetary revenues which, as has been noted, derived mainly from fees and levies. The final aim was to totally abandon the extra-budgetary and extra-systemic revenues and have all revenues and expenses run through the regular budget (ibid.). Combined with a ‘fiscal transfer system’ (zhuanyi zhifu zhidu), the gap existing between administrative responsibilities and available fiscal resources would be closed. In the same vein, a cessation of the practice of setting achievement targets, an important standard used to evaluate cadres and a principal source of township indebtedness, was planned (Zhongfa 2000: no. 7). Existing township and village level liabilities were to be cleared up. A first step taken to reduce the expenditure burden of township level governments was to transfer their de facto responsibility for rural compulsory education to the county (Guofa 2001: no. 5). The two points that became the core issues of the complementary reform, however, were the substantive ‘reduction of personnel’ (jingjian renwu) and ‘administrative departments’ (jingjian jiegou) at the county level and below (Zhongfa 2000: no. 7) to be discussed later.

It is not difficult to ascertain that these measures, if successful, would significantly tip the balance of central–local relations towards the centre. First of all, the functions of the county, and more so the township and village level administrations are being more clearly delineated by the centre, and their internal structure has become subject to central regulations as well. Second, increasingly strict ceilings have been formulated for the number of personnel on local government payrolls. Detailed and stringent criteria for cadre hiring, evaluation, remuneration and promotion have also been passed down (Zhu et al. 2003: 11). Third, even before the abandonment of the agricultural tax, the counties, especially those in agricultural regions, had become increasingly reliant on financial transfer payments from the centre. Whereas in 1999, Anhui county governments’ expenditures averaged 1.3 times their local revenue, this rate doubled within the four years to come (own calculations, ATNJ 2000–2004). The province’s dependencies on both transfer payments and credit have increased simultaneously, indicating that it did not shoulder the reform costs itself. As credits make up only a minor part of provincial revenue, it is mainly the centre’s transfer payments that are responsible for this increase (Table 2.1).
Fourth, the complementary reforms contain two policies that combine to further restrict sub-provincial autonomy. Reducing the number of territorial units and increasing fiscal supervision, combined with the ‘transition of government functions’ mentioned above, structure a polity with not only fewer territorial entities, but also a reduction in administrative levels. With the agricultural tax being phased out and the administration of compulsory education turned over to the counties, the township level has lost the principle sources of both its revenue and its expenditure. Townships and towns are reduced to service provision centres without a relevant budget. Similarly, village authorities lost most of their revenue when the agricultural tax was scrapped, and with it the surcharge that had replaced the income from the village levy. Grassroots infrastructure projects will either be paid by the villagers themselves or financed by the township. Moreover, a new system of fiscal management and supervision was instituted. The small budgetary sum remaining at the village level (now mainly raised by the villagers themselves) is ‘managed by the township’ (cuncai xiang guan cunyong). In turn, the finances of the latter are subjected to ‘county management’ (xiangcai xianguan) (Guononggaiban 2002: no. 30). A more recent policy closes the circle: in the future, the county budget shall be supervised directly by the provinces, ‘bypassing the prefectures’ (sheng guan xian). This arrangement has been tested since 2002 in Zhejiang, Guangdong, Henan, Liaoning and Hubei provinces (Xu 2005).

2.3 Reform implementation in Anhui

Not only due to its status of trial province can Anhui be called the birthplace of the RTFR. Experiments with ‘tax-for-fee’ programmes had been conducted in individual counties since 1993 (He and Sun 2000); and in 1999 the provincial government had implemented the RTFR in four counties even before the centre moulded them into a policy document. An examination of the implementation process in this province nicely illustrates the central point of this chapter’s hypothesis: the centre’s attempts to change the polity were not matched by a change of the policy process. It did formulate targets, but left it to the local levels to achieve them.

On 16 May 2000, 23 days after Anhui province was granted trial status by the State Council, the provincial Party Committee and government handed down nine supplementary documents regulating the following items: (1) financial system reform of township level governments, (2) and (3) agricultural and

Table 2.1 Transfer payments from the central government to Anhui province, 1999–2003

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer payments, increase rate (%)</td>
<td>3.6</td>
<td>4.8</td>
<td>5.1</td>
<td>24.8</td>
<td>30.8</td>
</tr>
<tr>
<td>Transfer payments as percent of total budget</td>
<td>37.9</td>
<td>38.5</td>
<td>37.9</td>
<td>42.2</td>
<td>46.5</td>
</tr>
</tbody>
</table>

special products tax collection, (4) integration of expenditure items formerly financed by the township ‘comprehensive fee’ into the township budget, (5) village level money and labour pooling for village infrastructure projects, (6) administration of village level finances, (7) standardization of village administration and village level institution building, (8) tax administration and (9) procedures for dealing with policy violators (Wanbanfa 2000: no. 11). All these documents were rather vague in content, and basic problems had not even been dealt with. Most importantly, despite the foreseeable loss of revenues to the counties and townships, no regulations concerning subsidies were provided; and neither were there concrete regulations for staff reductions. The documents merely stated that the policies were to be implemented in line with ‘local circumstances’, echoing the centre’s regulations. In other words, the centre’s commands were simply handed down as before, bringing the pressure to bear on the lowest levels.

About seven months later, the General Offices of the CCP and the State Council decreed that ‘administrative personnel in the city, county and township bureaucracies were to be reduced by 20 per cent within three years, the concrete arrangements were once again to be decided by the provinces ‘according to local circumstances’ (Zhongbanfa 2000: no. 30). Three months earlier, however, the Anhui provincial government had already passed its own rules concerning personnel reduction, demanding the reduction of only 10 per cent of township/town level administrative personnel (Wanfa 2000: no. 15) and making no mention of reforms at the county and city/prefecture levels. Despite the passage of the central document mentioned above, this percentage was not corrected, and reductions attempted only in individual localities, such as Wuhe County (see next section). The same central document demanded that the localities continue paying the salaries of demoted personnel for another three years. Temporary employees, if authorized by the higher level, would be paid a severance; all the others would receive nothing. The document stated that the centre would jump in for these expenses if localities were in financial straits (which almost all of them were), but no transfer payments were earmarked specifically for personnel costs (Zhou Xianbo 2004). The transfer payments the province did receive were too little (see below) and in many cases did not reach their destination (Bernstein 2004; Zhu et al. 2003: 21).

Naturally, township and county level cadres were reluctant to fire employees, many of which held their position as a result of personal relationships. Accordingly, these expenditures were not reduced at all (see ATNJ 2000–2003), and the question of how to deal with the loss of revenue became a central issue. For 35 of 61 counties, the agricultural and special product taxes, the village levy, the township comprehensive fee and education levies had totalled more than 50 per cent of their budgetary revenue. Although the reform caused severe shortages for more than half of all counties, the central government was slow to react, probably hoping that Anhui would be able to cope with the situation by itself. In a way, it did. During his field trip to Anhui’s Suixi County, Chinese researcher Gao Xinjun found that six out of 24 towns were forced to continue collecting
irregular fees already in the first reform year because they could not make ends meet (Gao 2004). Five months after the reform was launched, the Ministry of Finance decreed that a ‘standardized subvention system’ would be ‘gradually’ instituted (Caiyu 2000: no. 134); however, it took the Ministry two years to lay the foundation for such a system (Caiyu 2002: no. 468). Burden reduction had been going on for two-and-a-half years before standardized measures were in place to deal with the losses to local government, a lag which wrought havoc on county finance and made the counties highly dependent on financial infusions from above and remittances from below.

With these basic problems not solved, the RTFR encountered great difficulties in 2001. By the end of 2000 Anhui’s Party committee and government had already passed two ‘urgent notifications’, implying that tax and fee collection was getting out of hand and that there were severe problems with rural service provision (Wanbanfa 2000: no. 21; Wanzhengmingdian 2000: no. 35). On the central level, the General Office of the State Council had even ordered the temporary cessation of trial area expansion (though not of the work in the existing trial areas) in April 2001. The central government had either run out of money (Bernstein 2004), or, what is more likely, it had to decide if the reforms were worth the cost. The belated transfer payments discussed below indicate that such an advanced level of involvement had probably not been anticipated on the part of the central authorities. With both the foreign and the national media predicting the failure of the ‘third rural revolution’, the pressure on Anhui province (and the centre!) was tremendous. Although Zhu Weimin, bureau chief of Anhui’s RTFR Leading Small Group claimed that the success of the reforms had never been in danger, he also made it clear that the Party and government had been decidedly heavy-handed in their efforts to ensure the policy’s success:

We dealt with them [cadres violating the RTFR policies] severely. Single cases involved more than ten, twenty, several dozen people. If we have to punish (chuli) them, we will punish them. The main aim is to ensure the continuity of the policy. [...] We were able to improve some cadres’ conduct by ways of educating them. We do all we can to not have to punish people.

Most cases occurred in 2000 and 2001. In 2003, 822 cases were investigated and 224 people were punished, most of them township level cadres. By 2004, according to Zhu, both the number of such cases and the number of people who petitioned the provincial government due to irregular fees had declined drastically. ‘That year, there basically were no cases.’ This might very well be possible, but should not be equated with the success of the reform, at least not as it was originally intended. First of all, the Anhui provincial government was forceful in disciplining the cadres. In itself, this did not solve the problem, but merely contained it until government vigilance subsided. Second, and more importantly, the centre had declared in March of that year that the agricultural tax would be scrapped within six years, and the special products tax even more rapidly. The
peasants probably chose to wait these changes out. Finally, transfer payments from the centre had picked up.

Increased transfer payments and the abandonment of the tax following its national implementation just two years earlier were not part of the original design of the RTFR. As the next sections will show, the increase of transfer payments and the scrapping of the tax are indicators that the original reform has failed.

As for the transfer payments, there seems to have been considerable disagreement on who was to shoulder the substantial costs of the reform. According to Zhu Weimin, its ‘initial costs’ came to 5.4 billion yuan for the whole province.\(^1\) The loss of income due to burden reduction alone totalled more than two billion yuan, and subsidies to townships and villages another 1.2 billion yuan.\(^2\) In addition, a substantive part of local government revenue had come from illegal extractions, which now were illegal: at the fourth plenary session of the 9th NPC, then premier Zhu Rongji estimated the overall farmer’s burden at 120 billion yuan RMB ‘and even more’, 30 billion yuan of which he attributed to irregular fees.\(^3\) When one adds in the costs for severance payments, the renovation of rural schools, and the belated payment of salaries, the sum of 5.4 billion yuan is not far-fetched.

Reform-related central subsidies began to be paid starting in 2000, though not very large in scale. That year, the central government transferred 1.1 billion yuan RMB. With the Anhui provincial government adding another 100 million yuan, only 1.2 billion yuan were transferred ‘downwards’ (Zhang 2001: 128). After Zhu Rongji and other top-level leaders had come to the province and personally witnessed how ‘difficult’ implementation had become, transfer payments from the centre gradually picked up.\(^4\) This strongly suggests that both the centre and the province were waiting for pressure to build up, and that the province had won the struggle.\(^5\) Instead of local governments bearing the reform costs by themselves, as initially expected, they had to be shouldered by the centre. Except for a few promising counties where they were tested, the ‘complementary reforms’ remained unimplemented.

Nevertheless, the reform was announced a success and became national policy on 27 March 2003. Almost exactly one year later, however, premier Wen Jiabao declared that the agricultural tax would be ‘gradually phased out’ within five years, which amounted to a radical policy change.\(^6\) Another year later, in the government work report to the third session of the 10th National People’s Congress in March 2005, Wen announced that the agricultural tax would be completely rescinded by 2006, two years ahead of schedule.\(^7\) Already in 2005, 26 provincial level governments had scrapped the tax, leaving only the provinces of Hebei, Shandong, Yunnan and Gansu charging a reduced rate of 2 per cent for one more year.\(^8\)

2.3.1 The failure of the original reform design

The RTFR has so far claimed impressive results. Officially, Anhui had already achieved a 37.5 per cent burden reduction following the first reform stage,\(^9\) and
burden reduction in all 20 provincial level entities that had implemented the reforms averaged 45.8 per cent (Zhu et al. 2003: 10). As these figures do not account for the illegal fees and levies that had supposedly been abandoned, the percentage should be much higher. However, according to Anhui’s official statistics, peasant income increased by merely 1.43 per cent during the first two reform years (ATNJ 1999–2002). Besides the high transaction costs of collecting a tax many were unwilling to pay, such meagre gains in peasant earnings were probably the major reason why the tax was completely rescinded. The failure of the Main Reform to pacify China’s farmers can be attributed to the combination of two factors which clearly illustrate the pitfalls of ‘conditional autonomy’.

First, due to unclear regulations, the new agricultural tax proved to be both highly unfair and in some cases the object of manipulation. This was again rooted in the mode of tax administration: the township reported the amount of farmland distributed to the peasants in the second contract phase to the county, along with the average yields between 1993 and 1998. The county then calculated the sum that each township had to deliver, based on market prices. This sum was divided by the actual acreage, and each farmer had to pay a fixed amount for every mu of his contracted land, regardless of the yield and grain planted. However, due to several factors including land requisitioning for public projects and overreporting, the amount of land thus reported was always higher than the real acreage. Accordingly, the farmers had to pay more than they were supposed to. Also, not being progressive, the tax hit poorer farmers harder than richer ones. As some refused, were not able to pay or were exempt from paying the tax, or, in the case of migrant workers, were simply absent, it was impossible to raise the full sum. However, as delivering the full amount was one of the cadre evaluation criteria outlined above, the missing amount was apportioned among the tax payers, which again raised the peasants’ obligations. Often, the village had to use its ‘part’ of the tax, the 20 per cent supplement, to meet its obligations. Village level service provision thus stagnated in many places (Gao 2004; Zhu et al. 2003: 14–16).

Second, revenue reduction and the unwillingness to restructure local government forced sub-prefectoral cadres to devise new ways of creating revenue and/or continue illegal levies. As noted above, the centre had miscalculated when it thought that local governments would begin to fire personnel and restructure local government of their own accord once pressed for money. ‘The central cadres sit in their office and make plans, that’s all. They don’t know anything about rural realities’, one cadre complained. He went on, ‘We would do anything but fire people. How should we decide who to fire? Everyone in the township line offices has relationships with someone at the county level. This would lead to a major conflict.’22

Accordingly, the best strategy was not personnel reduction, but reducing the provision of services and charging more fees. ‘Basically, we have stopped building roads’, the same cadre remarked. Accordingly, the reform has led to a reduction in rural infrastructure projects such as the building of roads, the sanitation
of school buildings so dilapidated they are declared ‘dangerous’, and the mainte-
nance of waterways and dams. The reform has thus contributed to widening the
gap between countryside and city even further (Gao 2004; Yu 2003; Jia and
Zhao 2002).

A study of four provinces (Jiangsu, Anhui, Heilongjiang and Guizhou) by
three researchers from the Agricultural Ministry’s ‘Office for Rural Reform
Experimental Districts’ (Nongyebu nongcun gaige shiyuanqu bangongshi), illus-
trates this point. Due to unclear regulations, for example, villagers were made to
pay not only for roads built within a village, but also those connecting villages
and even townships. In many places, peasants working in factories are required
to pay for their absence from the village, as are migrant workers. ‘Voluntary
donations’ on the part of parents to their children’s schools that replace the now
illegal study fees are equally common (Zhu et al. 2003: 16–18). The new regula-
tions allowing townships to manage village funds and counties to manage town-
ship funds did not improve the situation. On the contrary, with counties handing
down unrealistic, though perfectly legal achievement targets for tax collection,
township level governments are forced to squeeze their subordinate villages
more than ever. Village cadres in turn have no choice but to increase the peasant
burden. Before the agricultural tax was scrapped, the ‘tax enforcement phenom-
ennon’ (bi shui xianxiang) (Zhang 2003, 2004) was a common occurrence:
village cadres pressured peasants to pay their taxes whether they had the money
or not. Again, this practice had been legal before a central level document pro-
hibited it in 2002 (Guonongfa 2002: no. 10). Besides these semi-legal extrac-
tions, illegal ones simply continued in many places due to sheer necessity and
lack of supervision.

2.3.2 Going ahead with the complementary reforms

At this stage of the reform, the results sheet for implementation of the
complementary reforms had been bleak. The county level had not been affected
by even a single one of these policies. Significant strides had only been made
with the merging of townships and villages in individual provinces and counties.
A national reduction of 10 per cent of townships and 3.82 per cent of villages
was, for example, matched by a 29.3 per cent reduction in the number of town-
ships in Hubei, and 36.5 per cent in Shandong. Anhui’s Wuhe county merged 49
per cent of its villages (Zhu et al. 2003: 5). Changes in the (township/town)
administrative structure remained cosmetic, and personnel were transferred
rather than reduced (Zhu et al. 2003: 20–21). Again, quantifiable targets proved
the easiest to realize. Anhui had the idea to combine personnel reduction and
local development, so it put 9,000 former township cadres into branch secretary
positions.23 Strictly speaking, this was illegal, as the branch secretary has to be
elected by the village Party members. The aforementioned report states that the
practice of staffing paid village positions with township cadres was adopted by
other provinces as well (Zhu et al. 2003: 14).

As reductions were not forthcoming, since late 2003 the centre had begun to
increase pressure anew. Among others, Hubei, Liaoning and Jiangsu provinces started to implement township level personnel cuts on a trial basis, which ranged from one half to two thirds in selected counties or county level cities, as well as radically restructured township level administration. According to official figures, in Hubei’s trial townships and towns, for example, the Political Consultative Conference was abolished, and each Party committee was reduced to a maximum of nine persons, with the Party secretary concurrently serving as head of government. Township level offices were reduced from 15 to three, and service provision reduced to primary and middle schools, hospitals and finance offices. The number of persons on government payroll was cut to between 37 and 45 from about 100. In 2004, also according to official figures, Jiangsu province reduced the number of township level employees by 40,000, the targeted figure being 100,000. Of the 17,000 service units scheduled for reduction, 7,000 have already been merged with other units (Li 2005). Anhui’s Wuhe county even claims to have reduced 65 per cent of its village level government employees (Zhu et al. 2003: 5). In late 2004, equally impressive results were reported in Hubei’s Gan’an district, Jianli county, Honghu City and Macheng City (see Table 2.2):

As is the case with all official statistics, these figures need to be treated with care. The author’s interviews with township officials from one of these model counties revealed quite a different picture. According to the leader of the Organization Department, the number of payroll positions was indeed reduced, but by far not as substantively as the above figures suggest. A cadre dispatched from the city Fiscal Bureau to work in the township confirmed this and added that the same applied to ‘non-payroll personnel’ (chaobian renyuan).

‘They pose a much larger burden on the diminished township finances than the payroll personnel, as the township receives no funds from above to remunerate them. In order to pay them, the government must sell public property like real estate and abandoned schools’, the official confided. Due to scarcity of such resources, this cannot be a long-term strategy; the local cadres, however, see no alternative. When asked what the township will do when all the property is sold, the official answered ‘we’ll see then’ (dao shihou zai shuo).

<table>
<thead>
<tr>
<th>Reductions</th>
<th>Administrative entities (%)</th>
<th>Government and Party group personnel (%)</th>
<th>Administrative employees (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gan’an district</td>
<td>–68.7</td>
<td>–61.2</td>
<td>–71</td>
</tr>
<tr>
<td>Jianli county</td>
<td>–40</td>
<td>–38</td>
<td>–44</td>
</tr>
<tr>
<td>Honghu City</td>
<td>–40</td>
<td>–51</td>
<td>–35</td>
</tr>
<tr>
<td>Macheng City</td>
<td>n.a.</td>
<td>–48</td>
<td>–59</td>
</tr>
</tbody>
</table>

Source: Li 2005.
This illustrates a well-known problem and merits scepticism regarding the sustainability of these measures: a job on the government payroll is the only means of employment in many underdeveloped regions (Chang 2005). As State Council Development Research Centre researcher Zhao Shukai put it:26

Social stability is now a major constraint for structural reforms in townships and towns. One situation that governments at every level do not want to incur is a petition army of township and town cadres joining with the already existing petition armies of the unemployed and the peasants.

2.4 Conclusion

As this chapter has shown, the RTFR did not go according to plan. In its first two stages, burden reduction did not significantly increase peasant income, and the reform did not put an end to the practice of illegal levies. It is very likely that these outcomes did prompt an increase in transfer payments from the centre, as well as the decision to abandon the original policy. The provision of local services has also suffered gravely. Most of the complementary policies were not tackled; reductions in entities, structures and personnel did not reach the county level, and it remains to be seen how successful they were at the township level. The reforms suffered from a lack of synchronization; and, in addition to the peasants, local politicians were alienated as well, especially at the township and village levels. Moreover, they run the danger of rendering avenues of public participation, such as elections for villagers’ committees and party branch secretaries,27 meaningless. If villages and townships are reduced to county field offices and lose their administrative discretion, what is there to participate in?

In the previous sections, I have attempted to lay out the institutional foundations of these flaws. It was posited that the centre has taken a results-oriented, yet not a process-oriented view of central-local relations, which is clearly a remnant of the planned economy. On the other hand, local politics is path-dependent in the sense that Reform and Opening gave local governments the incentive to create (or resurrect, see note 4) informal institutions to pursue their own economic and policy goals. Before the RTFR, central and local politics were largely compatible, although harbouring overall high costs in efficiency, fairness and public resources. In order to improve the situation, the centre sought to curtail local power by implementing the RTFR. But again, it conducted politics by setting targets, not by regulating processes. Neither did the centre provide concrete regulations on local policy implementation (which would have been difficult, given the differences in local circumstances in this vast country), nor did it provide incentives for local authorities to change their style of policymaking. The outcome amounted to a tug-of-war. The counties felt the pressure, but resisted adaptation. As the case of Anhui has shown, subsidies and township level remittances enabled counties to maintain and even increase their expenses.

The situation in the present constellation is extremely difficult. Central level politics with regard to the local level can be viewed as being path dependent, as
can local level policymaking. The RTFR edifice may be likened to a palace whose construction is required of architects only knowing how to set up bamboo huts. The centre reasons that once the palace is built, the architects will have learned how to build it. But neither does it provide the material, nor the skills nor instructions for such an undertaking, because it lacks this knowledge itself. This type of posture is very reminiscent of Mao Zedong’s view that human beings can achieve everything if they really want to, and the results equal those of Maoist policies: the architects continue to build bamboo huts, while reporting that they are making good progress with the palace.

Both paths continue in different directions though they are supposed to merge. Yet right now, neither leads to the polity desired. As long as this situation continues, the peasant will only temporarily be rescued from the cadre, and at a great cost for the centre. So far, the RTFR has not provided the institutional setting to put peasant burden reduction on a sustainable foundation, and it remains to be seen if the ‘New Socialist Countryside’ can do better.

2.5 Notes

1 China’s Gini Index climbed from 38.6 in 1988 to 46.9 in 2004, which marks high inequality in income distribution (Riskin et al. 2000: 75; UNDP 2007: 282). The Gini Index subtracts the share of GDP of a population’s poorest quintile from that of its richest quintile. China’s Gini Index is higher than that of the United States (40.8) and on par with Rwanda, Nepal and Mozambique. Although a significant wealth gap exists within cities as well, the difference between rural and urban areas is more prominent. According to official statistics, the average urban per capita income was 3.2 times higher than that in rural areas in 2003 (own calculations from ZTNJ 2004). As Chinese income statistics tend to be ‘polished’ (see Zhao 1999), the gaps in both overall urban and rural wealth distribution are probably more severe than these figures suggest.

2 Minister of Public Security Zhou Yongkang stated on 6 July 2005 that mass incidents, which had numbered only around 10,000 in 1994, increased to 74,000 in 2004 (Wang 2005). According to the official publication Outlook Weekly, Zhou had put the number of incidents for 2003 at 58,000, marking a 6.6 per cent increase over 2002, the year in which the reforms were implemented nationwide. Again, there is evidence that the real figures are much higher (see Solinger 2005: 21 (fn 2)). Unfortunately, no separate figures exist for the cities and the countryside.

3 As of the present date, it is too early to properly assess the impact of this policy alteration. First impressions derived from the author’s fieldwork in Northern Anhui in early 2006 suggest that peasant burden was indeed significantly reduced, but at the price of reduced service provision and stagnated local-level infrastructure building. The tug-of-war between the centre and the localities described in this chapter continues. It is reflected in the problems faced with the implementation of the ‘complementary reforms’ and the question of who will shoulder the costs of the latest ambitious programme, the ‘New Socialist Countryside’ (shehui zhuyi xin nongcun) (Zhongfa 2006: no. 1).

4 As both central command-style politics and local informalism were prominent features of governance in the Imperial era, historical analysis might reveal that both have rather been resurrected than newly instituted. Indeed, superficial comparison yields many similarities, as has been pointed out by various authors (see, for example, Duara 1988: 254–255; Yang 2003, 45–46; as well as Yu 2001: 438–446, who, without
calling it by name, focuses on the path dependence of institutional change). Unfortunately, it is outside the scope of this chapter to pursue this hypothesis further.

5 Unless otherwise indicated, I follow the practice of the national and provincial statistical yearbooks and use one term for the agricultural tax and the special products tax. Whereas the yearbooks speak of ‘agricultural and related revenue taxes’, for reasons of brevity I prefer the term ‘agricultural taxes’. The difference between the two taxes is that the special products tax is significantly higher and levied on cash crops, whereas the agricultural tax applies to all other produce. In reality, however, either tax was used quite indiscriminately, and sometimes both taxes were raised for the same product. In fact, only in 2000 did a regulation explicitly specify which goods belonged to the ‘special products’ category (see Caishuizi 2000: no. 67).

6 See Zhongfa 2000: no. 7. This distinction is maintained throughout all relevant RTFR documents.

7 For a detailed discussion of these and other items see Bernstein and Lü 2003: 50f.


9 Although ‘Tax for Fees’ (fei gai shui) and ‘Rural Tax and Fee Reform’ are often used synonymously, they are far from being the same, as Zhu Weimin, Bureau Chief of Anhui’s RTFR Leading Small Group points out. Whereas the ‘Tax for Fees’ programme was simply aimed at standardizing tax and fee collection by levying a comprehensive sum once or twice a year and abandoning ad hoc levies, the RTFR goes much further, as the previous section has shown (Author’s interview, Anhui, 17 August 2004).

10 Own calculations based on ATNJ 2000 and figures supplied by Anhui Province, Office of the Leading Group for the Rural Tax and Fee Reform.

11 It is however not true that the reforms stalled completely in 2001. Jiangsu implemented the RTFR that year, though on a self-financed base.

12 Author’s interview, Anhui, 17 August 2004.

13 Author’s interview, Anhui, 17 August 2004.

14 Figures supplied by Anhui Province, Office of the Leading Group for the Rural Tax and Fee Reform.


16 Author’s interview, Anhui, 17 August 2004.

17 A veteran reform protagonist in one of Anhui’s trial counties confirmed this hypothesis in an interview with the author. He justified the counties’ refusal to implement the complimentary reforms by the latter being ‘unreasonable’ and not being rooted in practice. As he put it: ‘it is the centre’s reform, so the centre should pay’ (Author’s interview, Anhui, 8 March 2006).


21 Figure supplied by Anhui Province, Office of the Leading Group for the Rural Tax and Fee Reform.

22 Author’s interview, Beijing, 10 October 2004.

23 Author’s interviews, Anhui, 14 August and 17 August 2004.

24 Author’s interviews, Anhui, 17 March 2006.

25 Author’s interviews, Anhui, 17 March 2006.

26 ‘Jigou jingjian kaizhi zengjia – Zhongguo xiangzhen gaige mianlin jiannan xuanze’ (Simplification of the Organizational Structure or Increasing Expenses – The Reform

27 The elections for village party branch secretaries are not public in the strict sense of the word, as only the local party members are allowed to vote. As opposed to the public and inclusive elections for the villagers’ committees, the elections for party secretaries are highly exclusive, since they are confined to a very small segment of the electorate.

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3 Village elections, citizenship and regime legitimacy in contemporary rural China

Gunter Schubert

3.1 Introduction

What to make out of village elections in the PRC? After more than a decade in which the direct ballot in the countryside has now been researched with growing intensity in both China and the West, an assessment of the significance of this institutional innovation introduced to China’s political system in the late 1980s in terms of both democratic development and regime legitimation remains ambivalent and controversial. Many different aspects of village elections have come under scrutiny. While questions related to the history and technical implementation of the 1987 Organic Law on Villager Committees (Elklit 1997; Kelliker 1997; Chan 1998; O’Brien and Li 2000; Niou 2002; Horsley 2003, Tan 2004), electoral competition (Shi 1999a, 1999b; Liu 2000; Pastor and Tan 2000; He 2001b), institutional conflicts in the villages – especially between the party branch and the village committee – caused by elections (Guo and Bernstein 2004; Wang 2003; Yuan 2006) and, more generally, the relationship between elections and the local political economy (Oi 1996; Oi and Rozelle 2000; He 2001a) dominated the research agenda in the beginning, the connection between elections and political contention (triggering collective action) in the countryside gained more and more attention over the years (Li 2001; O’Brien 2002; O’Brien and Li 2005, 2006). As it seems, some scholars in the West are now keen to find out more about the changing political awareness of peasants and rural cadres in order to assess the impact of direct village elections on established power arrangements in the countryside, even speculating on the rise of the peasant citizen (O’Brien 2001; O’Brien and Li 2005; Li and O’Brien forthcoming).

Behind this background, it is the objective of this chapter to assess the impact of Chinese village elections as an institutional innovation on political participation and awareness in rural China, and what that could mean for the political system at the macro-level. The ensuing set of questions is guiding my analysis:

1 In what way have direct village elections influenced and shaped political participation, i.e. participation in elections (as voter or office-seeker) and active engagement in village politics between (or after) elections?
2 How have elections changed the political awareness of peasants? To what
extent do they feel empowered by them, and how do they define this empowerment?

3 Do elections bring about the peasant citizen, i.e. a self-confident and rational interest-seeker who claims (abstract) democratic rights against the local cadre bureaucracy (as the representatives of the party-state) and who may soon traverse the limits of what has been called ‘rule-based’ or ‘rightful resistance’?

4 Are village elections thus conducive to the rise of competitive democracy in China? Or do they help to (re-)consolidate one-party rule, i.e. to generate new regime legitimacy as intended by the party leadership?

The following analysis draws on the existing literature on village elections and on data stemming from field research conducted in six villages situated in Shenzhen Special Economic Zone and in the provinces of Jiangxi and Jilin between late 2002 and early 2005. My reading of the literature is guided by a differentiation between studies highlighting the relationship between village elections and political participation on the one hand (3.2), and peasant resistance and the possible rise of the peasant citizen on the other (3.3). Focusing on the relationship between village elections and regime legitimacy, some observations made in the above-mentioned field studies are then reported (3.4). Finally, the concept of trust is introduced in order to shift scholarly attention to the alternative of more contentious politics in the Chinese countryside in the future triggered by the direct ballot: the positive effects of village elections for producing more support for the Communist party-state at both the local and the central level (3.5).

3.2 Village elections and political participation

The relationship between village elections and political participation has been most frequently researched by linking participation to different systemic/structural or actor-centred factors figuring as independent or explanatory variables. Very prominent among these factors is the quality of electoral implementation. For example, Melanie Manion found a positive correlation between the quality of village elections in terms of genuine choice for peasants and what she called ‘congruence’ between leaders and their electorates:

If democratization is an important source of congruence, the leaders in villages that are farther along in implementing the law on village committees will be closer to the village constituents in their positions on the state’s role in the economy than leaders in villages that lag behind in implementation, other things equal.

(1996: 741)

Thus, implementation does determine the degree of political consent in a village between those elected to lead on the one hand and their voters on the other: the more genuine choice, the more congruence. Certainly enough, village leaders
would still listen to their township selectorates, but they obviously could no longer ignore the peasants’ interests channelled into the election process. In terms of political participation, however, Manion’s data stated a negative correlation between village elections and congruence. Low voter turnout and attendance at village meetings – the two indicators of political participation used here – in fact pointed at greater political distance between leaders and villagers. This was interpreted by the author as the result of authoritarian mobilization of peasants to take part in officially-sponsored activities pushed by politically ambitious local elites (1996: 744). According to Manion, therefore, the degree of political participation does not necessarily explain congruence in a village unless those who vote have a real choice.

In another study focused on electoral competition as a conditioning factor of political participation, Shi Tianjian (1999c) analysed the relationship between voting behaviour and the institutionalization of semicompetitive and noncompetitive elections. Guided by the hypothesis that, ‘it is competition per se that changes people’s voting behaviour in local unit elections’ (1999c: 1121) the author found that

• it is (true) choice and the desire to punish bad cadres that make people vote;
• in semi-competitive elections bad politicians get punished by motivated voters while in non-competitive elections people prefer not to vote;
• voters with stronger democratic orientations vote more often in semi-competitive elections than in non-competitive elections.

Thus, it is the extent of institutionalized competition combined with rational calculations on the part of the voters which determine the intensity of political participation. Additional statistical correlations proved that it was neither the belief in a responsive government nor any identification with the current regime or even ‘affectionate attachments to political authority’ that made people vote. People primarily participated in semi-competitive elections in order ‘to pursue the limited interests those elections can bring them, that is, to punish those who abuse power’ (1999c: 1135). It could be concluded from Shi’s findings that choice, even if limited, drives participation, and this results in better local cadres.

Whereas in Shi Tianjian’s study, participation was explained by both electoral competition and rationalist calculations on the part of the voters, rationalism – or political efficacy – among peasants was chosen as an even stronger independent variable by other authors. For instance, Zhong Yang and Chen Jie (2002) investigated the factors that make peasants participate or not in village elections. They found that peasants with high degrees of ‘internal efficacy’ – meaning ‘to have feelings that individual political action does have, or can have, an impact upon the political process’ (2002: 699) – abstained from or were less inclined to vote. Contrary to Shi Tianjian’s finding that internal efficacy makes peasants vote in semi-competitive elections because elections – as deficient as they may be – allow them to punish bad cadres, in the study by Chen and Zhong
the very same deficiencies led to a different outcome. Dissatisfaction with the electoral system combined with stronger democratic orientations resulted in non-voting for village committees (VCs), as ‘people who support a more complete democracy in the village self-government are less likely to vote in Jiangsu’s VC elections’ (2002: 706). The villagers would also deny that elections are effective in punishing corrupt local officials. At the same time, the authors found that ‘those who are more attentive to public affairs and more satisfied with their lives are more likely to vote in the elections’ (2002: 707). Thus, they argued that ‘lower levels of internal efficacy and democratic orientation in combination with some interest for state and local public affairs, lower education levels and relative life satisfaction make people more likely to vote’ (2002: 708). However, it was hypothesized at the same time that the higher the degree of internal efficacy, the more likely the dissatisfaction with the current system of limited participation.8

Approaching the relationship between elections and participation from a slightly different angle (though also adhering to the general assumption that peasants act rationally and interest-oriented), a substantial number of scholars have focused on specific aspects of the rural political economy to explain the factors conditioning political participation in village elections. In this literature, the intensity of participation is mainly determined by economic development and structure, revenue distribution and cadre efficiency within a village and/or township. In an often quoted article published in 1994, Kevin O’Brien suggested a connection between the success of direct elections – in terms of implementation and participation – and the material wealth in a village or surrounding township/county. Things were going smoothly for local cadres in rich villages where the local collective economy was managed well. They could rely on a reputation among peasants to have led the village to prosperity while they used the financial resources generated by the village enterprises to benefit the local population, e.g. via investment in infrastructure and social security or by paying obligatory levies to the township government without charging the villagers. Consequently, these cadres would actively promote the implementation of the ‘Organic Law of Villager Committees’ since ‘cadres who have brought prosperity to their villages have fewer fears of electoral defeat and greater incentive to retain their positions’ (1994: 47). Without discussing it too much, O’Brien suggested that in these ‘up-to-standard’ villages popular participation in elections increases (or is high) as a result of cadre efforts on the one hand and public content with the overall economic and political situation in the village on the other:

In short, in wealthy villages and villages with large collective economies, cadres and villagers both have compelling motives to accept (at least not frustrate) the institutional arrangements embodied in the Organic Law. Cadres have a large public sector to administer and to profit from (as well as reduced concern with electoral removal and humiliation) and peasants have an interest in ensuring that public funds […] are not misused or squandered. (1994: 48)
At the same time, in remote areas where villages were poor or without a meaningful collective economy, cadre spirit rather low and peasant–cadre relations tense, ‘people scoff at the incentives offered for participation, and may even demand to be paid to attend a meeting or appear only if a video is shown’ (1994: 52). Political non-participation in these locations – brought into a typology of ‘paralyzed’, ‘authoritarian’ and ‘run-away’ villages – would only be overcome by a change of mind on the part of the villagers who

must come to believe that elections, VRAs,9 charters, and regulations on financial disclosure truly reduce cadre high-handedness and corruption and contribute to villager’s prosperity and control over village revenues and expenditures. [...] Outside the singularly favourable conditions found in wealthy up-to-standard demonstration villages with a strong collective sector, this will be a tough sell.

(1994: 59)

Other authors have questioned the ‘prosperity hypothesis’ underlying this argument to explain (rising, declining or stagnant) peasant participation in village elections by the counter-thesis that there is an inverse relationship between the level of economic development and meaningful political participation. In spite of touching upon participation only implicitly by discussing the relationship between economic development and electoral implementation, Jean C. Oi (1996) found that it was the industrially most advanced villages where political reforms were difficult to carry through. Powerful party secretaries control the local collective economy and sideline the village committees in every important decision to invest or distribute money. Whereas the introduction of direct elections makes the village head accountable to the local population, the party secretary is not confined by any such arrangement and thus remains the most powerful figure in the village – though he may indeed be doing a good job in leading economic development. As a matter of fact, Oi’s study complemented O’Brien’s above-mentioned typology by varying on the ‘authoritarian village’: Prosperity can go hand in hand with obstructed or protracted electoral implementation, as party secretaries undermine the authority of elected village committees. They may even (and intentionally do) discourage peasants to ‘invest’ in participation, as local elections turn out to be meaningless in terms of redistributing political power; however, peasants might also be content with the way things are, as they profit – at least to some degree – from the village’s economic gains.

In another study, Shi Tianjian found there was a curvilinear relationship between economic development and the likelihood of having semi-competitive elections in China’s villages bespeaking intensive political participation. As a matter of fact, this relationship appeared as a concave curve, meaning that ‘economic wealth increases the likelihood that a village will hold semi-competitive elections for people to choose their leaders, but its impact diminishes as economic wealth increases’ (Shi 1999b: 437). Thus, villages in middle-developed
areas seemed to be the most likely to have free and decently fair elections. The relationship of the speed of economic development and participation, however, turned out to be a convex curve, elucidating ‘that a higher rate of economic development reduces the likelihood that Chinese villages will hold semi-competitive elections in an accelerated manner, that is, the higher the rate of economic development in a county, the less likely that elections in the villages located in that county will be semi-competitive’ (ibid.). This confirmed the findings on the development-participation nexus by Oi.

The impact of the local political economy on village elections and participation was discussed by Jean C. Oi and Scott Rozelle in a study that focused on the power centres in the villages (Oi and Rozelle 2000). Power, as the authors contended, is as much dependent on village industrialization as on the peasants’ ties to the economy outside the village. Power also determines the degree of political participation, measured by the authors in terms of personal engagement in village assembly meetings and contestation of elections. The following results came to the fore:

- Where peasant income is predominantly attached to the cultivation of land, the degree of political participation and electoral competition is high because of the special importance of land issues in local politics (e.g. land distribution, irrigation and environmental protection).
- In (well-off) villages with a collectively run enterprise the competition of elections is lower, because village cadres are more interested in a perpetuation of their political power and, therefore, work self-confidently against the implementation of the Organic Law.
- However, the degree of competition can also rise in those villages that enjoy surplus revenues extracted from the collective economy, as economically successful cadres do not fear elections but consider them as useful amplifiers of their political legitimacy. Also, peasants can more easily be ‘bought off’ in these villages by reducing fees and levies, and by offering them jobs in the village-owned enterprises. Consequently, no cadre must fear electoral defeat.
- In villages with a high percentage of migrants, political participation is declining as migrants are mostly absent and lose interest in direct elections taking place in their respective villages. Therefore, the higher the degree of a village’s integration into the external economy, the lower the degree of local political participation.
- Finally, the more self-employed people live in a village, the higher the contestation of local elections. Private entrepreneurs, especially those without party membership, apparently use village elections as a means to defend their interests against the cadre bureaucracy.

Most importantly, Oi and Rozelle (2000: 537) confirmed Amy Epstein’s (1996) and Shi Tianjian’s earlier studies identifying a curvilinear relationship between village income and political participation: The probability of competitive elec-
tions rises with growing income, but at a decreasing rate. At one point, electoral contestation then starts to fall while village incomes are still growing.

The discouragement, if not irrelevance of direct political participation in China’s villages was highlighted by Richard Levy (2003), whose empirical research in Guangdong province pointed at a rising trend of institutionalized political and economic control by cadre elites in China’s richer and urbanized villages. Although there is an influential discourse on village elections going on in the province extending down to the local level, it does not translate into genuine democratic supervision of the party branches and village officials. On the contrary, powerful networks of local elites – including party cadres, clan leaders and new entrepreneurs – highjack the electoral process and detach the village committees from the centres of political power in the locality. This works by a successful ‘engineering’ of election regulations and technicalities, and by concentrating the management of the village economy – via asset companies and village development corporations – in the hands of the village party branch. As the author emphasizes, Guangdong leaders were always very suspicious of village elections, fearing that this reform would complicate local politics and slow down economic growth. At the same time, villagers are content with enjoying their fair share of the village revenues, live off their rents, and do not demand more supervision over the local ‘cadre connection’. This can go so far, as Levy pointed out, that

villagers in numerous wealthy villages in Guangdong tend to denigrate villager self-government as something appropriate for poor villages while favoring management by the elite (jingying guanli) or, as it is referred to by other Chinese analysts, elite democracy or elected autocracy, for themselves.

(2003: 45)

In other well-off places like Shenzhen, as I have found in my own fieldwork, villagers may insist and truly believe that their elections are meaningful, but they would still be isolated from the power centres in the village because of the party’s dominant control over the electoral process and, consequently, the lack of meaningful choice. Grassroots democracy (or villager self-government) is only ‘played on stage’ but does not figure as a means of curbing corruption and instilling new transparency in the local decision-making process. For Levy and others (including this author), it is not discernible at this stage that the disconnection of village elections from cadre supremacy can be overcome easily in the nearer future, as the marketization of many villages continues with accelerated speed and the village communities in well-off places like southern Guangdong evaporate because of ongoing urbanization, migration and social stratification.11

Quite opposite results, however, were presented by He Baogang (2001a) who found that the intensity of participation and the competitiveness of elections in rural Zhejiang are proportional to the prosperity of the village economy and the resources controlled by the village committee. Apparently, the perspective to
win office in an affluent village is very attractive, with salaries tending to be high and the authority to issue land-use permits and other official documents promising substantial local power. Consequently, local cadres are interested in running meaningful elections in their locality. At the same time, as the author stressed, material inequality caused by corrupt modes of wealth distribution leads to strong demand for elections as a means to more distributive equality. But if the latter is provided, demand for elections decreases (2001a: 6). This means again – contrary to what is expected by conventional modernization theory – that high absolute rental incomes (as in many urbanized villages in Shenzhen Special Economic Zone and Southern Guangdong) linked with fair distribution of village wealth (as in Zhejiang) can result in low political participation. However, as some scholars (Kennedy et al. 2004; Kennedy 2007) – including He Baogang himself in the cited paper (2001a: 20) – have suggested, distributional justice and procedural fairness may be more important for determining the degree of participation than high individual or collective income levels.

The approaches cited above measured political participation in terms of electoral contestation or competition, peasant rationalism and the local political economy. They have repeatedly been questioned by Tong Zhihui (2004) and like-minded Chinese scholars who claim that these approaches are insufficient to fully understand what political participation is essentially about in rural China. For these authors, the common understanding of peasant interest in village elections and politics is misled by the concepts of individual autonomy and expedient rationality (as of competitive democracy). As Tong claims, these approaches ignore the embeddedness of the peasants in a complex structure of social relations which he terms shehui guanlian or ‘social connectedness’. Shehui guanlian becomes manifest in the prevalence of traditional bonds within a village – most notably clan structures – or the social dimension of modern contractual relationships as, for instance, those between employers and employees in village enterprises. ‘Social connectedness’ is a signifier for the essence of the social fabric within the village, i.e. the net of different relationships that each individual is entangled in and which determines his/her well-being as much as the well-being of the village collective. The stronger a village’s shehui guanlian is, the better its ability to overcome the problems of economic hardship, political conflict and – generally speaking – modernization.

For Tong, political participation – like political legitimacy (see below) – is conditioned by shehui guanlian and must be analysed in terms of the latter’s normative importance and functional logic within a village. Peasants participate politically in the sense that they subject their ballot intentionally to the requirements of maintaining a high degree of shehui guanlian within the village. ‘Social connectedness’ is generated through the personal relations between peasants and village elites operating on the basis of established authority structures, most notably clans and lineages. These may have been ‘modernized’ during China’s transformation process, as clans (jiazu) or cliques (paixing) have now turned into ‘system elites’ (tizhi jingying) and maintain close relations with their
clientele, i.e. the electorate. According to Tong, they may rejuvenate their traditional legitimacy in village life. Hence, political participation and awareness in rural China can only be understood by properly factoring in the political culture of contemporary village organization. Peasants use (and understand) their right to vote as a means to make sure that elected leaders maintain the entire network of personal relations and the sense of collective identity in a village. Consequently, political participation in China must be understood differently from (Western) mainstream explanations concentrating on individual interest-seeking or rationalist behaviour; it is socially contextualized, the object of a strongly-bounded rationality at best.

3.3 Village elections, resistance and citizenship

A few scholars, most prominently Li Lianjiang and Kevin O’Brien, have discussed the relationship between political participation—here especially as collective action resulting from political contention in the countryside—and the possible rise of the peasant citizen. Their studies highlight the phenomenon of ‘rule-based’ or ‘rightful resistance’ against local cadres and governments by angry and frustrated peasants who, among other issues, feel deprived of or cheated on their legal rights to participation (Li 2001, 2004; Li and O’Brien 1996; O’Brien 1996, 2001, 2002; O’Brien and Li 1995, 2006). More recently, these studies focus on the ‘professionalization’ and institutionalization of collective action and resistance in the countryside (O’Brien and Li 2005; Li and O’Brien forthcoming). The concept of ‘rightful resistance’ has gained particular attention in recent years among both Western and Chinese scholars.\(^{12}\) Central to this approach is the underlying question, if political participation institutionalized through village elections gradually makes the Chinese citizen who begins to conceive of the direct ballot as a fundamental right to be claimed uncompromisingly against the (local) state. In O’Brien and Li’s most recent definition, ‘rightful resistance’

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\text{is a form of popular contention that operates near the boundary of authorized channels, employs the rhetoric and commitments of the powerful to curb the exercise of power, hinges on locating and exploiting divisions within the state, and relies on mobilizing support from the wider public. In particular, rightful resistance entails the innovated use of laws, policies, and other officially promoted values to defy disloyal political and economic elites; it is a kind of partially sanctioned protest that uses influential allies and recognized principles to apply pressure on those in power who have failed to live up to a professed ideal or who have not implemented some beneficial measure.}
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\((2006: 2)\)

As O’Brien already observed in the mid-1990s (O’Brien 1996), quasi-contractual thinking and ‘rights talk’ is becoming ever more widespread in China’s
countryside as villagers resist illegal cadre policies or rigged village elections. They appeal to elites, often at higher levels, to respect central policies (the Law) and acknowledge their claims as not only legal but just. At the same time, peasants are completely aware that they will only be successful if their resistance can exploit elite differences and factions. They don’t believe in the power of the Law per se, but in the legitimacy that it bestows on political action. Rightful resistance, therefore, makes use of a language that can hardly be ignored by those in power, if they want to sustain a layer of democratic legitimacy on their authoritarian rule. If successful, rightful resistance can evolve into stronger contractual thinking and finally bring about a strict stance among peasants that rights cannot be subjected to political opportunity and that all power is constrained by the Law. If that happens, the peasant citizen has finally emerged on scene.

Behind this conceptual background, Li and O’Brien (1996) produced an early and often-cited typology by distinguishing between ‘compliant villagers’ (shunmin), ‘recalcitrants’ (dingzhihu) and ‘policy-based resisters’ (diaomin) in contemporary rural China. The third group consists of those peasants who proactively engage in local politics by appealing to valid laws and regulations, party guidelines and official slogans in order to defend their interests against village and township cadres. These peasants stay within the existing boundaries of legal (and legitimate) political action by playing the Law strategically against the local cadres, at the same time invoking a contractual relationship that makes them obey only if the other side honours the contract as well. For Li and O’Brien this behaviour gives evidence of a growing aspiration among villagers to transform contested claims into rights against local cadres that may become ever more widespread:

It is in these sorts of actions that local proactive resistance takes on its widest import, for it is here that we may see the beginning of efforts to transform still-contested claims of enforceable rights – rights that may eventually be claimed throughout the political system.

(1996: 46)

The possibility of political (as distinguished from social and civil) citizenship arising from ‘rightful resistance’ in contemporary rural China was again explicitly addressed by Kevin O’Brien who defined citizenship as a phenomenon

associated with the right to participate in the exercise of power. It guarantees a person a place in the polity. In modern times, the sine qua non of political citizenship has become the right to elect state leaders – in the executive, in national parliaments, and in local councils.

(2001: 411)

Objectively spoken, citizenship does not exist nationally as most elections in the PRC – including elections for people’s congresses at the township and county
levels called ‘direct’ by constitutional stipulation – are not free, fair and equal. Village elections, for their part, do present a very mixed picture concerning the realization of ‘local citizenship’ for Chinese peasants. In the sense of true rights enjoyed by citizens, O’Brien confirmed that peasants cannot be called that way. However, as far as new rights are acquired through ‘bottom-up pressure and the painstaking extraction of concessions’ (2001: 423) from the authorities, an evolving peasant citizenship may in fact be observed in contemporary rural China:

In this regard, political citizenship involves adjustments in psychological orientation: in particular, it involves changes in one’s awareness of politics, sense of efficacy, and feelings toward government. It implies a willingness to question authority and suggests that people view their relationship with the state as reciprocal. It entails a readiness to enter into conflicts with the powerful and ascertain assertiveness in articulating one’s interests.

(ibid.)

Resistance to rigged elections and cadre misbehaviour have manifested a language of rights on the part of peasants which, according to O’Brien ‘invokes a contractual logic borrowed from their economic life to demand that protections they have been guaranteed are respected’ (2001: 425). Sound elections are considered an entitlement promised by the state that peasants insist on, and which makes them act ‘like citizens before they are citizens’ (ibid.). Both the right to vote and active resistance has shifted them into an intermediate position between subject and citizens: they wouldn’t yet claim to have inalienable rights against the state, but demand that the state must honour its promises and obligations vis-à-vis the peasants by respecting their law-based claims. If this strategy works, O’Brien concluded, it may bring about ‘a more complete citizenship’ in the countryside in the future (2001: 426). Although the author did not go that far, his findings do suggest the possible rise of the peasant citizen who could soon leave the locality both psychologically and geographically to fight with others for his/her constitutional right to unconditioned political participation.

This possibility was further discussed by another study of O’Brien and Li (2005) which focused on the effects of political contention and collective action in rural China on local policy implementation and political awareness of peasants. Here, the authors report on ‘activist careers’ and ‘professional complainants’ (shangfang zhuanye), open calls for ‘peasant associations’ (nonghui), drafts for legal regulation initiated by villagers, public donations for activists and the emergence of a ‘culture of protest’ with activists being recognized as ‘public figures who derive their power from acting in the name of the Center and their moral authority from taking personal risks for the benefit of other villagers’ (2005: 251). Once again, peasants – or the small group of protest leaders among them – appear as ‘proto-citizens’, i.e. people who act like citizens before they actually have acquired that status. For Hunan province at least, O’Brien and Li state that these activists have begun to ground their claims on
constitutional principles, such as popular sovereignty and the rule of law, and, therefore, may be about to leave the ‘zone of policy implementation’ to step over to the ‘zone of immunity’ that genuine citizens claim against the state.

3.4 Village elections and legitimacy

Are village elections, by way of strengthening peasant political participation and awareness, contributing to the demise of Chinese authoritarianism and the rise of competitive democracy ‘from the bottom up’? Or are they, on the contrary, helping the party’s efforts to fight corruption and professionalize village politics, promote economic development and thus reconsolidate one-party rule in the countryside – even making it more legitimate? Are they perhaps doing both at the same time? Most empirical studies are rather sceptical about the first question, while the answer to the second – concerning the relationship between elections and the Communist regime’s political legitimacy – seems to be less clear. Li Lianjiang and Kevin O’Brien’s above-cited work suggests that village elections have the potential to generate institutionalized collective action by peasants and to gradually bring about the peasant citizen who claims abstract rights against the state and thus challenges one-party rule. Regime legitimacy then hinges upon the state’s reaction to these demands and is under serious pressure at the local level. However, the overall impact of the direct ballot in rural China on the Communist party’s political supremacy – according to most scholars in both China and the West – has been rather limited so far (Alpermann 2003; Bernstein and Lu 2003; Chan 2003). This does not mean, however, that no significant change has taken place concerning peasant-cadre relations and the dynamics of village politics in terms of regime legitimacy. In fact, quite a number of empirical studies have shown – though mostly qualified by countervailing observations – that direct village elections in China do have a positive effect on regime legitimacy in the local state. For instance, Chen Jie found that a majority of his respondents ‘have increasingly supported the system of village self-government [. . .], because this system has in general provided ordinary villagers with more channels and opportunities (e.g. VC elections and all-village meetings) to participate in and influence village affairs’ (2005a: 872).

Confirming these findings from a different angle, Zhong Yang (2005) discovered strong support for democratic values and high levels of political efficacy among peasants in southern Jiangsu province. Peasants believed that democracy, which they experienced as the granted right to directly elect their village committees, would provide them with an effective means to solve their problems even if their elected cadres failed in this. The vast majority of Zhong’s respondents also insisted that village elections should not be abandoned even if they created chaos and instability. Although it was the author’s main intention to point at the pressure on the current regime to proceed with democratic reform in order to accommodate the political demands of China’s peasants, he implicitly suggested that it could gain legitimacy by using those reforms to discipline its local cadres, and that it did so to some extent.
This author’s field research in six villages in Shenzhen Special Economic Zone and Jiangxi and Jilin provinces has not identified a striking potential of village elections for triggering off a ‘bottom-up’-democratization in China. For example, only one third of the peasants who we interviewed confirmed that they would contact their village head more often since the introduction of direct elections. No peasant raised – on his or her own initiative – the issue of putting the village party secretary to a vote like the village head, and less than half of them responded positively when they were asked if the party secretary should be directly elected by all villagers – though 30 per cent agreed that this should be the case. Both the party secretary and the village party branch were considered important for guiding the village and providing for stability and order, while the village head was constantly identified as only second to the party secretary in terms of power and authority. Just 10 per cent of all interviewed peasants disagreed to the statement that the village party committee should become actively engaged in the elections process, while 97 of them – almost 60 per cent – agreed. Most interestingly, only 38 per cent supported the idea of direct township elections, while 34 per cent rejected it and 28 per cent had no opinion on the matter. Once again, no peasant raised this issue on his or her own. Most of them explained that they did not know the township government personnel, highlighting the parochial concept of politics still prevailing in most of China’s countryside. Also disappointing to the ‘democratic believers’ of the direct ballot may be the finding that only 48 per cent of our respondents stated that the village committee had become more responsive to the interests of the peasants after the introduction of direct elections, while 16 per cent could not see any change and 36 per cent were unable to utter an opinion. Similarly, just a third of our respondents confirmed that elections have brought changes to the behaviour of the village head; the rest could see no change to the pre-election era or failed to give an answer to the question. Finally, only 35 per cent thought that they had gained more influence on important decisions in their village in the post-election period, while 65 per cent did not see any change or were unable to give a clear response.

At the same time, however, the peasants in our research sites supported village elections strongly. Not only would the overwhelming majority of them regularly participate in them; 75 per cent of our respondents also believed that their vote was important. Elections were overwhelmingly judged fair (92 per cent) and executed according to the law (87 per cent). Also, 67 per cent of the peasants were satisfied with the nomination procedures in their villages, and 61 per cent declared that an elected village head was better than a nominated one. However, 36 per cent of our respondents could not give a clear answer to this question. Most importantly, two thirds of our respondents held the opinion that direct elections had brought material advantages to their villages (e.g. new roads and schools) and were generally conducive to economic development.

These findings have to be qualified by a number of intervening variables and factors of course, and they can only tell about the peasants’ state of mind at the point of time when we conducted our field work. However, they may suggest
that village elections are indeed significant for stabilizing and legitimizing one-party rule in the Chinese countryside. As has been said, most peasants felt truly empowered by the direct ballot, though this did not necessarily mean that they had been genuinely empowered by it. In affluent Shenzhen Special Economic Zone’s Longgang district, for instance, we found what Richard Levy has described as the hollowing out of elections in ‘corporate’ village China: peasants actively took part in elections and welcomed them, but did not think of them as touching upon the local party authorities’ political supremacy to any significant extent. In Jiangxi’s rather poor northern Fenyi county, elections have so far been of only rudimentary importance for poor peasants who may share a feeling of empowerment by casting votes, but do not see how this could (and why it should) challenge the political authority of the village party secretary or the township government. In Jilin’s Lishu county, however, peasants showed strong political efficacy, claiming that direct elections have made the party secretary and the village committee more responsive to local concerns and also more performance-oriented over the years. Overall, the peasants seemed content with the state of affairs in their villages and placed much emphasis at the net benefits that elections had brought to them. However, political participation between elections (e.g. contacting of elected cadres, collective action or even social protest) was only limited if not absent, while the party secretary and the village committee mostly enjoyed a favourable reputation among villagers and maintained a good working relationship. Also, cadre turnover in both the village committees and village party branches has remained low over the years – even in Lishu which looks back at a long history of direct elections starting in the early 1990s.

Apparently, in all three places where fieldwork was conducted, an established political elite dominated the local institutions. But even if the control of the party secretary over the whole electoral process in the village was evident and the village committee overtly controlled by a powerful group of long-time officials, peasants would not complain about this, except for a small minority of cynic villagers – perhaps ‘recalcitrants’ according to the O’Brien–Li typology mentioned above – who called elections a show and just turned away from them. The paradox to be found here is that even where elections are fulfilling what one may expect from them, i.e. to nurture a feeling among peasants – arguably though – that the direct ballot makes a fundamental difference in their lives and affirms their status as citizens, political awareness does not necessarily challenge the centres of decision-making power in the locality. This was not only true for the rich villages in Shenzhen where peasants have apparently been ‘bought off’ by the cadres with a positive record of economic performance. It could also be observed in Jilin where economic development was more moderate while electoral institutionalization was sound; and, although less of a surprise, in our research sites in rural Jiangxi where peasants are poor and focused on their everyday survival, peasant–cadre relations not too strained and elections fairly carried out according to the stipulations of the Organic Law. However, unlike the situation in Shenzhen and Jiangxi, cadres in Jilin’s Lishu county seemed to
derive their strong position more from a reputation of being law-abiding and efficient, i.e. from performance-based legitimacy, than from successful manipulative tactics by powerful elites, overall peasant disinterest or the influence of traditional authority (lineages and clans).

Generally speaking, the following preliminary observations and further hypotheses may be established by an interpretation of the qualitative data gathered in the three research sites:

• Village elections are widely de-coupled from the centres of local political power, even where participation is taken seriously by the peasants and considered efficacious in terms of controlling local cadres and helping rural development. Consequently, voting is not understood as challenging the authority of the local cadres. As most party secretaries, village heads and township officials accept the Organic Law, it could be hypothesized that they are accredited a critical degree of legitimacy by peasants to lead the villages, which is not eroded by contentious issues coming up once in a while.18

• Hence, the introduction of village elections has helped those local officials and governments who take them seriously and accept the challenge of delivering to the people in terms of both material benefits and political accountability. As the majority of peasants feels empowered by the direct ballot while showing no inclination to vote their cadres out of office, minor changes of the local power structure, i.e. the cooptation of newly-elected officials into an established network of village leaders, may suffice to further strengthen regime legitimacy.

• Elections, therefore, do strengthen one-party rule in the countryside as long as the peasants feel treated as respected citizens by responsive cadres. Even if economic progress has not happened on a big scale and living conditions remain tough for most villagers, peasants may not challenge party authority as long as they feel empowered by elections and respected as citizens by – to their understanding – honest and law-abiding cadres.19 It may be the feeling of dignity aroused by this respect that explains why peasants do not question their shallow factual empowerment by elections.

• It is certainly true that even if village elections are soundly implemented in contemporary China, the electoral process is often undermined by influential clans or charismatic (and corrupt) party secretaries. Undoubtedly, there is still much manipulation and suppression of political dissent going on in rural China. In many villages, cadres are not responsive to peasants by showing respect to their political rights or by subjecting themselves to the law. However, in other places such behaviour has been contained by a new power balance between peasants and cadres caused by the empowering effect of village elections, thus forcing cadres to assume the roles of agents of grassroots democracy. If they do this convincingly, as is suggested by Jilin’s Lishu county, they may maintain a critical degree of legitimacy even when they fail in promoting strong economic development.
This is good news for the Communist Party. It may be able to preside over an election-driven process of horizontalizing the relationship between peasants and rural cadres without being confronted – at least for some time to come – with the well-established teleology that such horizontalization is the beginning of the end of one-party rule. The least that one can say is that villager self-government and the strengthening of peasant political awareness that is accompanied by it does not necessarily close but may indeed open a window of opportunity for the party to gain new legitimacy and political leeway for solving the many problems that rural China faces, thereby securing its political survival.

3.5 Village elections and trust

Stimulated by the observation during our fieldwork that direct elections make peasants feel politically empowered without necessarily being empowered, the concept of (political) trust, as another dimension of political awareness, may be an alternative and even more promising analytical tool to explain and further understand the potential of village elections to enhance regime legitimacy and stability.20 As Li Lianjiang has noted,

political trust is usually defined as citizens’ belief of confidence that the government or political system will work to produce outcomes consistent with their expectations. [...] It is an essential component of ‘political support’, which constitutes the basis of a political system’s legitimacy. People who trust the government are more likely to comply with laws, support government initiatives, and follow political leadership without needing to be coerced. High levels of trust are also associated with less engagement in mobilized modes of participation. In contrast, low trust helps to create a political environment in which it is more difficult for leaders to succeed and reduces support for government action to address a range of domestic policy concerns.

(2004: 230)21

While Li Lianjiang is speaking of the peasants’ trust in the centre which makes them believe in the eventual legitimacy of the regime if bad local cadres are punished and removed from office, trust can also be found in the local state, i.e. invested in local officials. As much anthropological work on village China has shown, trust can result from traditional modes of social integration within a village – for instance through the revival of clan and family structures or temple associations (Huang 1998; Tsai 2002, 2007; Zhou and Yang 2004) – in combination with the peasants’ rising political awareness as an effect of successful political participation, high degrees of efficacy and rationalism. If trust vis-à-vis village and township cadres can be generated by fair elections producing good cadres – even if these are only perceived as such – local officials may become identified with the centre, entailing high degrees of overall regime legitimacy. More precisely, village elections could produce (new) trust in local officials who
are perceived to be law-abiding, just and fair, and not only economically successful. This may especially be true for those villages in which social integration and cohesion, shehui guanlian in Tong Zhihui’s terms, are strong and village elections are made part of it.

Certainly enough, the nexus between village elections, trust and overall regime legitimacy is far from clear at this point. But trust, though not systematically investigated in our field studies, may be playing a role where the peasant–cadre relationship is stable like in our Lishu case: Villagers in Lishu seem to feel respected as citizens by law-abiding and responsive local cadres who credibly demonstrate that they have accepted to face the negative consequences of the direct ballot if they do not live up to the villagers’ expectations.

If cadres are in fact law-abiding, responsive or do effectively accept electoral defeat as the principle of punishing failure in office is another matter. However, the gap between perception and reality can only be narrow as villagers are usually well aware of the performance and quality of their cadres. The point to make here is that the regime has ample opportunity to consolidate its legitimacy in the countryside before peasants become seriously alienated from the system, because the inclination to trust in local officials is probably rooted much deeper in village society than the rationalist expectation, that only direct elections and absolute voter autonomy will produce good cadres, usually has it. It is at this point that one has to look more closely to the village moral economy of reciprocal (contractualist) relationships which originate in traditional society but is adapted to modern circumstances.

Behind such a background, it may even be suggested that the political awareness of peasants driven by increasingly institutionalized elections (in a moderately or even poorly developed local economy) can produce high levels of tolerance of the exercise of power in a village: village committee members and party secretaries are granted a ‘bonus of trust’ as long as they accept, by their words and deeds, the peasants’ empowerment by the right to vote, and their (moral) obligation to live up to the expectations of the village community: developing the local economy, honouring the moral principle of reciprocity between the peasant and the cadre, strictly adhering to procedural justice and protecting the peasants’ rights. Politics in these ‘trust villages’ is then based on a moral contract between the peasants and the cadres which can make things go very smoothly for the latter.

The concept of trust and its relationship to political power and legitimacy in China’s countryside could complement the O’Brien and Li ‘master story’ of evolving peasant citizenship based on ‘rightful resistance’. ‘Trust villages’, which must certainly be more thoroughly researched before their designation as such can be convincingly established, have much in common with ‘complainant villages’, as in both of them trust is invested to negotiate the asymmetrical power relation between peasants and local officials. However, while (interpersonal) trust in local cadres generates political legitimacy of the local state in those ‘trust villages’, it is (generalized) trust in the central state – and mistrust in local officials – that drives forward ‘rightful resistance’ in ‘complainant villages’.
3.6 Concluding remarks

This chapter was set out to assess the main insights of research on Chinese village elections over the last decade by highlighting the relationship between direct elections on the one hand and peasant political awareness, peasant citizenship, and regime legitimacy on the other. By both assessing paradigmatic studies within the existing literature and drawing on fieldwork conducted by the author himself, it was shown that the introduction and institutionalization of village elections has changed the Chinese countryside a lot. However, the final destination of the developments and trends which these changes have brought about is not yet clear. Particularly with respect to regime legitimacy and stability and the scope and limits of the consolidation of one-party rule in rural China, village elections have so far produced contradicting results. Future research should not only be stimulated by the hypothesis that these elections will push the formation of the uncompromising peasant citizen and entail the gradual demise of authoritarian rule, caused by increasing resistance in the villages that would eventually reach the cities. Neither should village elections simply be named a fruitless exercise in terms of enhancing participation and efficacy which are important preconditions for making democracy work. Finally, village elections should not be negatively associated with the legitimation of one-party rule, if this is what they bring about. If higher cadre quality and more political accountability are indeed achieved, but cadre and party supremacy in the local state not (yet) put into question, village elections have still done a good job for levelling the playing field of political power in the countryside. This will doubtlessly help a future democratization of China’s political system.

Here, it should be considered a serious possibility that it is not always the specific economic conditions in a village, successful manipulative tactics of powerful cadres or the suppressive influence of clans that explain why elections have not resulted in more collective action, ‘rightful resistance’ or even open violence against an unperturbed and undemocratic system. The possible existence of ‘trust villages’ in which a combination of traditional features of social integration (and their modern manifestations) and peasant rationalism, informed by interpersonal trust in local officials and peasant–cadre reciprocity, generate cadre accountability and – by bridging the gap between the local and the central state – produce critical degrees of regime support, should be taken more seriously by China scholars interested in the resilience and evolution of China’s political system.

3.7 Notes

1 I would like to thank Christian Göbel, Thomas Heberer and Kevin O’Brien for their substantial comments on earlier drafts of this article.
2 Electoral implementation and competitiveness, cadre performance, clan influence and the distribution of village revenues belong to the most commonly researched explanatory variables of this kind.
3 These insights were confirmed by Li Lianjiang (2001) who found that free and fair
elections enhance political participation, the latter defined as the ‘villagers’ desire to appeal to village cadres when they find that the township has made decisions that contravene central policies’. The important insight of this study was the (election-driven) increasing willingness of peasants to participate in terms of systematically appealing to cadres and make the latter more ready to resist unpopular policies coming from above.

4 The notion ‘semi-competitive (limited-choice) elections’ used by the author means that choice is limited to alternative candidates, not political parties. The study distinguishes between non-competitive and semi-competitive elections for ‘local unit leaders’ (village committee members and, presumably, urban neighbourhood committee members) and semi-competitive elections for local people’s congresses at the township and county levels.

5 Similar findings were presented by O’Brien and Li (1995) and Li and O’Brien (1996).

6 See also Chen and Zhong (2002).

7 ‘External efficacy’ refers to the belief that governmental authorities and institutions are responsive to the demands of citizens. For the concept of ‘political efficacy’ see Balch (1974).

8 These results are contested to some extent by another study of Li Lianjiang who found that free and fair elections enhance villagers’ external efficacy, suggesting that in the future ‘they will become more active in village politics’ and ‘may feel empowered because they know that they can retract their consent through impeachment or at the next election’ (2003: 660). However, the authors discuss two different dimensions of political efficacy.

9 VRA = Village Representative Assembly.

10 See also Levy (2007).

11 The ongoing transformation of villages into urban neighbourhoods in many parts of China contributes to the process of disempowering the people and their representative institutions at the local level. If the state’s more recent efforts to enhance political participation and cadre accountability in China’s cities will be more successful, is doubtful. See Benewick et al. (2004), Derleth and Koldyk (2004) and Heberer and Schubert (2007).

12 For Chinese studies on ‘rightful resistance’ (yifa kangzheng or weiquan kangzheng) see most notably by Yu Jianrong (2005a, 2005b).

13 Civil citizenship involves rights required for personal liberty, such as freedom of speech, the right to make contracts, and the right to a fair trial. Social citizenship entails the right to a decent and secure standard of living, and it conveys education, health, and welfare entitlements, according to a society’s standards (O’Brien 2001: 410–411)

14 Among the different approaches to political legitimacy, David Easton’s concept of ‘diffuse support’ of a political system – with ‘belief in legitimacy’ and ‘trust’ as its central pillars – still stands out as the theoretically most refined (Easton 1965, 1975). Legitimacy results from a person’s conviction that the existence and functioning of the government conform to his/her moral or ethical principles. It encompasses feelings or ‘affect’ directed at two objects: the political authorities, i.e. ‘those who have the day-to-day responsibilities for making and implementing decisions’; and political institutions, i.e. ‘the goals and political values, the norms or rules of the game, and the structures through which power is organized in a political system’ (Easton 1976: 436–437).

15 Notably, support of Chen’s respondents for the institutions of village self-government was significantly higher than support for the incumbent authorities (2005a: 874). However, in another study done by Chen using nearly the same dataset it was discovered that local cadres’ and villagers’ attitude consistency differed remarkably with
respect to regime support, with local cadres being significantly more supportive of the CP regime than peasants (2005b).

16 Lishu is considered a ‘model county’ for officially sponsored village elections and therefore certainly a special place. However, it must not be excluded from a general assessment of the impact of village elections on peasant political awareness and regime legitimacy. I have elaborated on this in Schubert and Chen (2007).

17 Certainly enough Jiangxi province has also become notorious over the recent past for much unrest in poor villages and townships where peasant–cadre relationships are under stress. No Chinese province or county is homogeneous and, as a principle, everything said about one or two villages must be taken as part of a complicated puzzle that students of Chinese rural politics are putting together.

18 This certainly contradicts the abundant reports on cadre corruption and peasant maltreatment in many parts of China’s countryside as described in Chen and Wu (2004) (a book that was quickly banned by the Chinese authorities because of its uncompromising depiction of cadre corruption and brutality in rural Anhui province), Ma (2002) and Zhu (2004). These reports mostly refer to poor or remote areas where electoral implementation often fails to meet required legal standards and local cadres are therefore not subjected to any substantial public control, yet. Obviously, there is a positive correlation between economic development, electoral implementation, rising political awareness and lawful cadre behaviour even if this correlation does not describe a general law of good governance and must be continuously checked against by deviating cases.

19 In Shenzhen it is foremost revenue distribution rather than direct elections that secures power and legitimacy to the local cadres. However, cadre legitimacy must be explained differently in the Jiangxi and Jilin cases where revenue generation for public and private consumption has been more moderate (Jilin) or absent (Jiangxi), and overt suppression of peasants could not be identified.

20 According to David Easton’s political systems theory, trust is the second pillar – next to ‘belief in legitimacy’ – of diffuse (regime) support. It refers to the people’s conviction that there is a common good or general interest of the political community that is honoured by the authorities.


22 See Feuchtwang (2003), Brandstädter and Schubert (2005) and Schubert and Chen (2007).

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4 Institutional change and legitimacy via urban elections?

People’s awareness of elections and participation in urban neighbourhoods (Shequ)

Thomas Heberer

4.1 Introduction

This chapter is organized around the results of a research project on ‘participation, elections and social stability in rural and urban areas in China’ which was jointly conducted by Gunter Schubert (University of Tuebingen) and the author. Whereas Schubert focused on rural areas, the author concentrated on urban locations. Three surveys were conducted altogether (based on interviews with ordinary residents and local officials): the first in spring 2003 in two neighbourhoods in Shenyang, followed by two neighbourhoods in Chongqing in summer 2003, and finally two neighbourhoods in Shenzhen in spring 2004 (see Appendix for further information).

One intention of the research project was to examine the political awareness of urban citizens and officials in terms of participation and elections. The pivotal question was how institutional change is reflected in the minds of the people concerned. Not only in the view of the political leadership but also of many social scientists, village and more recently urban elections are crucial for the political reform agenda and for a ‘socialism with Chinese characteristics’. Are we right in the assumption that this ‘local democracy’ prescribed from above will eventually transcend the institutional restrictions set up by the authorities? Will it dynamically reinforce tendencies of social and political pluralization which have evolved during the reform process?

As far as the effects of elections are concerned, new institutionalism has focused on political contest for some time. What this perspective has neglected, however, was the effects of elections on the people concerned.¹ Therefore, from the perspective of new institutionalism, we are concerned with the question of the manner in which the reorganization of urban residential areas could serve to modify the institutional setting and thus contribute to regime legitimacy.

The purpose of this chapter is to examine both elections and electoral processes. We will begin with the reorganization of urban residential areas where new communities are created. Similar to rural areas, elections have also been introduced in urban neighbourhoods. In this chapter we are concerned with the attitudes of ordinary residents and local officials regarding elections. Our
basic argument is that although elections have some mobilizing and participatory
effects, they are currently not of primary concern for the citizens themselves, but
rather constitute a secondary phenomenon. For the ‘better-off’ strata, individual
autonomy is of greater importance; for the socially weak strata, it is the search for
social security that is crucial. Finally, we will show that elections nevertheless
have a mobilizing effect which strengthens people’s sense of efficacy.

4.2 The reorganization of urban residential areas and the
emerging of the Shequ

From the 1950s onward, the organization of the party-state was extended to
urban residential areas. ‘Residents Committees’ (RC) were established across
the country as leading organizational bodies. Until the late 1990s, the members
of those committees consisted primarily of elderly women (housewives and pen-
sioners) with lower educational levels. Their principal function was to ensure
social control of, and in, their neighbourhoods.

Economic reforms, economic and social change, and strongly interrelated,
growing social mobility significantly altered the structure of urban residential
areas. Traditional communities as, for instance, the danweis eroded. Increas-
ingly, homogeneous residential areas based on an affiliation to a state-owned
economic or administrative unit (like an enterprise) experienced a gradual
disintegration. The social structure of those areas was further modified by the
decline of previously privileged groups (e.g. urban skilled workers), the rise of
new elites (private entrepreneurs, professionals, new middle classes), and a
growing floating population. Local authorities were faced with increases in
unemployment and urban poverty, as well as the erosion of family structures and
public security. The traditional RCs, with their poor reputation, were no longer
able to meet the new demands placed upon them by these problems.

Nowadays, many neighbourhoods consist of subdivisions within which
members of still existing or former danwei live. The structure of the neighbour-
hoods has changed through the purchase or sale of real estate, or as some
inhabitants moved. Businessmen, craftsmen, and entrepreneurs from rural areas
rented or purchased flats. Hence, the neighbourhoods are now composed of
rather different social strata, and former danwei members now live concurrently
alongside members of the local political and economic elite, some of whom
have purchased new condominiums in these areas.

This was the background for the reorganization of urban residential areas ini-
tiated by the central leadership at the end of the 1990s. Several neighbourhoods
under the jurisdiction of RCs were merged into larger ‘communities’ (Shequs) or
neighbourhoods. A Shequ is characterized as a geographically separate resident-
tial area. With this move, it was the intention of the political leadership that
neighbourhood residents develop a shared identification based on common inter-
ests and needs. It was further hoped that they would voluntarily participate in the
implementation of those interests and needs, thus creating a cooperative rela-
tionship of solidarity among each other.
The term neighbourhood implies a twofold meaning: (a) a spatial one, in the sense of an administrative sub-unit (at the level of self-administration beneath the ‘Street Offices’), with a population between 3,000 and 16,000 inhabitants; (b) a normative or functional one, i.e. a classification in terms of a segment of population characterized by spatial proximity, shared interests and social control.

The size of an RC depends on the number of inhabitants in a neighbourhood. The RCs we investigated were composed of six to nine members. According to legal regulations, members are elected by inhabitants by means of either direct or indirect elections. Figure 4.1 illustrates the organizational structure on the example of Shenyang.

Below the RC we find people responsible for individual tasks as well as issue-oriented associations. In some neighbourhoods, the number of those associations is considerably large. Yet, as a rule, they were not established by inhabitants but rather initiated in a top-down manner.

In principle, the Organizational Law of Urban Residents Committees from 1989 designated two major tasks to those committees: (a) to support the government in preserving social stability and (b) to provide the inhabitants with social services and social security benefits. Yet, on the local level, we find differing perceptions of what the pivotal tasks of a Shequ are, ranging from the simple tasks of administration and control to social welfare, birth planning, creating new job opportunities, improving hygienic conditions, organizing leisure activities, cultivating social discipline, and expanding the participation and self-administration of the residents.

Currently, the RCs are less concerned with self-administration, but rather with activities which used to be the tasks of the state, such as birth control, paying out pensions, reviewing prerequisites for income support to families with no or low income (dibao), mediating conflicts among residents, handling divorce applications, coordinating the care of sick persons, handicapped people, drug addicts and persons with a previous conviction, and providing psychological advice (e.g. after family violence or attempted suicide). The RCs are continually entrusted with new tasks, including keeping personal files or supervision of persons under probation.2

![Organizational structure of Shequ in Shenyang (2003).](image-url)
The committees are overloaded with work and poorly backed financially. In 2003/04, the urban districts provided a mere few hundred yuan per month for operating costs (400 yuan per capita for the RC in Shenzhen). In contrast, the Street Offices (sub-district level) were housed in modern, multi-storey buildings with well-equipped offices; some of them with little factual work to accomplish. Given this situation, it could be argued that the state has transferred cost-intensive and particularly conflictive domains directly to the neighbourhoods.

4.3 Elections as political phenomena

Political science comprehends elections as a democratic method of selecting officials on the one hand, and as a technical procedure on the other. Functionally, elections are considered an opportunity of citizens to influence the choice of their political leaders and, furthermore, to shape the political system. Additionally, elections may reinforce both the political legitimacy of a system and the trust held in its efficiency.

Elections are not necessarily a democratic act. Even during the most radical periods of the Mao era, candidates nominated by the Party for various positions were elected in those days by voting, in this case by the public raising of hands. We must, therefore, distinguish between different types of elections, all the more as the significance of elections, their contents and goals, all depend on a given political system. Political science distinguishes between competitive, semi-competitive and non-competitive elections. The various classifications are related to the degree of contest between candidates, selection of candidates, and general and secret ballots. Elections characterized by contest, secret ballots, and choices of candidates’ selection can be classified as competitive elections; if the freedom of elections is restricted, they are semi-competitive; if there is no liberty at all, we can speak of non-competitive elections.

There has been some progress in enforcing elections in recent years, particularly through the spread of the system of village and town or township elections. Meanwhile, village leadership must be elected by the population via direct, secret ballots. On the levels of towns/townships and urban neighbourhoods, experiments have been made with the direct election of local officials. The success of rural elections reinforced the endeavour of the transfer of rural experiences to urban areas. The Ministry of Civil Affairs, responsible for grassroots elections, argues that elections should strengthen the degree of the population’s participation, as well as the legitimacy of the political system. Nonetheless, significant differences between rural and urban areas make a transfer of direct elections to urban neighbourhoods difficult. The following differences between rural and urban areas can be discerned:

• In rural areas, village elections often began as bottom-up processes, i.e. they were initiated by villagers, whereas urban elections had a top-down character, i.e. initiated by higher authorities. In contrast to the work of the urban RCs, the work of the rural Village Administration Committees has a direct
effect on the villagers’ living standard. Every village, for instance, owns land, which is periodically distributed among the villagers. Villages possess, furthermore, village-owned enterprises and an accumulation fund paid into by the villagers. Therefore, the interest in participating in structuring the village economy or the use of the accumulation fund is much greater. As a contrast, urban neighbourhoods, as a rule, do not possess such a collective economy.

- The RC activities in urban areas do not spawn collective income. The neighbourhoods are more concerned with the organization of daily life and providing services for residents. Yet, it is the state, and not the residents themselves, which organizes and funds the urban entities.
- As far as issues such as income, living space, employment or the environment are concerned, villagers are able to exert more influence on political decision-making than urban dwellers.
- The village as a natural unit could be classified as a ‘place of neighbourhood’; the urban Shequ, in turn, as a ‘place of friendship’. Urban relations do not rest upon natural neighbourhood relations as in villages, but rather transcend the residential area.

As far as elections are concerned, Chen and Zhong argue that persons with both a stronger democratic orientation and those with a critical attitude towards the political system would participate to a lesser degree in elections than those with a certain proximity to the political system. The latter would elect in accordance with their loyalties. From this perspective, non-voting is a mode of political protest. Furthermore, they argue, the Party was less interested in democratic competition, but instead in preserving its legitimacy and improving the capacity and efficiency of governance. The authors contradict Shi Tianjian’s findings based on a survey in Beijing, which concluded that people attended elections so as to pursue their own interests and not out of identification with the system. People were more interested in penalizing corrupt officials than in enforcing democratic values. By contrast, Shequ officials who back the interests of the residents enjoy a higher standing among their constituency. Such a standing, in turn, has an impact upon the turnout of the elections. Thus, the voting act serves as a mode of legitimizing or confirming the respective officials and thus may legitimate the political system as well. Our interviews reveal that at least a part of the interviewees link the engagement of officials to the electoral process, albeit such a relationship is not easy to determine. The option to select among competing
candidates is a basic prerequisite that enables a political choice between different candidates to be made. This, the formalization of electoral procedures, and the voting act itself have an impact on the election delegates. Delegates understand that elections are connected to the responsibility of the elected towards the residents. Accordingly, voting has an effect on the awareness of the constituency.

4.4 Three types of urban elections

Urban residents are involved in three voting acts: (a) election of the deputies of the district’s People’s Congress; (b) electing the members of the RC; and (c) electing the members of the Home-Owners Self-Organization Committee (HOSOC).

Voting act (a) consists of direct elections, i.e. every 18-year-old resident is obliged to attend the elections. In the case of absence, voters may ask other persons to vote on their behalf. Although our survey did not focus on these elections, our interviews revealed that the majority of interviewees considered them to be important. However, about 10 per cent of the interviewees had difficulties in distinguishing which elections (of People’s Congress deputies or of RC members) they had attended. And about 15 per cent (21 interviewees) complained that they did not know the candidates and their interest in voting had therefore been modest.

As far as voting act (b) is concerned, two main types of RC elections in urban neighbourhoods can be found: voting on the part of residential delegates is the predominant form (indirect voting), and in a minority of Shequis all residents are entitled to vote. According to the political leadership, in the near future direct voting will be implemented throughout the country (on direct voting cf. section 4.5).10

Elections of the HOSOC, voting act (c), can be considered a form of direct elections. The housing reform during the 1990s led to both a conversion of living spaces into condominiums, which were then sold to residents, and to the construction of new commercial housing sold on the market. Companies responsible for administration and maintenance of new commercial housing areas (property management companies, wuye gongsi) were established. Yet, frequent tensions have arisen between house owners and these companies in terms of payment of fees and repair and maintenance issues. As organizations representing the interests of the new proprietors did not exist, independent interest organizations of the owners emerged in the 1990s. Their boards (the HOSOCs) are elected by all owners and are accountable to them. Even though the local authorities do occasionally intervene in the daily activities of those committees – for instance if a board proves to be too radical or conflictual – the residents perceive these organizations as being democratically elected and legitimized institutions. They differ from the RC in their character as bottom-up organizations and representation of the constituents’ interests. Therefore, property owners demonstrated more interest in electing those organizations than in electing the members of the RCs.11

In the neighbourhoods investigated in Chongqing and Shenyang, HOSOCs
had not yet been established. In Shenzhen, in turn, board elections occupied a much more prominent position than that of the RCs.

Interviewees who had experiences with HOSOCs assessed the work of these organizations as shown in Table 4.1.

Most owners classified the HOSOCs as ‘autonomous’, i.e. as organs elected by the residents themselves. Elections were considered to be direct and free. In contrast to RC elections, most owners were informed about the elections of their HOSOCs. Mostly people with prestige and a certain influence, such as Party or trade union chairmen of larger enterprises or lawyers, took over the position of chairmen of HOSOCs.

The relationships between RCs and HOSOCs are, to a certain extent, conflict-laden. In Shenzhen’s Huaxiajie neighbourhood, a HOSOC sued the local RC for damages, as the latter had used some vacant space under the first floor of the buildings, not only for the establishment of its own offices, but also as rental space for commercial businesses. The HOSOC, in turn, argued that those areas belonged to the ownership community and could not be arbitrarily utilized by the RC. The latter lost the lawsuit and had to pay 1.7 million yuan in compensation to the ownership community. But the HOSOC fell short of its original intent, which was to drive the RC out of the Shequ area.

Once HOSOCs act too autonomously, higher authorities may intervene. Shenzhen authorities had already taken measures in order to minimize the competition between RCs and HOSOCs and to integrate the latter in a corporatist manner. Though, until 2004, HOSOCs could still act as real autonomous interest bodies, elected directly and in a democratic way, the Shenzhen authorities decided that they had to act under the leadership of the respective RCs in the future in order to minimize cleavages.

4.5 Elections in the Shequs investigated

The first elections of RCs were conducted in Shenyang’s Shenhe district in June 1999.12 Meanwhile, elections can be found in almost all cities. RCs are |

<table>
<thead>
<tr>
<th>Table 4.1 Assessment of the work of home-owners self-organization committees (Shenzhen only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Represents the interests of owners</td>
</tr>
<tr>
<td>Directly elected</td>
</tr>
<tr>
<td>We deal with problems once they arise</td>
</tr>
<tr>
<td>Self-elected (without outside interference)</td>
</tr>
<tr>
<td>Is a genuinely autonomous organ</td>
</tr>
<tr>
<td>Too many internal struggles</td>
</tr>
<tr>
<td>Poorly working</td>
</tr>
</tbody>
</table>

Source: Own survey.

Note
Covering persons taking part in a committee’s activities.
predominantly elected indirectly by representative assemblies consisting of representatives of households, houses, or blocks. The first direct elections to include all residents were conducted in Nanning, the capital of the Guangxi Autonomous Region in 2001. There is no prevailing model for standard elections. Even in Shenyang, a model city for urban elections, the coexistence of various forms can be observed.

In the Shequis that we investigated, only indirect elections existed. The RCs were elected by the Shequ’s Assembly of Representatives, i.e. by delegates and not by all residents. As a rule, the Assembly of Representatives consisted of the heads of the inhabitant groups or the leaders of houses or blocks, together with the representatives of work units (danwei) located in a neighbourhood. The house or block leaders are also responsible for the election of house or block representatives who attend the election act.

Assemblies of Representatives in Shenyang and Chongqing had between 50 and 125 members, varying in accordance with the size of the neighbourhoods; more than 80 per cent were women. According to the Street Office, the representatives were elected by the respective households. Our interviews revealed, however, that the RCs designated specific persons to act as ‘voter representatives’ through a series of initial consultations. Leaders of the houses went from household to household, polling the opinions of the residents. Such inquiries had a more informal character. People were asked, for instance, about their opinion in relation to particular voter delegates or RC candidates and often responded ‘that will be fine’ or ‘we will leave the decision up to you’.

The Assembly of Representatives (the electors) in Shenyang’s Yongfeng neighbourhood, for example, had 132 members (of a total population of 6,000). 18 of them were house or block leaders and 55 were heads of ‘Responsibility areas of Party members’; others were representatives of various danweis. ‘Responsibility areas of Party members’ referred to Party members who were charged with the task of mobilizing votes in distinct sections of a neighbourhood. Furthermore, ‘outstanding persons’, some of them Party members, some not, were appointed as voting delegates. The appointment was decided by the RC.

RC members are elected for three years. The Assembly of Representatives gathers once a year in order to discuss and formally approve the working report of the RC.

Positions for RC candidates are publicly announced. Applicants may sign up to attend the nomination examination. The examination consists of a written and an oral part and encompasses issues of legal regulations (regarding neighbourhoods), the organization of neighbourhoods and questions of general political and social concern. The Street Office decides on the candidate list and on the positions of the RC’s leadership functions. It also ensures that the candidates are qualified and capable of acquiring public trust and reputation.

Party membership is not a prerequisite for becoming an RC chair person; nonetheless, loyalty towards Party and government is expected by the higher authorities. Based solely on their legal status, RC members are not representa-
tives of the government; nevertheless, they are responsible for the propagation and implementation of state policies. This requires persons who are able to gain the trust of the residents and engage themselves and others in support of residents’ interests. Thus, the work of the RCs contributes to reinforcing the legitimacy of the political system.

The nomination list of the candidates is made public. The block leaders contact the households concerned and ask the residents about their opinions on the candidates. Nomination meetings are held in the form of a gathering of the Assembly of Representatives, where the candidates have the opportunity to introduce themselves and to put forth statements. The final nomination list is determined by consultation, not by voting. The list usually contains one person more than the number of candidates which will be elected. In the final act of this election process, the representatives vote separately on the ordinary members and the leading RC body (head, vice-head). Only one candidate is nominated, respectively, for leading positions.

Thus, RC members are elected by a voting process and must be re-elected after a period of three years. If they do a bad job, they are usually not successful in this endeavour. Therefore, even indirect elections have an impact upon the political behaviour of RC members.

In the 2002 elections, in all of the Shequs we investigated in Shenyang and Chongqing, five out of six candidates were elected as RC members. In the Fuhua Shequ in Shenzhen, eight out of ten candidates were elected.\textsuperscript{14} In recent years, the requirements for candidates have been raised significantly. In Shenyang and Chongqing, a college or university degree was a standard requirement, and the age of candidates was limited to 45 years for leaders and 50 years for ordinary members. Only in Shenzhen was there no restriction in age and an upper middle school educational level appeared to be sufficient.

In Chongqing’s Jiangbei district in 2003, 43 per cent of the RC members had a college or university degree, the average age was 37 years, but merely 29 per cent were Party members.\textsuperscript{15} In Shenyang, according to official data, 40.6 per cent of the RC cadres had a college or university degree, with an average age of 42; 44.9 per cent were laid-off workers (xia gang) and 38.1 per cent Party members.\textsuperscript{16}

As the requirements in terms of qualifications are rather high, but the prestige of those positions and their salaries low, it is not an easy task to find a sufficient number of younger qualified candidates. Thus, the districts or Street Offices sometimes assign qualified cadres to the RCs or Party Committees of a Shequ.

In the Beidakou Shequ (in Shenyang’s Heping district), one male interviewee held simultaneous posts as chair person of the RC and of the Party Committee. Prior to those offices he had been a director of a foreign trade company. Although he had formally applied for those positions, he was in fact urged to do so by the Party. No qualified candidate for these offices had been found in this neighbourhood of 6,200 residents, characterized by high unemployment (1,020 persons) and a high ratio of disabled people (152 persons). Conflicts between the RC and the residents were frequent. The chair person of the RC noted that he
often had to ‘keep his cool’, even if he was arbitrarily insulted or criticized. Such insults, he pointed out, were not to be taken personally, and were neither directed at him nor at the RC, but actually towards the government. In his view, the residents were only letting off steam. Frankly, he explained, he would never accept such a position again and planned to quit after the end of his term of office. Many tasks of the government, he noted, were simply transferred to the RC without, however, providing the necessary resources for adequately dealing with them.

### 4.6 Attitudes towards elections

As mentioned above, in the *Shequs* investigated, only indirect elections were conducted and merely a limited number of delegates could vote. As those delegates were not elected by the residents, but rather nominated by the RC, many interviewees declared that they knew little or nothing about those elections. It was only in Shenyang that all interviewees were familiar with elections. This is not surprising, as 31 among 42 interviewees were delegates who had voted. In turn, 27 of 49 persons interviewed in Chongqing (55.1 per cent) and 34 of 49 interviewees in Shenzhen (69.4 per cent) noted that they did not know anything about RC elections. Even Party members with a higher level of education vehemently denied that such elections existed at all. A lawyer in Shenzhen’s Huaxiajie-*Shequ* explained, seeing as she herself had never heard of such elections, it could in fact be assumed that no one knew anything about them.17

Among the 62 interviewees responding to the question of whether RCs should be elected at all, the answers were as listed in Table 4.2.

Table 4.2: Should residents’ committees be elected?

<table>
<thead>
<tr>
<th>Persons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
</tr>
<tr>
<td>No interest/not important</td>
<td>18</td>
</tr>
<tr>
<td>Elected or not, there is no difference</td>
<td>11</td>
</tr>
<tr>
<td>Everyone should decide on their own</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
</tr>
</tbody>
</table>

Source: Own survey.
half day off or if they couldn’t ask a representative to attend voting in case they couldn’t go. Many of our workers and staff simply do not have the time to go to the polls. [question: What about weekends?] Frankly, people are not very interested in voting. If you do not bring them directly to the ballots, they simply refuse to go. The elections are not related to their interests. It is different from other countries where the parliaments are elected by the entire population. Here the electoral act is not really sincere, that’s why people are not interested in it. People are not familiar with the candidates and they don’t know who to elect. They are not very interested in contacts to the Residents Committee.  

Many people had the impression that the work of the RC had nothing to do with their everyday lives and personal interests. And what sense do elections make when people do not know about them, particularly if one is not interested in the activities of the RC and does not see any reason to be. As long as actors are not aware of their interests, their readiness to participate appears to be low. 

Accordingly, Table 4.2 reveals that less than half of the respondents support elections. Interviewees who responded in favour of elections offered the following arguments: they increase the sense of responsibility of RC members (12); enhance the standing of the RC among residents (7), and raise confidence in relation to the RC (6). Whereas only four interviewees favoured elections in Chongqing, seven in Shenyang and 14 in Shenzhen spoke in support of elections. 

A widespread belief among residents (particularly in Shenzhen) was that candidates were actually nominated by the Street Office and that residents merely had the role of giving their blessing to the candidates. As mentioned above, many interviewees did not even know anything about the elections. Not surprisingly, the interest of the residents in attending those elections was low. 

A Chinese survey in urban areas revealed the findings shown in Table 4.3. 

The majority of the interviewees doubted the seriousness of elections. The answer ‘elections are a mere formality, only sham’ differs from answers like ‘waste of time’ or ‘useless’. The former has to be comprehended as the result of a reflection process. It is grounded in the observation that elections are not sincere and that, therefore, it is useless to attend them. 

<table>
<thead>
<tr>
<th>Why are you not interested in attending RC elections?</th>
<th>Persons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elections are a mere formality, only sham</td>
<td>634</td>
<td>59.0</td>
</tr>
<tr>
<td>Elections have nothing to do with me</td>
<td>147</td>
<td>13.7</td>
</tr>
<tr>
<td>Elections are useless</td>
<td>131</td>
<td>12.2</td>
</tr>
<tr>
<td>Elections are a waste of time</td>
<td>112</td>
<td>10.4</td>
</tr>
<tr>
<td>Others</td>
<td>51</td>
<td>4.7</td>
</tr>
<tr>
<td>Total</td>
<td>1,075</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Accordingly, more than a quarter of the respondents (28.2 per cent) did not know whether or not ‘their’ candidates had been elected. Two thirds argued that the candidates were nominated ‘from above’ and three quarters were unsatisfied with the nomination of candidates.\(^{19}\)

Our own results demonstrate that in cases where the RC fails to involve residents, the latter are more likely to be disinterested in both Shequ activities and RC elections. This is particularly true for persons with a higher educational level, cadres, private entrepreneurs, residents with jobs outside the neighbourhood, and male persons. On the other end of the spectrum, the activist category is primarily occupied by elderly women who are jobless, had to retire early, or are dependent on income support. Participation is frequently connected with issues of immediate welfare: many of those who participated more actively had intentions of establishing personal connections to the RC in order to improve their chances to obtain such support. Furthermore, activists were recruited among women who, after their retirement, still looked for a meaningful field of activity, as well as individual and social satisfaction. And precisely those groups have the necessary resource at their disposal: sufficient leisure time for such activities.

Not surprisingly, latent forms of protest against certain voting procedures can be identified. For instance, a female activist in Yongfeng neighbourhood who was not nominated as a candidate due to her age nevertheless gained 30 votes. Moreover, numerous electors stated having voted for only a single person, as they were not familiar with the other candidates. The candidates had neither been introduced to them nor put forth any statements on their working programme.

Many voters demanded that in the future, candidates should introduce themselves personally and substantiate their working programme. Whereas in former elections, candidates were never required to introduce themselves or their working programme, this is now not only explicitly demanded by the election stipulations, but also makes up a strong demand of the constituency. These new demands are thus, concurrently, an outcome of institutional change (introduction of semi-competitive elections).\(^{20}\) In most cases, the implementation of elections is taken seriously and monitored by higher authorities. This seriousness, along with the increasing will of the voters to participate in the nomination of candidates and the practice of using secret ballots have, without a doubt, had an impact upon the political awareness of the electors. For instance, many residents were well aware that in Shenyang’s Tiexi district an RC was removed by the residents due to its inability to solve the crucial issue of water supply. It could not be precluded that such events could happen in their own neighbourhoods as well.

A particularity of Shenyang was the argumentation that not elections but rather competent leaders were decisive for the development of a neighbourhood. Whereas in Shenyang ten interviewees responded accordingly, no such answer was given in Chongqing or Shenzhen. In the case of Shenyang, the activities of RC leaders were primarily assessed by the residents according to the engagement of those leaders in terms of neighbourhood development and were not related to elections.\(^{21}\) A female resident of the Yongfeng neighbourhood expressed this sentiment as follows: ‘The success of this Shequ is connected to
the unconditional engagement of Li Jun [the RC’s chairwoman, the author] and not necessarily to elections.\textsuperscript{22}

Seen from one viewpoint, this argument contains a traditional factor of political culture, i.e. the notion that non-elected officials who exercise their power according to the ‘principle of justice’ acquire greater respect among the people than elected ones who do not.\textsuperscript{23} From a second perspective, this is an expression of a paternalistic experience in the sense that ‘everything depends on a good leadership’. And, thirdly, this argument reflects that the RC is identified with the government or ‘state’. As individuals are not able to impact upon the ‘state’, they merely hope that their leaders will be qualified persons who shall act in the interest of the people. This belief makes it so important for people to have a benevolent leader (\textit{daitouren}) at the top.

Such attitudes are also age-dependent. Elderly people in Shenyang argued that the success of a Shequ was dependent on such a \textit{daitouren}, not on elections. A \textit{daitouren} was depicted as a personal role model, a leader who sets a good example. Younger interviewees disagreed, and preferred instead improvements in the election system.

Yet, even voting on the part of delegates requires the elected to take the interests of their constituents into account. And if the constituents are unsatisfied with the behaviour of RC members, those members may not be re-elected. Given that a job in the RC is strongly connected to elections and – if re-election fails – new jobs are not easy to find, RC members strive to achieve and maintain a positive image among the residents.\textsuperscript{24}

Eventually, elections may serve to reinforce the legitimacy of an RC and its power to bargain with higher authorities (like the Street Offices or district governments), as elected RCs could argue that they were acting on behalf of the residents or in line with suggestions made by their representative delegates.

### 4.7 Attitudes towards the mode of election

Whereas in 2002 merely 99 out of 1,237 RCs in Shenyang were directly elected, no direct elections were held in Chongqing and Shenzhen. The majority of the interviewees (ordinary residents and RC leaders) argued that the population was too large, the organizational and financial efforts required were too extensive and the residents’ interest in elections was too low. The head of a Street Office declared: ‘You have to be extraordinarily familiar with the situation here, otherwise the elections could get out of control.’ On the other hand, the majority of interviewees did not know the meaning of ‘direct elections’. After this had been explained to them, many interviewees noted that, undoubtedly, direct elections were the preferable and more democratic mode of voting.

In principle, the current mode of voting is a continuation of previous electoral modes: the RC selects, the Street Office monitors, a group of hand-picked people votes. Such voting procedures result in low interest in voting. Consequently, the attempt of the party-state to involve people in voting processes is destined to fail.
Only a few interviewees questioned the mode of voting itself. Where the interest in voting is low, residents declared to be uninterested in a particular mode. And delegates rarely cast any doubt upon the mode of election.

Here, the general deficiency in information is an issue. The majority of the interviewees was not informed that other voting instances beyond indirect voting existed, such as direct elections in China’s cities, nor that the central government was voicing its support for direct elections. After the meaning of, and the difference between direct and indirect elections had been explained to them, interviewees responded as shown in Table 4.4.

Direct elections were the preferred mode. But many interviewees explained they would prefer indirect voting only because the preconditions for direct voting currently remained insufficient.

The supporters of direct elections argued that this mode would better represent the opinions of the voters and, therefore, was more democratic. More people would understand the work of the RCs and participation would thus increase. Furthermore, in the case of direct voting, the RCs would also be more accountable to the residents or electors. Finally, the RCs would then represent the will of the residents more explicitly.

Two frequently expressed attitudes could be identified among the supporters of direct elections: (1) ‘If I were called upon to vote, I would do so’, i.e. voting as an obligation, and (2) ‘Voting is my right’, i.e. voting as a distinct ‘legal right’. The first argument was primarily given by people over 50 years old, as well as those with lower educational levels. It represents a more passive attitude that might be summed up by the following line of thought:

if someone asks me to vote, I am on the one hand obliged, on the other hand I am not doing anything wrong, because I am not doing so of my own accord. I am merely following a command from ‘above’.

The second argument, in turn, was put forward by younger interviewees and persons with a higher educational level. Such people comprehended voting as a vested right which should be actively exercised.

Table 4.4 Which mode of voting would you prefer?

<table>
<thead>
<tr>
<th>Mode</th>
<th>Shenyang %</th>
<th>Chongqing %</th>
<th>Shenzhen %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct voting</td>
<td>30.9</td>
<td>45.7</td>
<td>31.7</td>
</tr>
<tr>
<td>Voting by delegates</td>
<td>16.7</td>
<td>8.6</td>
<td>26.8</td>
</tr>
<tr>
<td>Both modes are okay</td>
<td>30.9</td>
<td>17.2</td>
<td>17.1</td>
</tr>
<tr>
<td>Elections unnecessary</td>
<td>1</td>
<td>2.8</td>
<td>9.8</td>
</tr>
<tr>
<td>Sufficient to elect a leader</td>
<td>4.8</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Don’t know</td>
<td>16.7</td>
<td>25.7</td>
<td>14.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Own survey.
In Shenzhen, a large portion of the interviewees associated elections with ‘democracy’. A 60-year-old engineer with a university degree argued in terms of direct elections:

This, undoubtedly, is democracy. But we should keep China’s history in mind. Though democracy is now a global trend, it does not yet work under the current preconditions in China. To establish democracy all at once will not be possible. Several thousand years of feudal history till the era of Mao Zedong – to make it like in Western democracies all at once – impossible. Look at England or the US, even there the presidents are not elected directly. On the other hand, though we have discipline inspection and supervision of authorities now, to take reprisals and to take revenge [against persons who uncover misdeeds, the author] are widespread. Though illegal, officials play golf or privately drive state-owned limousines at the expense of the state. Yet, nobody cares about that. What our country is lacking is an effective control of officials.  

What is stated here is that, in principle, the preconditions of an intact democracy or an effective election system will have to be created first, i.e. an effective judiciary system and legal security in order to curb corruption efficiently.

People supporting direct elections were primarily those with a higher educational level and/or a higher cadre’s status:

The Resident’s Committee must be elected, and not merely because it is decreed by law. By means of elections you become a representative of the masses. You are elected and thus legitimized by the residents. Even voting out should be permitted. For instance, in another neighbourhood a member of the Resident’s Committee was frequently absent. He was, therefore, not re-elected and thus lost his job. Undoubtedly, the current elections are not yet democratic. Everything is still under the control of the Street Office.

The vice-director of the Party School in Shenyang’s Dadong district, who concurrently was a member of the Consultative Assembly for Public Affairs (cf. Figure 4.1) in the Yongfeng neighbourhood, argued for direct elections:

In my opinion, the next elections [of the RC, the author] could be direct ones. The preconditions already exist. And we do not need a turnout of 100 per cent. A turnout of 70 per cent would be absolutely o.k. Direct elections are salient, as indirect ones exclude the majority of the population. In future, even the government and the People’s Congress of the district and the city should be elected directly. One ought to trust the people.

Supporters of direct elections argued that between 70 and 80 per cent of the persons entitled to vote would go to the ballots. This argument contradicted the anxiety of some officials that elections might turn into a disaster due to high rates of voter abstention.
Supporters of indirect elections indicated the causes for their decision as listed in Table 4.5.

The above arguments may be classified in two major categories: (a) subjective items: voters are not yet sufficiently prepared for direct voting; and (b) objective items: conditions are not yet ripe. Here, we may be able to relocate traces of an argument propagated for decades by the Party, namely that it was too early to implement democracy. The Party maintained, furthermore, that the population was not yet subjectively prepared and that the objective conditions (e.g. the low degree of development) would hinder the establishment of a democracy. In fact, these arguments reflect distrust towards the population and the anxiety that democratic methods could lead to chaos, e.g. people might elect persons other than those nominated by the Street Office, or a large group of residents might not vote at all (causing the ‘leadership’ to run into trouble, facing, for instance, the criticism of higher authorities for insufficient preparational work), or that, in a general sense, a situation could occur in which the authorities might lose control over a larger crowd of people in an unmanageable situation.

A more rational argument, offered particularly by officials, was that direct elections were too expensive. Chinese social scientists calculated that the implementation of direct elections, for instance in a single Shequ in Peking, would cost about 100,000 yuan. These costs cover expenses for election propaganda, organizational costs (room rent), remuneration, food and gifts for polling assistants, etc. In Chongqing alone, a city with 1,951 Shequs in 2003, about 195 million yuan would have been necessary for the implementation of direct elections. Neither the respective cities nor the neighbourhoods are able to raise such an enormous sum of money.

Yet, this economical argument is met with a considerable amount of opposition as well. A Chinese survey among various Shequs has shown that costs are high when both the awareness of participation is low and neighbourhood net-

Table 4.5 Why do you oppose direct elections?

<table>
<thead>
<tr>
<th>Answers</th>
<th>Persons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 People don’t know who to elect/don’t know the candidates</td>
<td>19</td>
<td>20.4</td>
</tr>
<tr>
<td>2 Difficult to organize</td>
<td>14</td>
<td>15.1</td>
</tr>
<tr>
<td>3 Low interest of residents/many won’t vote</td>
<td>14</td>
<td>15.1</td>
</tr>
<tr>
<td>4 Creates chaos (luan)</td>
<td>12</td>
<td>12.9</td>
</tr>
<tr>
<td>5 People don’t have time</td>
<td>8</td>
<td>8.6</td>
</tr>
<tr>
<td>6 Lack of awareness among the residents</td>
<td>7</td>
<td>7.5</td>
</tr>
<tr>
<td>7 Lack of necessary premises</td>
<td>6</td>
<td>6.4</td>
</tr>
<tr>
<td>8 Time has not yet come</td>
<td>5</td>
<td>5.4</td>
</tr>
<tr>
<td>9 Too many people involved</td>
<td>5</td>
<td>5.4</td>
</tr>
<tr>
<td>10 Likelihood that people are elected who were not nominated by the Street Office</td>
<td>3</td>
<td>3.2</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Own survey.
works are weakly developed. The costs are significantly lower where the opposite is true. The Chinese research report provides an example as shown in Table 4.6 (Shequ A: low awareness of participation/weakly evolved networks; Shequ B: high awareness/strong networks).

The lower the interest in participation, the higher the material incentives that are necessary for helpers and electors, and vice versa. In fact, it is the belief of officials that people are not interested in voting and that, therefore, the organizational costs would by far outstrip the benefits. Accordingly, a higher percentage of interviewed officials at the levels of districts, Street Offices, and RCs supported voting by delegates rather than by ordinary people (Table 4.7).

Ranking first among officials is the fear of a low voter turnout. They are well aware of the lack of interest in voting among the residents (Table 4.8). And they

**Table 4.6** Organizational costs of elections in two different Shequs (in yuan)

<table>
<thead>
<tr>
<th>Shequ</th>
<th>Total costs</th>
<th>Material</th>
<th>Propaganda</th>
<th>Souvenirs/Remuneration of helpers</th>
<th>Catering</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>80,666.7</td>
<td>26,647.4</td>
<td>14,761</td>
<td>18,484.5</td>
<td>11,500</td>
<td>5,771</td>
</tr>
<tr>
<td>B</td>
<td>9,400</td>
<td>3,000</td>
<td>5,500</td>
<td>–</td>
<td>–</td>
<td>200</td>
</tr>
</tbody>
</table>


**Table 4.7** Which mode of voting do you prefer? (officials)

<table>
<thead>
<tr>
<th>Persons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Election by delegates</td>
<td>22</td>
</tr>
<tr>
<td>Direct elections</td>
<td>5</td>
</tr>
<tr>
<td>No difference between the two</td>
<td>2</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Own survey.

**Table 4.8** Why do you oppose direct elections? (officials)

<table>
<thead>
<tr>
<th>Answers</th>
<th>Persons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Low interest among residents/many won’t vote</td>
<td>6</td>
<td>27.3</td>
</tr>
<tr>
<td>2 Lack of material conditions</td>
<td>4</td>
<td>18.2</td>
</tr>
<tr>
<td>3 Situation could get out of control</td>
<td>4</td>
<td>18.2</td>
</tr>
<tr>
<td>4 Too complicated</td>
<td>3</td>
<td>13.6</td>
</tr>
<tr>
<td>5 Too early</td>
<td>2</td>
<td>9.1</td>
</tr>
<tr>
<td>6 Don’t know</td>
<td>1</td>
<td>4.5</td>
</tr>
<tr>
<td>7 Others</td>
<td>2</td>
<td>9.1</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Own survey.
worry that they might be blamed for any type of failure or low turnout at the polls. Moreover, officials themselves are not very interested in direct elections; they are projected to be little more than troublesome and costly, with small potential benefits.

As we have seen, the interviewees assess the issue of voter turnout rather differently. Supporters of general and direct elections predict a high turnout, opponents, in contrast, a low one. The New Political Economy has pointed out that people do not attend elections if the benefits from participation are lower than the costs. In this case, the time required for voting, the electoral act itself, or the encounter with officials may all be counted as costs.

According to our results, the residents currently assess the significance of elections to be relatively low, as the candidates were nominated by the Street Offices and only selected delegates voted for them. In this way, voting provides individuals with little impact on decision-making. Hence, the residents perceive the (low) costs of participation to be still higher than the benefits.

As mentioned above, the fears of local officials include a low voter turnout. Yet, ‘low’ must be seen in relative terms. Officials classify a turnout of less than 80 to 90 per cent as ‘low’. This has to be seen vis-à-vis the fact that due to compulsory voting, elections to the People’s Congress in urban districts have a turnout of more than 90 per cent. Therefore, higher echelons, officials argue, might expect and demand similar turnouts for RC elections.

On the whole, RC elections are a new phenomenon, a work still in progress. Regularly held elections will foster a learning process, the internalization and training of voting, and participation. On the one hand, this will enhance the citizens’ demand for information and participation; on the other hand, candidates are increasingly forced to present themselves in a more substantial way in order to generate trust and secure their election or re-election. The introduction of direct elections would therefore be instrumental in creating trust and legitimacy.

China’s political leadership is quite aware of this. And that is why it increasingly supports the establishment of direct elections. The Party’s newspaper, Renmin Ribao, pointed out that in the case of indirect elections the Street Offices in fact nominate the candidates. This would negatively affect the identification of residents with their Shequ. Direct elections, as Renmin Ribao says, foster participation and this, in turn, is said to be a prerequisite for self-administration by the residents. Grassroots democracy makes the citizens decide on their own affairs. Direct elections would therefore contribute to the generation of a democratic consciousness, democratic capabilities, and democratic habits of citizens.

Indirect elections do not meet with the approval of the residents. Moreover, they are detrimental to the prestige of elections and of the RCs. As the residents do not have much impact upon the selection of candidates, their interest in voting is low. Furthermore, the residents gained the impression that the authorities are not interested in the real participation of the people. One could therefore argue that indirect elections constitute a sort of institutional distrust, since the authorities are well aware that the voters’ turnout would be low and therefore could have repercussions on the legitimacy of the regime.
Currently, the central government is working to popularize direct elections at the local level throughout the country. But there is a strong resistance against these efforts among urban authorities. The latter worry they might lose control over electors and candidates, resulting in a reinforcement of cleavages and conflicts between the population and the local authorities.

Undoubtedly, direct elections would enhance the RCs’ legitimacy, albeit the voter turnout might be low as long as the constituency does not perceive the RCs as organizations representing their own interests, as well as those of their neighbourhood.

Certainly, indirect RC elections have an impact on voting delegates. But as long as they are loyal to the RC and their loyalty is not placed in doubt on the grounds of misconduct or general ineffectiveness of the RC, and as long as the residents do not pressure the voting delegates to champion their interests, the effects of elections may be limited. The Street Offices are still monitoring the RCs, not the residents. Nonetheless, as noted in the foregoing sections of this chapter, there are cases in which RCs were successfully removed by the residents after the committees had proven to be unable to solve urgent problems.

### 4.8 Electoral effects

According to the 1997 *Carter Center’s Field Report*, village electoral processes were significant for three reasons: (a) the election law defines the basic norms of a democratic process: secret, direct, and competitive ballots; (b) each election period enhances and expands the technical capabilities for holding elections; (c) the openness of the government in terms of opinion exchanges with experts of the *Carter Center* proves that the former is significantly interested in electoral processes.\(^{31}\) Essentially, this is also true for urban elections, even if they are still getting off the ground. International comparative research reveals that increased competition in elections goes hand in hand with an increase in the number of politically interested people and thus of voters.\(^{32}\) Hence, the introduction of direct elections in urban areas could function as a catalyst to increase participation.

The enhancement of political participation and politically active citizens are crucial features of political modernization. Even if *Shequ* elections are still a form of mobilized (and not autonomous) voting, it would be wrong to categorically deny the participative character of such elections. The party-state does determine the selection of candidates and – in the case of indirect elections – the composition of the electoral bodies. Nevertheless, behaviour resulting from mobilized patterns of political participation (for instance the right to vote), the right of elections in accordance with the regulations, and the possibility of voting out officials may be internalized and eventually lead to more autonomous patterns of participation. Furthermore, mobilizing forms of elections create opportunities for electors, for instance by placing certain requirements on candidates or requiring an account of their work at the end of a year. Thus, electors can impose restrictions on and monitor the candidates (by means of
The economic theory of democracy assumes that electors behave rationally by voting for those candidates who, they presume will bring them more benefits than others in the future. That is why in present-day China, candidates or elected officials have to act in a certain way on behalf of the interests of their constituents so as to be elected or re-elected.

Therefore, the simplistic argument, which states that elections were merely an instrument of legitimizing authoritarian structures or monitoring people, does not hold water. Instead, they exhibit a more ambiguous character. In contrast to indirect elections, direct ones concede a certain degree of participation to the population, even if this participation takes a mobilized form.

Residents have the opportunity to participate in the selection of candidates and to discuss their respective programmes. This enhances the articulation of common interests, the nomination of candidates who will act on behalf of the demands and interests of the residents and the election of people capable of bargaining successfully with the Street Office or the district government in order to realize those interests.

The appeal to conduct ‘democratic elections’ may encourage people to make their own demands and work to achieve their shared interests. Moreover, the common accomplishment of even minor demands (e.g. those related to the improvement or maintenance of housing conditions or infrastructure) reinforces the sense of efficacy of the residents. This, in turn, fosters the will to participate and a common sense of community.

The majority of the interviewees who were electoral delegates declared that the content of the following statements had positive effects on elections:

- Elected persons have a stronger sense of accountability, because they were elected and wanted to be re-elected.
- People who do not show any engagement for the demands or interests of the residents will not be re-elected.
- Residents increasingly put forward suggestions and voiced their opinion.

Making suggestions and expressing opinions are salient indicators of participation. Our interviews revealed that a certain percentage of the interviewees declared to have raised suggestions or voiced opinions (see Table 4.9).

Almost half of the respondents conceded that they had occasionally offered suggestions or expressed their opinions during RC meetings. Not surprisingly, the suggestions were predominantly concerned with matters of everyday life in the neighbourhood: complaints about deficiencies in public security or cleanliness, noise produced by street traders or craftsmen, the increasing number of dogs, arbitrarily parked bicycles, cars driving too quickly within the neighbourhood, etc.

Predominantly, residents with more prominent positions (veteran Party members, officials of the district authorities, larger entrepreneurs, etc.) made suggestions concerning the development of the Shequ as such or even articulated
substantial criticism. In Shenzhen, for instance, we interviewed an 86-year-old Party veteran who told us that he had criticized the director of the general office of the district government during a meeting, charging him with having requested the residents to express their opinions, but in the end ignoring their suggestions. The district government and Street Office, he argued, were making decisions without taking the opinions and suggestions of the people living in the neighbourhood into consideration.36

Our survey did not reveal any correlation between elections and an increase in suggestions or opinions. Such a correlation existed rather in the minds of many interviewees. The participation in the electoral body as a supervisory instance of the RC gave those interviewed the idea of being able to offer more suggestions and opinions. They received, therefore, the (fictitious) impression that more and more suggestions had been put forward.

Without a doubt, the introduction of direct elections will reinforce the power of the Shequ vis-à-vis the state. And the Party’s assertion that elections were democratic could be utilized by the population to enhance its social space. Such an enhancement could, in turn, occur by nominating non-Party candidates or candidates who stand for the common demands and interests of the residents and their neighbourhood. Hence, participation could be comprehended as a learning process and as a crucial element in political socialization. Modes and patterns of participation must be ‘learned’ as a precondition for participating in matters of one’s own neighbourhood. And participation requires information which foments political awareness in order to build awareness and civil capacity. Moreover, it requires organizational capacity in order to prevent that participation remains merely a matter of officials. Subjective and organizational capacities (or efficacy) make up two central pillars of participation which will have to be learned in the Shequ and in apparently non-political social spheres.37

4.9 Why elections?

Why then did the Party permit elections?

First, participation does not pose a challenge to the rule of the Party. The political leadership does not comprehend the RCs as a parallel power structure.

---

<table>
<thead>
<tr>
<th></th>
<th>Shenyang</th>
<th>%</th>
<th>Chongqing</th>
<th>%</th>
<th>Shenzhen</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
<td>51.7</td>
<td>7</td>
<td>43.75</td>
<td>6</td>
<td>40.0</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>48.3</td>
<td>9</td>
<td>56.25</td>
<td>9</td>
<td>60.0</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>100.0</td>
<td>16</td>
<td>100.0</td>
<td>15</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Own survey.

Note
Refers to interviewees who responded to this question.
The Party branches or committees in the Shequs are still the dominant and decisive organizations within the neighbourhoods. Second, the neighbourhoods are monitored by higher echelons of the government and Party. In the case of ‘deviance’ the latter may intervene, for example by means of a transfer of new officials into the Shequs.

Karklins discerns three patterns explaining why authoritarian regimes conduct elections: (a) in the interest of the legitimization of a regime; (b) in order to socialize the masses politically; (c) in order to mobilize the population. A fourth pattern could be identified as ‘integration’ based on equality and equal rights within a community (a Shequ), i.e. the integrating of Party members and non-Party members, of officials and non-officials, as well as of various social strata.

At the same time, elections are a sign of a political relaxation, and they can provide information on discontent and opposition among residents. In addition, they foster the removal of incompetent and unpopular officials, thus constituting a corrective of power. They are, therefore, a stimulus for officials to behave and act in the interest of the voters. In this way they contribute to regime legitimacy and regime stability. Elections, finally, can serve to make a political system more receptive to change.

The foregoing features of elections are, without question, critical, as they justify the legitimacy of a regime. They also possess a psychological function: elections contain the symbolic message for the population that there is no alternative to the rule of the Party and that participation will be confined to institutionalized channels only. ‘Participation in the great charade of totalitarian and authoritarian elections’, writes Karklins, ‘is highly valued by the regime, because the act of each citizen in being part and parcel of it is a small, but significant politico-psychological victory.’

In election theory, electoral processes are discerned as opportunities for citizens to have an impact on political leaders. Elections foster support for a political regime. Theories of democracy have proven that a correlation exists between voter turnout and regime legitimacy. Fair and regular elections create a sense of trust and efficacy and therefore of regime legitimacy. That is why the Chinese leadership strives to learn from electoral processes in ‘Western’ countries: it intends to increase state capacity, legitimacy, and governance.

Elections do not necessarily represent a challenge to the Party’s political monopoly. General, competitive elections could rather reinforce good governance in a way that elected candidates are more strongly held to the interests of the electorate in order to guarantee their re-election.

Legitimacy is primarily grounded in a government’s or officials’ performance in terms of various policy-related arenas, as well as the pursuance of national goals and interests (such as nation-building and working to create a ‘strong’ global power). The party-state is currently attempting to increase legitimacy in urban areas by stabilizing the urban grassroots units (neighbourhood communities), as well as providing reinforcement in the areas of social security, welfare and public security. Further measures aim at creating a solid living environment.
In March 2005, *People’s Daily* noted that a ‘serving government’ (*fuwuxing zhengfu*) was crucial in generating and maintaining people’s satisfaction with the government. These tasks fall under the jurisdiction of the *Shequs*, i.e. the locations where people experience first-hand the fulfilment of such measures.

Our survey revealed that different social groups develop different notions and criteria in terms of legitimacy. Currently, elections play a minor role. Only states which succeed in protecting their citizens against social insecurities and risks are successful in acquiring legitimacy. Such insecurities and risks concern both socially weak and socially strong people. State income support supports the socially weak, but simultaneously reassures better-off citizens that they would be able to count on the state’s support in the case of need. This produces a feeling of subjective social security. The RCs make great efforts to become carriers of legitimacy. If they succeed, legitimacy will become more visible for citizens and will trickle down from the central to the local and sub-local levels.

### 4.10 Conclusion

As Huntington has noted, participation assumes a more spontaneous character in a phase of adaptation or social change, whereas electoral participation becomes more and more salient in order to involve people in controlled processes of participation. Locally, social control will contribute to impact upon the behaviour of officials and to give the people the impression of efficient participation. This is entirely in the interest of eventually improving both governance and enhancing regime legitimacy.

Therefore, elections are an expression of the intention of the political leadership to enhance patterns of controlled participation. To reach its modernizational goals, the party-state needs participation and initiative stemming from the population. Since the commencement of economic reforms, the party-state has increasingly withdrawn from more and more spheres of societal (social) life. This, for instance, is the case both in the field of economics (decrease of the state- and collective-owned economy compared to the private sector), and in residential areas (dissolution of the *danwei*-type residential areas; conversion of public living space into private property). Increasingly, more and more social spheres (environment, hygiene, administration of residential areas, social welfare) are gradually to be handed over to the neighbourhoods. Yet, as for decades the patriarchal socialist state was responsible for all those issues, the degree of participation among the population is still rather low.

The function of elections is based on generating legitimacy and improving the efficiency of governmental action. Direct elections undoubtedly support these goals. Urban citizens tend to prioritize social security over participation and volunteering. This is the reason why urbanites are currently neither very interested nor well informed about elections. They do not consider ballots very important. Social security and the improvement of one’s living standard remain crucial.

Certainly, the enhancement of participation and elections are prominent features of both political modernization and democratization. It may be too early to
implement democratization, as the material preconditions in China are still insufficient. Without economic security, elections and participation might not become crucial elements in the minds of Chinese people. As long as people are primarily concerned with solving their urgent social problems and their daily survival, political participation and elections may only play a minor role for individuals. Similarly, Pei Minxin noted that opinion polls would still reveal that the majority of the population prefer economic development to political democracy.46

4.11 Appendix

This article is based on extensive field research conducted in 2003 and 2004. Urban research was carried out in cooperation with the Institute of Sociology of the Chinese People’s University, and was sponsored by the Deutsche Forschungsgemeinschaft (German Research Association). Field research was conducted in six Shequis in three cities (Shenyang, Chongqing, and Shenzhen).

Interviews based on qualitative techniques were carried out, for which a series of semi-standardized, open-ended questions were prepared. In total, 140 residents and 38 officials (on the level of urban districts, Street Offices and RCs) were interviewed, and statistical data and written material was obtained from Party and government documents and publications.

Eighty-four of the resident interviewees were female (60 per cent), 56 male (40 per cent); 31.4 per cent were over 55 years old, 42.1 per cent between 36 and 55 years of age. The percentage of people under 35 (26.5 per cent) was relatively low. Due to their occupational duties, the latter were rarely at home. Our interviews further revealed that younger people were in large part unfamiliar with the situation in their neighbourhoods and, as a rule, did not participate in any activities there as long as they were not unemployed. Therefore, they had only very limited knowledge about Shequ activities.

The RCs that aided us in organizing the interviews endeavoured to arrange a representative selection of interview partners. We were thus provided with the opportunity to interview drug addicts, prostitutes, and persons who had previously been charged on criminal convictions.

One crucial problem we faced was that people with daytime working hours were largely unavailable, returning only late at night. Although we even conducted interviews in the evening and on weekends, the number of interviewees that were currently employed was somewhat limited. On the other hand, interviews with this group (entrepreneurs, self-employed, managers, etc.) revealed only slight differences in opinions.

During the daytime, predominantly elderly and jobless people were available. Those interviews enabled us to gain important insights regarding the living conditions of the urban poor, especially as many of the interviewees were members of poor households that received state income support.
4.12 Notes

3 Interview, Civil Affairs Bureau, Shenzhen, 4 March 2004.
4 See, for instance, Banducci and Karp 2003.
7 Chen and Zhong 2002: 1ff.
8 Shi 1999.
10 See, for instance, Renmin Ribao, 31 March 2003.
15 Interview, 28 July 2003.
17 Interview, Shenzhen, 28 February 2004.
18 Interview, Shenzhen, 23 February 2004.
21 A similar assessment: Wei 2003: 18–19:

   in the Chinese social context, non-elected officials tend to enjoy more respect than the elected ones, as long as they govern according to the principle of justice.... The people have no reason to trust anyone who is authorized with the tremendous power of government, whether he or she is elected or not.

22 Interview, Shenyang, 3 March 2003.
24 Yet, such processes are partially circumvented by Street Offices and district authorities. Interviewees frequently complained that RC members who were not re-elected were transferred into other neighbourhoods by higher authorities.
26 Interview with the former Party Secretary of a RC in Shenyang, 4 March 2003.
27 Interview with the vice-director of a district’s Party School, Shenyang, 8 March 2003.
28 According to Professor Li Lulu, director of the Institute of Sociology at the Chinese People’s University, Beijing, 11 March 2004.
30 Pan 2004.
33 On the difference between mobilized and autonomous forms of participation, see Huntington and Nelson 1976: 7–10.
34 Downs 1957.
35 Certain historical similarities may be identified. For instance, in the first provincial elections in early twentieth-century China, only specially invited persons were admitted to vote. The majority of the population was excluded. At the 1909–1911 elections, only 1.7 million out of the 400 million people were entitled to vote, cf. Fincher 1981; Thompson 1995.
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Part II

Political economy
5 Principles of property rights evolution in China’s rural industry

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5.1 Introduction

One of the most successful elements of the Chinese reform and transformation process has certainly been the development of rural industry. The origins of China’s rural industry date back to workshops that had been set up in the people’s communes during the 1960s and 1970s in order to maintain and repair farm machines, e.g. tractors, water pumps, etc. (Putterman 1997; Chang et al. 2003). It was, however, only since the reform era initiated in the late 1970s that these non-agricultural production units became independent business units (Chang et al. 2003). Known since the early 1980s as township village enterprises (TVE),¹ these enterprises have developed into a highly important economic factor for economic development and social stability in China’s rural areas. Over the past two and a half decades in China, rural enterprises have made a significant contribution to the strengthening of social structures in that they have created jobs and a second (industrial) pillar in the rural areas of the Chinese economy. At the beginning of the twenty-first century they were responsible for the contribution of nearly one half of China’s industrial value added, about a quarter of the GDP and provided one quarter of the jobs available in China’s rural areas (Xiangzhen qiye tongji nianjian, various).

The rise of these enterprises has been accompanied by a very substantial alteration of property rights structures in China’s rural areas. Property rights which had been formerly assigned to the people’s communes and their members have been reallocated in various steps to other actors, giving rise over a period of time to the phenomenon of so-called ‘vaguely defined’ property rights structures (Weitzman and Xu 1994; Li 1996). This process continued until eventually clearly delineated, exclusive private property rights became dominant (Li et al. 2000; Li 2003). Today the very concept of – more or less – collectively owned TVEs has become almost obsolete, as the bulk of rural industry has been transformed into private ownership.

At first sight this development of property rights structures in China’s rural industry seems to comply with the ‘naïve’ theory of institutional change, according to which institutional change follows a unidirectional path towards lower transaction costs and higher efficiency (Demsetz 1967). The impression arises that institutional change, i.e. the establishment of clearly delineated, exclusive
private property rights, in China’s rural industry is founded in the rational and efficiency-enhancing behaviour of the involved stakeholders. Institutional innovations are implemented whenever the transaction costs involved in such a change are covered by the expected benefits and increases in net welfare arise (Schramm and Taube 2005).

But how can this be? At least until the late 1970s the Chinese economic system had been designed in a way that appeared to run counter to any notion of cost consciousness or economic efficiency. These parameters seemed to be of minor importance in comparison to ideological considerations as well as military strategy. The ‘Great Leap Forward’ as well as the ‘Third Front Strategy’ constitute just two (prominent) examples of this approach. Why should institutional change suddenly become based on considerations of transaction costs and economic efficiency?

The intention of this chapter is to highlight the forces that have been changing the property rights structures in China’s rural industrial sector during the last two decades. The point of departure for the analysis is the Northian notion of the role of the state for the specification and distribution of property rights (section 5.2). The concepts developed by North are then discussed in the specific Chinese context. Section 5.3 highlights the role of changing ideologies for the development of China’s rural industry. Section 5.4 discusses the changing relationship between local government representatives and business managers and the corresponding property rights structures. Section 5.5 deals explicitly with the mechanisms driving the evolution of property rights structures and their overall tendency towards a system of clearly defined and exclusively assigned private property rights. The argumentation is supported by a set of boxes depicting the case of the Hengdian Enterprise Group. A summary of the results concludes the chapter in section 5.6.

5.2 The role of the state in the outline and change of property rights structures according to Douglass North

Property rights are defined with respect to material and immaterial objects. Their raison d’être does not, however, lie in the specification of man–object relationships. Rather, the demarcation and distribution of property rights are instrumental for the creation of a system of order that clearly outlines the decision-making power that various economic actors possess in relation to the objects of economic interaction. Accordingly, property rights define man–man relationships and elevate mankind from the Hobbesian jungle.

But how are property rights specified? According to which criteria are they distributed? Who is responsible for the property rights structure shaping economic interaction in a given society or group of individuals at a certain point in time? When and by whom are existing property rights structures changed and modified?

The answers put forward by Douglass North are based on the fundamental concept that any specification and distribution of (contract-specific) property
rights will go along with a corresponding exclusion of economic actors from the (free) use of a certain resource. Therefore, the formal delineation of property rights structures must lie with an organization endowed with a comparative advantage in the execution of force: the State (North 1981). However, according to North (1987: 422) ‘political systems have an inherent tendency to produce inefficient property rights’. The consideration in question is that political decision makers are faced with a conflict of objectives: on the one hand, they are driven by the motive to maximize their (tax) incomes; on the other hand they must provide the economy with an institutional setting that minimizes the transaction costs of economic interaction and therefore facilitates a high (taxable) national product. This implies three fundamental problems (North 1981):

• The two policy goals outlined above are not fully compatible. Any delineation of property rights structures will, therefore, result in a compromise, the actual outcome depending on the relative importance attributed to each of the two goals.

• Certain tasks with regard to the specification and implementation of property rights will have to be delegated to agents, which require supervision. The principal–agent problem arises with all its consequences.

• The services offered by the state show different supply curves. The specification and implementation of property rights will, therefore, depend on the relative transaction costs involved.

When can the state be expected to alter existing property rights structures and invest resources in the redistribution of already established property rights, as well as the specification and distribution of new ones? Two parameters appear to be of decisive importance:

• Changes in the objectives pursued by the state. Such changes arise on the fundamental level of shared believes that unite the leadership elite and imply the modification of the basic ideology shaping state policies.

• Changes in the relative costs of transaction. These changes may be effected within the state organization itself, i.e. in the interaction between different government organizations (e.g. central and local government agencies), in the business sector with respect to the transaction costs of specific business transactions, as well as in the area of state and business interaction, i.e. the control of business units and the assertion of tax payment claims by the state, etc.

To what extent can these considerations be applied to the birth and development of China’s rural industry, as well as its underlying property rights structures?
5.3 Changing ideology as a catalyst for China’s rural industrial development

The Northian notion of the tendency of political systems to produce inefficient property rights structures seems to run counter to the evolution of property rights in the Chinese TVE sector. A position holding that the increasingly ‘unambiguous’ property rights structures which have arisen in recent years have been relatively inefficient institutional arrangements would be difficult to defend. Or, further, that these same institutions were created by government officials pursuing their own self-interest and abusing their power in order to establish institutions in opposition to the preferences of other actors is unlikely (Skaperdas 1992; Opper 2002). The impression is rather that this process of institutional change has primarily been driven by the joint interests of the major stakeholders involved and has reflected their quest for a property rights structure involving fewer transaction costs and a greater efficiency. But what could be identified as the driving forces of such developments?

On a fundamental level, changes in the ideology pursued by China’s ruling elite have paved the way for a reorganization of industry, as well as the search for new institutions and property rights structures. This ideological breakthrough has resulted in a reshuffling of incentive structures and a commercialization of China’s bureaucracy. Two watershed events may be distinguished (Bell et al. 1993; Qian 2000, 2002):

- At the third plenary session of the Central Committee in late 1978, the main contradiction in Chinese society was defined to be the insufficient performance of the economic system in relation to the material needs of the population. The Maoist notion of the main antagonism being the discrepancy between the bourgeois and proletarian classes was discarded.
- In 1992 Deng Xiaoping proclaimed the ‘socialist market economy’ as the order for China’s new economic system. It was declared that the market mechanism constitutes nothing more than a means to achieve economic development and growth. The mode of economic interaction in a society was declared not to be a defining characteristic of socialism.

Especially with this latter revolutionary reinterpretation of Marxian concepts, the road has been paved for a fully fledged transformation of the Chinese economic system into a market economy. There is no longer the need to justify each reform measure in terms of its accordance with Marxism–Leninism. These ideological innovations have created tremendous institutional arbitrage potential in all areas of society. With the redefinition of the official party line, completely new patterns of interaction between central and local actors, government and enterprise, Chinese and foreign actors have become permissible – with each of these new fields of interaction also being in need of an adequate institutional framework. And as changes in one area resulted in new transaction cost structures in other areas, the whole system was transformed into a state of flux. Once
the dam broke, the whole system became an amorphous mass searching for a new equilibrium, i.e. a new overall institutional fit.

The Hengdian Industrial Complex

(1) Birth in Times of Political Turmoil and Ideological Change

The Hengdian Enterprise Group of today is a highly successful corporation with over 30 subsidiary enterprises in China, an additional three subsidiaries located abroad and six international joint ventures. In 2005 the Group’s highly diversified business activities (in six major business fields: electronics and electrical systems, the pharmaceutical and chemical industries, film and entertainment, property investment, education and consumer health, high-tech agriculture) generated a turnover of more than ten billion yuan RMB. The origins of this corporation, however, date back to a period when complementary economic activities in China’s rural areas which did not belong 100 per cent to the sphere of agriculture were still regarded as the ‘stinking tail of capitalism’.

The People’s Commune of Hengdian was located in a poor mountainous region in Zhejiang province endowed with little arable land and devoid of proper logistical access to neighbouring cities. Starting in 1968 the people’s commune began to focus its activities on the cultivation of silk worms, and a few years later it was already producing one third of the county’s (xian) silk worms. In the early 1970s the people’s commune had already tried to establish various side industries in order to improve the livelihood of its members, most of these ventures, however, had been aborted due to political considerations or other obstructing factors. This would all change in 1974 with a bumper silk worm harvest. With the majority of the state-owned silk producing enterprises still maintaining a production standstill in order to participate in the various campaigns of the Cultural Revolution, Hengdian could not find an outlet for its goods. The bumper harvest threatened to become a major disaster for the people’s commune. It was then that Hengdian People’s Commune, and its party secretary Xu Wenrong in particular, set out to establish its own silk worm processing plant. After a gruelling application process, permission was finally granted in April 1975 and the Dongyang County Silk Plant was formally established. The plant continued its operations in the following years and became the focal point of the later Hengdian industrial complex.

What were the reasons that this venture was approved by the authorities despite a political climate that was anything but accommodating to these types of rural side-activities? First and foremost, the approval was in the ruling elite’s best interest. On the local level, it was necessary to provide the Hengdian people’s commune with a means to sustain the livelihood of its members and prevent local famine. On the macro-level, the insight prevailed that raw silk and processed silk products constituted one of the most important export products and were therefore a valuable means to earn
scarce foreign exchange. With the state-owned enterprise sector bogged down by political campaigns, a collective production unit posed the perfect solution to prevent the silk worm export industry from grinding to a halt, while at the same time maintaining the ideological pressure on the urban population. And, probably most importantly, with Deng Xiaoping regaining political influence in Beijing, the general policy line towards the rural sector softened considerably and rural side-activities became politically acceptable. Decentralized decision makers promoting the new arrangement for Hengdian could hope for political backing from their superiors.

Extraordinary pressures on political decision makers (danger of local famine and dramatic loss of export revenues), coupled with first signs of a changing ideology, paved the way for the start of Hengdian’s industrial future.

*This case study is primarily based on information provided in Chen 2002. Actual developments are presented on the company’s official homepage at www.hengdian.com.

The case of the Hengdian industrial complex highlights a typical development pattern: while the original industrial venture had been a business unit initiated and operated inside the confines of the local people’s commune and its administrative bodies, the Hengdian Group went on to become independent of local government bodies. In other cases industrial enterprises have evolved without direct involvement from local administrative bodies (people’s communes or their succeeding governmental organizations), but have received at least passive support by being allowed to develop and establish a second economic cycle outside the existing party/government controlled system. As a matter of fact, beginning in the late 1970s the integrated concept of political leadership, i.e. party and government, and business management has been gradually broken up into a system in which two independent players are embedded in a flexible strategic partnership. The question arises as to what motivation there might have been for the political sphere to grant substantial freedom to a new (functional) actor and invest him with corresponding property rights. In addition it will have to be explained out of what for incentive structures these now – relatively – independent actors have been operating, seeking close cooperative relationships and entering strategic alliances.

The question of why new functional players were permitted to arise in the existing system at all must be answered against the background of an existing system which was becoming increasingly dysfunctional. In the middle of the 1970s China’s agriculture had proven its ability to feed the population, while it still had reserves that could be used productively. At the same time, the urban society was paralysed by the excesses of the Cultural Revolution and the highly politicized industrial sector had become highly unproductive. In this situation any initiative from the rural sector, then regarded as much less politically sensi-
tized, which was capable of improving the performance of the economic system and strengthening the material livelihood of the population, would most likely have been welcome. The rural sector was the logical site for any compromises in the existing ideological superstructure, insofar as it did not impact the main front of the party’s ideological struggle in the urban areas. The establishment or toleration of a new type of economic player invested with increasing liberties and decision-making powers (i.e. property rights) was, therefore, especially in cases like that in Hengdian, where the principal representative of the new type of economic activities was a prominent figure in both the party and the government hierarchy, a rational decision designed to strengthen party leadership during a period of crisis.

5.4 Changing relationships and the evolution of new property rights structures

One of the most important parameters in the ensuing evolution of new property rights structures in China’s rural industry has probably been the redefinition of the relationship between central and local government organizations. With the devolution of decision-making power and the decoupling of local government budgets from the central government, local governments entered the economic arena. They suddenly faced an environment in which not only their budget constraints had been considerably hardened (Cao et al. 1999), but at the same time local governments also became the real residual claimants of their local (public) economies (Li et al. 2000; Shieh 2002). Economic profits or taxes paid on these profits by local business units could be retained and employed for locally defined policy goals. As a consequence, the incentives for local governments to promote entrepreneurial initiatives and to improve the business environment of their jurisdictions were significantly higher. Behaviour which reduced transaction costs was now highly rewarded and an entrepreneurial spirit became the key to dynamic development and local prosperity (Vogel 1989; Wedeman 2003).

These developments alone, however, would not have been sufficient to create the institutional innovations in rural industry as we know them today. In order to explain this evolution, two more elements had to come together:

- Local governments did not only find themselves in an environment in which they had to generate their own income, but they were also suddenly facing strong competitive pressure from other localities. The promotion of entrepreneurial innovation and transaction cost reducing measures, therefore, did not only constitute a new choice, they actually became a ‘must’.
- Strategic alliances between local government bodies and local industry management became the best practice solution for the parties involved. Only by means of a rearrangement of property rights between these stakeholders did it become possible on the one hand for managers to lead their industrial business units/enterprises to economic success and for local governments to maximize their economic rents and tax income on the other.
The position of the local governments vis-à-vis the newly developing industrial enterprises (TVE) within their constituencies has certainly been determined by the pressure they have faced to generate their own incomes and, in addition, their intention to share in the rents that have been created in the reform and opening process. As these rents have been distributed in a highly dynamic competitive setting, any move to maximize local income by local protectionism has not posed a viable option (Zweig 2002). Competition between local governments has rather forced them to create new competitive institutional settings for the economic entities located in their jurisdictions. The reduction of the transaction cost places a burden on the local business environment and has therefore become instrumental to the goal of income maximization: the Northian conflict of goals has, therefore, at least partially, been overcome. Local governments have experienced strong incentives to cater to the needs of the TVEs in their jurisdictions.

Seen from the perspectives of the TVEs and their management, the rationale for close cooperation with local governments was founded on two pillars. First of all, for many TVEs there was simply no alternative to close relationships to local governments at all. Originating in the internal division of labour of people’s communes, most of the workshops had no legitimate basis outside of these communes and their successor organizations. Only later on, as these work units became (more or less) independent production units and economic entities, did the political and management spheres become separated and there arose the issue of designing a ‘local government – TVE management’ relationship (Chang et al. 2003). But even then close relations to the local government constituted the best solution for most TVEs. Conducting their business in an environment which lacked the institutional framework for ‘regular’ market transactions (Krug and Polos 2000), these enterprises had to survive in surroundings where the ‘good will’ of local government was decisive for the success or failure of their business operations. In the face of restricted access to external investment, acquisition and distribution channels, insufficient contract security, etc., close cooperation with local government bodies and even the organization of the enterprises as ‘community property’ shared by management and local political leadership constituted a perfect strategy to secure the inputs necessary for successfully operating a business (Che and Qian 1998; Hsiao et al. 1998; Krug and Mehta 2004; Li 1996; Smyth 1997).

The Hengdian Industrial Complex

(2) Between Collective Ownership and Private Enterprise, 1975–1999

With the foundation of Dongyang County Silk Plant the people’s commune of Hengdian had ventured into the industrial sector. The plant was registered formally as an enterprise owned and operated by the people’s commune. As such, the property rights for this venture had to be understood as being collectively owned. But which party had invested in the plant and could, therefore, claim to possess an ownership title to the
material assets of the enterprise? The answer is simple: no party has ever paid any registered capital with regard to the Dongyang County Silk Plant. The ‘start up capital’ of the enterprise was comprised of a 50,400 yuan RMB loan provided by all 39 production brigades of Hengdian people’s commune in 1975 (which equals 2.4 yuan RMB per member of the people’s commune), a loan of 2,000 yuan RMB directly from the people’s commune, as well as a loan from the local credit cooperative amounting to 245,400 yuan RMB. All these loans were repaid in due course, no outstanding non-commercial liabilities remain.

As a result of this constellation, the property rights distribution of the original Dongyang County Silk Plant and the industrial complex which developed out of this first venture had been fuzzy at the least. In 1994 this matter was alleviated to some extent by a formal document (gangyao) which presented an official outline of the property rights distribution for the Hengdian Enterprise Group. According to this document, the ownership of the Hengdian Enterprise Group lies neither with the local, regional nor provincial government, nor the village collective nor any individual person, but rather with the employees of the corporation. In this context, the notion of ‘corporate employees’ is invested with an independent identity, as the identities of its members are permanently changing. Ownership titles are granted with the signing of the labour contract and expire with an individual’s departure from the corporation – be it due to a change of jobs, death or other reasons.

It should however be noted that in the middle 1990s, about 70 per cent of the local adult population was working for the Hengdian Group. As a result, de facto every family in Hengdian was in some way connected with the Group and held some ownership titles.

The property rights distribution outlined in the 1994 document seems to define the worst of all worlds. Conventional property rights theory tells us that joint ownership by a large group results in a situation in which the guiding principle of a convergent distribution of property rights, i.e. the fit between effort and remuneration/sanction, is lost. As a result, commonly owned resources are appropriated for private use and shirking becomes a dominant strategy, as the individual input to the joint production process has only a marginal impact on the overall output value and therefore the share that this individual is allocated from the overall residual income.

Nonetheless, taking a closer look at the case of the Hengdian Enterprise Group, these negative effects do not show up. Instead, the overall structure of an equitable distribution of property rights among the employees turns out to be a mirage. The structure actually serves to invest the various owners of property rights in the Hengdian Enterprise Group with greatly varying degrees of decision-making power. Table 5.1 provides an overview of the various ownership ‘classes’ existing at the Hengdian industrial complex, differentiating between the fundamental property rights dimensions usus (rights defined with regard to the decision of the
field in which a resource is employed), *usus fructus* (rights specified with regard to the appropriation of, or liability for, the positive/negative results of the utilization of a given resource), *abusus* (rights defined with respect to the destruction of a given resource, for example in the process of its utilization in a certain field), and *transfer* (rights specified with regard to the transfer of all or parts of the decision-making powers defined for a resource to a third party).

The differences in the actual decision-making power as regards the property rights distributed among various ‘classes’ of owners cannot be deducted from the 1994 document, but describe a de facto constellation based on informal agreements between the stakeholders. As a matter of fact, the 1994 document provides substantial freedom in the organization of the enterprise, as important elements of the corporate governance are not outlined. The document, for example, does not declare how residual profit generated by the enterprise shall be distributed among the stakeholders, nor does it outline the way in which the owner–employees may audit and control top management.

As a result of this constellation, the Hengdian industrial complex is de facto controlled by its top management and Xu Wenrong – former party secretary of the Hengdian people’s commune, adamant promoter of the establishment of its industrial activities and CEO of the Hengdian Group – in particular. The top management is obviously not subjected to any institutionalized control mechanism by any external or internal power. At the same time, however, it cannot present any ‘hard’ legitimatization for its rule and has no legal recourse in case of conflict with influential governmental/administrative bodies. With regard to the day-to-day business of the enterprise, however, the separation between government and business seems to work and no discretionary interventions in management decisions are discernible.

The lack of a formal monitoring mechanism for the top management may, in effect, be counterbalanced by two informal mechanisms: trust based on the notion of secured expectations as outlined by Dasgupta (1988), and the prevalence of a small group environment, where any non-conforming behaviour is instantly detected and sanctioned within the group. Xu Wenrong, the main leader of the Hengdian Group, for example, has a long track record of successful management in local affairs, and is deeply rooted in the local community with his family. He, therefore, possesses the well founded trust of the local population in his abilities as a (business) leader. At the same time, he faces the threat of direct sanctions against him or indirectly against his family if this trust should be betrayed. Xu Wenrong is locked in to the Hengdian Group and the local community. For him opportunistic behaviour would come at a high price.

Inside the corporate decision-making hierarchy an intricate system of performance-based management contracts has been established. Due to a performance evaluation that provides for substantial positive and negative
Table 5.1 De facto distribution of property rights among Hengdian stakeholders according to the 1994 contract

<table>
<thead>
<tr>
<th></th>
<th>Usus</th>
<th>Usus fructus</th>
<th>Abusus</th>
<th>Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community of Hengdian</td>
<td>–</td>
<td>Hengdian Industry Group has declared its willingness to help the community in its development, but does not accept any formal obligation beyond its regular tax payments</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Holding management</td>
<td>Full decision-making power regarding strategic business development, investment activities, top management</td>
<td>Full decision-making power regarding the distribution of residual profits</td>
<td>Full decision-making power with regard to the delegation of decision making authority in the context of management contracts (chengbao) and the leasing of group companies</td>
<td>Full decision-making authority in the context of management contracts (chengbao) and the leasing of group companies</td>
</tr>
<tr>
<td>Subsidiary company management</td>
<td>Management authority with respect to day-to-day business operations in the confines of the statutes defined by the holding management</td>
<td>Distribution of residual profits in the confines of the statutes defined by the holding management</td>
<td>Management authority in the confines of the statutes defined by the holding management</td>
<td>Authorized to sub-contract certain duties to external businesses</td>
</tr>
<tr>
<td>Employees</td>
<td>–</td>
<td>(Not formally documented) Claim to bonus payments, counterbalanced by the obligation to accept wage reductions in case of corporate losses</td>
<td>–</td>
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</tr>
</tbody>
</table>
sanctions, all management levels and even employees from the shop floor level are faced with an incentive system that integrates individual and corporate interests.

The majority of enterprises in the Hengdian Group are controlled by the holding company by means of ‘management contracts’ (chengbao hetong). Less profitable ventures are leased out to external operators. Both managers of group enterprises as well as lessees have to present guarantees which are recurred upon when losses are encountered. This risk sharing mechanism is mirrored by a profit-sharing mechanism that allows for higher payments for the responsible management when profits exceed expectations.

This system of shared responsibility for profits and losses is not restricted to the various management levels, but has also been extended to the level of regular employees. The electric and electronics division, for example, has implemented a system according to which in the case of an under-fulfilment of business goals, the management must accept wage reductions of up to 40 per cent, while the wages of regular employees can be reduced by about 10 per cent if company results are 10 per cent below target. The employees accept, accordingly, entrepreneurial responsibilities, although they do not hold the right to monitor the decision-making process in the higher management echelons.

*A This case study is primarily based on information provided in Chen 2002; Chen and Jefferson 1999; Li 1998; Fan 1997.

A further incentive for the teaming up of local government officials and TVE managers resulted from the increasing informational asymmetries between central and local administrations caused by the transformation process. The rents that could be earned in this area prompted local government officials and TVE managers to collude against central government policies. Zweig (2002), for example, shows that due to the distorted price structures on the domestic market, TVEs had strong incentives to establish joint manufacturing plants with foreign investors and to sell these goods on the domestic market, despite central government policies that opposed such sales. Local governments, who had their stakes in the TVEs and, therefore, also in the Sino-foreign joint ventures reaped their share of the rents earned.

Such informational asymmetries may have strengthened the relationship between local governments and TVEs in so far as they allow both parties to achieve rents vis-à-vis the central government. As documented by Oi (1996) and Che and Qian (1998), local government bodies have made usage of their intermediary role between TVEs and central governments in order to defend local enterprises from excessive taxation by the central government, thereby not only helping these enterprises, but at the same time securing their own interest in the economic viability of the local economy.
5.5 Towards privatization – who provides decisive inputs?

Based on this understanding of the rationality of strategic alliances between local government bodies and local industry management, the question remains as to the forces that are driving the reallocation of property rights between these actors. Why does the model of a symbiotic, interwoven relationship between local governments and the business sector not continue to persist, but rather to be substituted by an arrangement where these two spheres become increasingly disentangled, and exclusive private property rights shape business-to-business transactions as well as government-to-business interaction?

The central force driving the evolution of new property rights structures in China’s rural industrial sector can be identified in the changing contributions local governments and enterprise managers can make for the economic performance of a given enterprise. As long as local governments have been in a position to provide decisive inputs to the operations of a given TVE, their sharing in the ownership of the enterprise has been a rational – transaction cost efficient – solution. ‘Ambiguous’ property rights structures have been the best practice solution in an environment characterized by grey markets and features of a ‘negotiation economy’.

The Theory of the Commons (Ostrom 1990) holds that communal property can represent an efficient solution to organizational problems if the transaction costs of setting up or pushing through private ownership rights are prohibitively high compared with expected profits. In other words, prohibitively high transaction costs leave regulatory structures at a level where standard property rights distribution is not yet relevant. Exactly these same structures, however, have changed dramatically during recent years, lowering the transaction costs of outlining and enforcing private property rights below the threshold level. Exclusive private property rights are no longer encumbered by prohibitively high transaction costs.

With the dissolution of the grey market economy and the formation of a functioning market system, the input local governments can provide to a TVE’s business success has become negligible (Chen and Rozelle 1999). That is to say, the more complete the surrounding market formation has become, the less local governments have been in a position to have an impact on business results through their powerful positions in the ‘grey market’ context. Instead, TVEs have been able to gain access to external investment, make use of contractual security (i.e. a non-personalistic system of law), and secure access to sourcing and distribution channels, export markets, import goods, etc. That is to say, the necessity of an ‘internalization’ of local government has more or less disappeared (Williamson 1985, Taube 2002).
The Hengdian Industrial Complex

(3) Shifting Government-Management Relations

In the beginning of the Hengdian Industrial Complex, local government, i.e. the leadership of the local people’s commune, and the top management of the enterprise (at that time actually only a business unit) were identical. As a matter of fact, they had to be. First, no legal framework existed for any other formal arrangement. If any non-agricultural side-activity was to be conducted by the people’s commune, it had to be integrated in the institutional set-up of the latter. Second, no informal arrangement designed to circumvent these formal restrictions would have been viable without very close connections to the formal administrative bodies. As was also no horizontal allocation mechanism (market), Dongyang County Silk Plant and the ensuing industrial ventures of Hengdian had to be integrated in the formal state system for the allocation of inputs and the distribution of their products. In the case of Dongyang County Silk Plant, for example, the registration document already listed Zhejiang Province Silk Corporation as the corresponding business partner to whom the produce had to be sold. In the same manner, Hangzhou Xinhua Silk Plant later provided free technical training and support based on political directives which encouraged state owned enterprises to support rural activities.

From their background as comparatively high ranking members of the party and government hierarchy, Xu Wenrong and other officials of the Hengdian people’s commune were in a position to arrange for these links to the state controlled industrial sector. By means of their social capital, extensive guanxi networks and savvy business acumen, they managed to make the best out of existing administrative guidelines and official policies, always probing the limits of the system’s tolerance.

The Hengdian success story would not have come about without this deep embeddedness in the formal system. Had Xu Wenrong not been in a position to exert his political influence in order to promote the venture and been lucky enough to encounter an accommodating political climate, the initiative would have been aborted immediately.

In later years, however, this ‘wheeling-and-dealing’ in the political arena became less and less important for business success. With the liberalization of factor and product markets, it was no longer the venture’s access to inputs and sales channels that decided its success, but rather the quality and cost of its products. Political skills were gradually substituted by traditional management skills. As a result, the Hengdian industrial complex has gradually strengthened its management expertise, increased material incentives for managerial leadership and step by step separated the business operations from the local community and its party and administrative bodies. The social capital embodied in the person of Xu Wenrong and other top managers, however, continues to play an important role for the collection of relevant information, as well as strategic positioning of the corporation in the public.

*This case study is primarily based on information provided in Chen 2002.
The decreasing contribution local government can make to business results has eventually initiated a shift in the distribution of property rights between enterprises and local governments. In accordance with the principle that residual profit retention rights should be awarded to the party whose actions are least subject to control and who has the greatest influence on business success (Grossman and Hart 1983), property rights structures have evolved along an institutional corridor from fixed wage contracts via sharecropping contracts (Alchian and Demsetz 1972) to leasing arrangements (Pan 2000; Zhu 1998) or joint-stock cooperatives (Herrmann-Pillath and Kato 1996; Vermeer 1999) and finally to (creeping) privatization (Li et al. 2000; Li 2003) (see Figure 5.1). In this manner, China’s local governments and TVEs have evolved into separate entities.

The transaction–cost–calculus-based evolution of contractual arrangements, depicted in Figure 5.1 describes the general trend towards exclusive private property rights as the dominating structural element in the Chinese economy. This does not, however, imply that close relationships between local government representatives and the top management of local enterprises no longer exist. Such constellations can still be observed. However, today they follow a different rationale and possess a different quality than the strategic alliances which existed in the environment of ‘grey markets’ and a ‘negotiation economy’ during the 1980s and 1990s. Whereas in that era the interlocking business–government constellation had predominantly constituted a ‘best practice’ solution to a given coordination problem, the present evidence of fuzzy business–government arrangements rather points at evasive manoeuvres designed to avoid competitive pressure in a market-oriented environment and attain rents in a not yet fully liberalized economy. While the ‘ambiguous’

![Figure 5.1 Idealized evolution of the government–management relationship and property rights structures in China’s rural industry (source: based on Taube (2002)).](image-url)
property rights structures of the past entailed evolutionary steps towards a market-based system equipped to benefit the parties involved as well as to increase social welfare, modern constellations tend to undermine the further evolution of a market economy and, due to their anti-competitive character, produce a negative effect on social welfare. As such, their persistence may hinge on the continuation of a political system devoid of strong bottom-up control of the power invested to the government. Institution building in the economic sphere may therefore be understood as being restrained by institutional rigidities in the political sphere.

The Hengdian Industrial Complex

*(4) Towards a Privately Owned Industrial Empire*

The still highly ambiguous property rights distribution brought about with the 1994 document was finally clarified in 1999. While the property rights system outlined above had already led to a situation in which decision-making power was rather clearly assigned and political forces were expelled from the everyday management process, the system was certainly not prepared to accommodate the needs of a rapidly growing, increasingly international corporation. With continued growth and rising international leverage not only in terms of export activities, but also outbound foreign direct investment and joint ventures with foreign partners, the web of interests of the various stakeholders became too complex to be adequately addressed and governed by the 1994 document. At the same time, with the hiring of foreign managers and technicians and the growing importance of international legal documentation and international financial transactions for business activities, new transactional dimensions came to the fore for which the 1994 document was simply not prepared.

In 1999 the Hengdian Group Holdings Ltd was, therefore, formally established, and the company was officially transformed into a shareholding company bound by the pertinent laws effective in the PR China. With the establishment of the Hengdian Association of Economic Enterprises in 2001, the separation of investors and operators was further strengthened and the company’s character as a collective enterprise eventually shed.

The formal privatization was pushed forward not only by the internal necessity which had come about with the rapid development of the Hengdian industrial complex, but was greatly hastened by a new set of policies promulgated by Beijing officially acknowledging the private sector as an important component of the economy. The revised Constitution of 1999 attributed the same political status to the non-state and state sectors. And with the 2001 announcement that private entrepreneurs would become eligible for party membership, a final discriminatory feature was dissolved.

The transformation into a shareholding corporation has paved the way for complex financial transactions and greatly enlarged the business scope of the company. In late 2005 the company was the first private enterprise
in China to issue short-term corporate bonds. At the same time, the company was exploring the possibility of an overseas listing for its entertainment and film division.

Today, the Hengdian Group is classified as one of the largest and most successful private enterprises in China. Its CEO Xu Wenrong belongs to the richest men in the country list.

*This case study is primarily based on information provided by the Hengdian Group and media reports.

5.6 Concluding remarks

The rise of China’s rural industry and the evolution of property rights structures accompanying its development process constitute a highly fascinating facet of China’s recent transformation process. While the success of these developments draws attention to the ‘naïve’ theory of institutional change, according to which institutional change follows a unidirectional path towards lower transaction costs and higher efficiency, this contribution adopts a different perspective in order to discuss this phenomenon. Departing from the Northian notion of the role of the state for the specification and distribution of property rights, important elements of the Northian conceptualization can be identified: changes in the objectives pursued by the state (ideology), as well as changing relative transaction costs play an important role for the phenomena observed. North’s pessimistic prediction that political systems have a tendency to produce inefficient property rights cannot, however, be supported. The most important explanation might be that the evolution of China’s rural industry and its property rights structures did not follow a top-down development plan, but has rather been driven by a bottom-up process in which the role of the state was more or less reduced to the rubber-stamping of pre-existing institutional arrangements. Triggered by changes in the ideological superstructure of the Maoist system, the evolution of industrial enterprises and their property rights structures seems to have been following the demands of an increasingly marketized economy. Political and economic actors in China’s rural areas have continually striven to adapt to a changing economic framework and optimize the settings in their sphere of influence. As a result, a succession of institutional arrangements has come into existence, each of which constituted the best practice solution for the political and economic framework conditions of its time. Today this process is nearly complete: fully fledged privatization seems to provide the best institutional solution for a de facto fully established market economy. But institution building in the economic sphere seems to have run far ahead of reforms in the political sphere. In order to overcome remaining inefficiencies, the political sector will now have to move.
5.7 Notes

1 ‘xiangzhen qiye’. These enterprises constitute a comparatively heterogeneous group of enterprises, comprising all non-agricultural businesses located in rural areas, i.e. those involved in industry or services, which are not explicitly (and unambiguously) state or privately owned. The chapter concentrates exclusively on industrial TVEs.

2 The dimension of ‘absolute’ (erga omnes) property rights is excluded from the analysis.

3 For a detailed discussion of the parameters determining the process of institutional change, see Schramm and Taube 2005.

4 It should be emphasized that this ideological re-orientation followed an intra-systemic logic and has to be understood as an indispensable step in order to realign the new economic and social reality with the ideological superstructure.

5.8 Bibliography


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6 An evolutionary approach to endogenous political constraints on transition in China

Carsten Herrmann-Pillath

6.1 Introduction: transition without design

One of the outstanding features of the Chinese transition from plan to market is the coincidence of widening regional disparities with an astounding regional diversity of institutions and policies. The gradualist strategy of crossing the river by groping the stones was a policy that left much leeway for regional experiments, which in later stages contributed to the evolving knowledge base for defining national strategies. In the following, I would like to analyse this aspect of Chinese transition through a particular theoretical lens which presents a blend of recent approaches in economics and political science. I posit that the diversity of regional patterns of transition is the result of the interaction between economic development and political constraints, with the latter being and becoming partly endogenous to the process of change. With ‘political constraints’ I refer to constraints on economic policies which result from autonomous processes in the political system, and which are normally taken as exogenous in economic analysis, such as, for example, the constitution of a country or the electoral system.

Political constraints, however, become endogenous if the economic process feeds back into the evolution of political constraints, and if the tempo of change in the political system causes a shortening of the temporal window that eventually allows for a stronger interaction between the economic and the political system. I will argue that China is an interesting case study for the endogeneity of political constraints, which has important implications for economic analysis (for a use of the term in the context of China studies, see Oi 2005). This results from the fact that endogenous political constraints cause path-dependencies of transition, which in turn produce unintended results of the enacted policies (Ackermann 2001; Herrmann-Pillath forthcoming).

Once we dig deeper into the nature of this interaction between economic development and endogenous political constraints, an important part of the story becomes the interaction between changes in social structure resulting from economic development and the relative position of interest groups and the state. The evolution of social structure is accompanied by a change of agency, that is, transition leads to the emergence of new individual and collective actors. These actors stand in a complex relation to the state, and because they act in at least
partial autonomy, the state cannot fully control the entire process of change. This is particularly important if the tempo of socio-structural change approximates that of economic change, which is not the regular case in mature industrial societies, but which can certainly be observed in China. Thomas Heberer (2001) has elaborated on the concept of ‘strategic groups’ to understand this interaction between transition and social change, and I will relate this concept to some basic evolutionary concepts of the economic analysis of institutional change.

A major empirical aspect of my account is the question of how different levels of regional aggregation can be related to different analytical approaches to the political economy of transition. As we shall see, there are national cleavages in political economy, in particular in the relation between rural and urban groups, which, however, cannot be directly related to the concept of strategic interests, as long as there are no national strategic groups (such as a national farmers’ organization). This concept can only be managed at a lower level of analysis, where the national aggregates simultaneously dissolve into much more fine-grained partitions of interest (cf. Forster 2002; Shi and Cai 2006). Those interests determine the endogenous change of political constraints. The result is a multi-layered evolutionary system, which cannot be grasped by unified concepts at the national level, such as a political master plan for transition, or general structural characteristics of society. This multi-layered system can be observed statistically in the highly fragmented and diverse regional and local growth processes which become visible if the provincial statistical reports are further disaggregated to the level of prefectures and counties.

This chapter is partially based on earlier work of the author which applied different methodologies to understand the regional diversity of transition in China, and serves as an interim stock-taking. I begin by drafting a theoretical framework that links evolutionary economics and political science. I then proceed to sketch some exemplary case studies. In the conclusion I address the general implications of the Chinese case for the development of a general Evolutionary Political Economy (EPE).

6.2 Theory: institutional change as a complex evolutionary process

6.2.1 Bridging across social sciences: the methodology of EPE

Recently, political economy as a sub-branch of economics can be located in a process of convergence with the social sciences in general, resulting in a common research perspective which may be summarized as ‘structured individualism’. This denotes that social processes and their outcomes are predominantly explained by the interaction between certain structural constraints and individual behaviour. Individual behaviour is frequently conceived as being rational in terms of perceived costs and benefits. The different schools of thought differ merely in their emphasis of these ingredients, with the extremes
of a complete structural determinism on the one hand and a complete reductionist individualism on the other. In our context, introducing EPE starts out from the internal discourse in economics, maintaining that it has to be understood first, as an alternative to rational choice and equilibrium analysis (e.g. Grossman and Helpman 2001), and second, only marginally as a contribution to the broader cross-disciplinary discourse on political economy (Wohlgemuth 2002; Witt 2003). The epithet ‘evolutionary’ implies:

1. EPE is about fundamental uncertainty and the related entrepreneurial action and investigates into the emergence and diffusion of knowledge.
2. EPE emphasizes the role of conflict and disequilibrium in driving political change and, hence, institutional evolution in the economy, implying a focus on dynamic competition among actors and organizations.
3. EPE rejects individualist reductionism in favour of a pluralist approach that assumes independent evolutionary forces on different levels of a politico-economic system.
4. As a consequence of the multi-level approach, EPE relies on richer instruments to describe structural constraints for individual action, such as paying attention to ideologies and institutions.

Evidently, EPE demonstrates a close proximity to many variants of ‘structured individualism’ in the general social sciences, such as the more specific variant of ‘rational bounded individualism’ (Scharpf 1997). The continuity with economic methodology results mainly from the fact that there is a clear emphasis on cost-benefit thinking in explaining individual action, in the sense of entrepreneurship, and that the role of resource allocation and resource creation is stressed to explain certain outcomes of the politico-economic process. The most important common ground between EPE and the general social sciences seems to be the explanation of collective action. In politics, collective action is of prime importance for understanding dynamics. A focus on collective action opens the door to interdisciplinary concepts. Thus, following the so-called ‘Bielefeld school in the sociology of development’, the German political scientist Thomas Heberer (2001) has applied the concept of ‘strategic groups’ in his research on the emerging private interest groups in China; this construct can be easily generalized to other groups as well. This concept is comparable to broader concepts like ‘class’ and ‘strata’ in sociology, as well as with ‘interest groups’ in economics. Regarding the former, strategic groups may be built on some shared socio-economic characteristics, yet they must manifest certain additional characteristics, such as a common socio-political consciousness, a certain set of resources in terms of social, cultural and other capital, and a readiness to organize themselves to exert an impact on society and politics. In comparison with interest groups, Heberer does not only emphasize the demand side, but also the capabilities of strategic groups for internal organization, which do not only reside in economic resources, but also in intangible factors such as social and symbolic capital. Such ideas can be easily translated into EPE terms, as into the concept of
the political transaction costs of defining, expressing and organizing interests into consideration (Dixit 1996).

6.2.2 An outline of the evolutionary approach to endogenous political constraints

One of the crucial concepts that defines the EPE perspective on institutional change is the notion of competition, an idea which is wedded with the notion of entrepreneurship. Further, the economic approach emphasizes individual decision making under constraints. The following discussion will focus on a particular kind of constraint, i.e. political constraints (for a more general approach to constraints, see North 1990). Due to the spatial limitations of this chapter, a broad picture must suffice which I have mapped in Figure 6.1.

Figure 6.1 is a flow diagram representing evolutionary political economy. The rounded rectangles identify actors; the rhombi designate processes; the sharp rectangles display states of the system and the circles, states of actors. Actors cause processes with both intended and unintended consequences, starting out from certain individual states (such as the government, which builds on a certain fiscal capacity when implementing measures of redistribution). The

![Figure 6.1 Causal interdependencies in evolutionary political economy.](image-url)
processes coalesce in certain states of the system, which in turn determine the context in which actions occur. The system is divided into three segments, i.e. politics, economy and society.

Our point of departure is the assumption that in relation to the economy, government assumes a special position because it can impose exogenous constraints on economic development, i.e. political constraints. In particular, government can extract resources and invest autonomously, and government lays the institutional framework that at least implicitly determines the scope and value of action potential on part of the economic actors.

Given various constraints, economic actors take entrepreneurial action to improve their condition. This activity is understood as the driving force of economic growth. In the EPE setting, the particular mechanisms of growth are not a central focus. Special attention is paid to the effects of growth on the relative position of economic actors in terms of the distribution of income and wealth, because these outcomes determine the starting conditions for further economic action and provide the incentives for entrepreneurial action in both the economy and in politics. The latter occurs because government affects the distribution of income and wealth through both the setting of rules and direct intervention, i.e. redistributive measures.

Because of this special role of government, a competition ensues for its control, either directly by vying for the seat of an incumbent, or indirectly by influencing seated officials. This is a feature that is independent from the political system, i.e. even in a dictatorship there is competition for the dictator’s position. To take part in this competition, individuals and groups need to incur costs and to invest effort. Groups that successfully form a common interest and mobilize the potential to take action are called ‘strategic groups’. They struggle for control of government with other groups. This process is influenced by the way in which government sets the rules of competition, which can mainly be regarded as the political system, both in formal and informal terms.

What happens when government changes the institutional framework? The main effect is to change the action potential for all individuals in the society. In a dynamic setting, these changes are not directly observable, but only take place during a certain period of time. This means the individual actors build expectations about the future effects of institutional change on their individual action potential (cf. Fernandez and Rodrik 1991). These expectations concern both the costs and benefits of change. An important part of the story, therefore, must be the emergence and diffusion of expectations in the context of certain cognitive models of institutional change. Thus, institutional change is shaped by societal communication about change, which leads to the emergence of shared cognitive models (cf. Denzau and North 1994). Evolutionary and static models of Political Economy differ mainly in this regard, with the former emphasizing social learning through communication.

During the process of social communication, the individual perception of costs and benefits may lead to the identification of certain commonalities across individuals, i.e. the perception of common interests of certain groups.
Depending on the political cost/benefit ratio, some individuals start to invest in the formation of a strategic group. These individuals are political entrepreneurs who perceive opportunities for collective action, which also generate individual benefits for them. Thus, the competitive setting among strategic groups is not simply given, but depends on the entrepreneurial transformation of latent interests into strategic ones by means of the mobilization of resources.

This competitive setting is predetermined in part by the structure of the political system, e.g. in the Chinese case the regional administrative structure. Strategic groups crystallize around loci of political power where their aims might be realized. Thus, if we regard the political system as a set of exogenous constraints on economic and political action, these constraints are at the same time opportunities for realizing interests. First, constraints may generate rents for interests that are protected by those same constraints, and second, the first movers in changing constraints mostly reap large gains in institutional change because new entrepreneurial rents are created which are only eroded in the course of time. Therefore, strategic groups experience strong incentives to maintain or change constraints, depending on whether or not they are protected by the existing institutions. Institutional change results from the conflict among strategic groups over the political creation and maintenance of institutions, which are one of the most important manifestations of political constraints on economic processes. Hence, the idea of endogenous political constraints can be directly related to this conflict between strategic groups. The more economic processes impact on the composition of strategic groups in society, and the shorter the time span for this to take place, the stronger the endogenization of the constraints. In other words, exogenous constraints describe a state of society in which there are either no strong forces to change the composition of strategic groups and their power balances, or economic forces are too weak to impact on the former, such that changes of strategic groups are mainly driven by politics and social change in general. Endogenization closes the evolutionary feedback loop in the politico-economic system.

Given this sketch of an evolutionary political economy, we can identify specific points of endogenization of political constraints.

1. The emergence and diffusion of cognitive models (Mantzavinos 2001). As these are an important determinant of the perceptions of actors, governments may try to control such models, i.e. they may rely on ideological control, on media influence, education, etc. The more liberal and pluralistic a society becomes, the more intensive the competition for cognitive primacy will be. In the most general way, the creation and diffusion of cognitive models is the object of ‘issue entrepreneurship’ by political entrepreneurs (Wohlgemuth 2000). Political entrepreneurs invest effort and resources into the spread of cognitive models, of which they expect some benefit for their own position. Since cognitive models determine the perception of costs and benefits, this leads to an endogenization of political constraints.

2. Endogenization relates to redistribution. Depending on the perception of
costs and benefits, government might change this perception by direct redistribution from winners to losers of reforms (Rodrik 1996). Clearly, there are a number of constraints at work in this case:

- First, government might not be able to extract gains from the winners of change, especially against the will of the winners.
- Second, there might be informational barriers to identifying the losers, as well as strong incentives for beneficiaries of redistribution to distort information about their losses.
- And, third, the transfer might require too high transaction costs.

In particular, ex ante political contracts defining compensation payments can be very difficult to conclude, and they suffer from serious limits to implementation, which can result in a fundamental lack of trust in reforms. In principle, this is a fiscal issue, as fiscal redistribution is one of the most direct and facile instruments. In this perspective, political constraints mainly relate to the fiscal capacity of government. Endogenization occurs if economic change triggered by institutional change influences the fiscal constraints of government. Strategic groups can exert a strong impact on the political transaction costs of negotiating institutional change, because they assume an active role in processing information and aggregating collective preferences. This can work both against and in favour of government policies. In the supportive case, strategic groups build implicit alliances with government, which contribute to lowering costs of political conflict and coordination, such as in corporatist arrangements.

Endogenization is political entrepreneurship and hence the very issue of the formation of strategic groups. Every political constraint can generate the motivation of political entrepreneurship to overcome that constraint. However, the main problem with political entrepreneurship is the fact that it has strong properties of being a public good, especially with regard to its effects. Thus, political entrepreneurship is hampered by a free-rider problem. This is a complicated issue, because it depends on the valuation of interests whether this free-rider problem is regarded as a curse or blessing (Magee 2002; Snyderman and Levendusky 2005). When interests fail to organize, the political transaction costs of government policies may be lowered, since there is no need to bargain with those groups. At the same time, however, government will suffer a lack of information in regard to the underlying political opinions. Therefore, overcoming the free-rider problem in political entrepreneurship may improve political communication, but at the same time might introduce further distortions into the economic process due to the resulting policies. The free-rider problem lies at the heart of the mechanisms that leads to the emergence of a stable structure of interests in politics.

In sum, EPE examines the interaction between politics, economy and society as a complex, open system in which novelty and entrepreneurship play a crucial
role in determining the patterns of collective action that emerge and which finally impact on the government and hence the outcome of the political process.

6.2.3 The link with China studies: EPE, government competition and disaggregate analysis

The theoretical categories outlined in the previous section are highly abstract. This may introduce a certain ambiguity for an application with particular empirical cases such as China. One way to avoid too many degrees of freedom in applying theoretical tools is to create a link with certain general concepts that emerge from empirical research that is independent from the theory. To what extent can we relate EPE to concepts and paradigms actually applied in China studies?

6.2.3.1 Re-interpreting regional autonomy and quasi-federalism

Up until now, we have mostly considered highly aggregate actors such as ‘the government’. This is misleading because it distorts the view on the causal mechanisms which underlie competition in the system. In evolutionary terms, competition is the driver of change in both the political and the economical sphere. This observation allows the evolutionary model to be related with one of the recent paradigms in Chinese Political Economy, namely the paradigm of ‘quasi-federalism’, which has been developed during the 1990s to comprehend the dynamics of Chinese reforms (‘market creating/preserving federalism’) (Qian and Weingast 1996; Slider 1997). Its core idea is that competition among local governments leads to an evolutionary improvement of the institutional setting. From our perspective, this is by no means a necessary result, and it leaves the actual causal mechanism in a state of obscurity. This is immediately evident by a mere glance at the immense diversity of institutional forms below the provincial level. For example, in Zhejiang province there was a strong interaction between the provincial policies and the dynamics of change at the sub-provincial level. In the 1980s, the spearhead of the private economy, Wenzhou, was an outlier in the developmental trend of the province. Only after turning into a model of its own did provincial leaders pursue its further propagation. In the second half of the 1990s, the Wenzhou model dissipated to the neighbouring Jiangsu province, which also featured its own sub-provincial diversity of models, including the famous Sunan model of rural industrialization (which, as is obvious from the terminology, was less pronounced in the Northern part of Jiangsu). Furthermore, national policies sometimes directly interfered with sub-provincial developments, for example, in the context of the approval procedure for development zones.

Together with my Chinese colleague Feng Xingyuan, I have proposed to generalize the ‘federalism’ approach to a paradigm of competitive governments (henceforth: CG) or territorial competition (following Breton 1997; Herrmann-Pillath 1999; Herrmann-Pillath and Feng 2004). The competitive government
approach does not simply take political and administrative units as a given, but treats government as ‘compound government’ consisting of multifarious sub-units with different degrees of autonomy. These subunits compete for resources both within the government and with external units such as private business. This is a very different view from both the Weberian bureaucratism paradigm and the economic theory of bureaucracy paradigm, since competition enters in the picture as a force that propels behavioural and institutional changes in policies. This view is especially useful in China, as competitive forces work on many different levels of the economy, with small cities growing into national centres in certain industries and trades, with metropolitan areas vying for national predominance, or with counties eager to attract investment and people through benchmarking with their neighbours.

The CG approach is conceptually broader than the federalism approach, because the latter draws a misplaced analogy between observed patterns of partial autonomy and the constitutional and legal properties of federal systems. There is no doubt that the central government in China claims absolute sovereign rights, and that in recent years it was successful in recentralizing fiscal and monetary control (Tsui and Wang 2004). Thus, to understand regional autonomy in China it is necessary to distinguish between formal and informal institutions of governance, and to identify the sub-constitutional rules that define regional rights. Viewed from this angle, government competition in China is closely related to the system of ‘regional property rights’ which persists until today, and which is rooted historically in the ‘tiao kuai’ approach towards administration (Schurmann 1966; Granick 1990). This means that regional governments have certain rights and entitlements with reference to their jurisdiction which are basically recognized by the central government, though having no constitutional status, and which therefore can be overridden in cases of public and national interest. For example, even in the recent approach to separating ownership and management by setting up quasi independent commissions controlling state assets, the territorial principle has been maintained, with the assets being assigned to different territorial levels and with the formation of central and local SASACs, respectively (Naughton 2005).

Although the legal fiction prevails in China that the state is a central one, actual administrative practice reveals that there is a structure of rights and entitlements which is partly independent from the persons which reside in certain positions and which results in internal political constraints on changing the fiscal system (in a similar vein, see Ma 1997). Competitive governments plus regional property rights seem to be the formula that can explain many of the peculiarities in the Chinese case of transition. This conceptual framework in China studies can be easily fit into the general categories and concepts of EPE.

6.2.3.2 Matching the competitive government approach with statistical data

Empirically, we would expect our conceptual system to be reflected in economic data. Indeed, as the CG approach implies a high degree of disaggregation, we
should also achieve a corresponding depth of disaggregation when analysing economic development in China. The core phenomenon here is divergent development. Statistics show that the determinants of spatial disparities in China have become increasingly complex over the years, and that the aggregation above a certain level leads to misperceptions of the factors contributing to divergent development (cf. Wei 1999; Gustafsson and Li 2002). The fact is that subprovincial units manifest very different dynamics of development, which also change over time.

However, most analyses of regional disparities in China take the province as a unit of analysis. This causes a bias towards a strong emphasis on provincial/central political relations in understanding the political economy of transition. Given the vast dimensions of Chinese provinces, it appears evident that important aspects of regional development may still be masked at such a high level of aggregation. This is all the more true for the macro-regional perspective, which simply compares the performance of macro-regions like ‘the Western belt’ with other highly aggregated units. In other words, the most common statistical aggregation approach does not align with the institutional structure underlying the CG approach. This would also imply that a statistical analysis of Chinese economic development at such a high level of aggregation cannot grasp the main characteristics of economic evolution in the sense of EPE.

One alternative is to look at the prefectural level (in much more detail, see Herrmann-Pillath et al. 2001, 2002, 2006, 2007). Chinese prefectures are units consisting of rural and urban areas (cities plus counties) that are interrelated through economic flows (agricultural products, migrant labour, investment by rural enterprises in urban areas, etc.). There is a large variety of organizational forms at that level (for a general overview, see Chung and Lam 2004). Many of the success stories of Chinese transition more or less refer to units with the size of a prefecture, like the aforementioned Wenzhou case.

This change of perspective has important consequences. For example, the view is generally accepted that disparities have increased since the acceleration of reforms following Deng Xiaoping’s journey to the south. China is becoming one of the most unequal societies in the world. However, if we apply complex statistical techniques for understanding inequality across prefectures, we learn that there is a rather complex relation between inter- and intra-provincial inequalities in China. Disparities across different provinces are not necessarily the dominant disparities as compared with the intra-provincial inequality. There is a large variety of cases that cannot be easily assigned to the macro-regional picture of the ‘West’ falling behind all other regions. For example, in the 1990s Guangdong province was a case of a province forging ahead of all others while at the same time manifesting rapidly increasing intra-provincial disparities. In contrast, Jiangsu province could achieve both, namely rapid growth and intra-provincial convergence. Such observations demonstrate that there is no easy way to classify the Chinese growth process into a single pattern.

One of the most important insights that can be reaped from a disaggregate analysis is that intra-provincial disparities exert a strong impact on inter-
provincial disparities, and that intra-provincial inequalities display peculiar patterns in different parts of China. This can be learned from a so-called ‘decomposition’ approach, which identifies the contribution of disaggregate statistical units to the behaviour of the aggregate unit. In other words, if we want to summarize inequality in China in a single measure, we try to understand how the disaggregate units contribute to that measure. From this, we learn that in China the increasing total inequality has been strongly influenced by the increasing inequality in the coastal areas. However, there is no clear relationship between development levels and changes in intra-provincial disparities. For example, different poor provinces can display both internal convergence and inter-regional divergence. Thus, it makes no sense to lump structurally heterogeneous provinces together into macro-regions of the size of ‘belts’.

Further, prefectural level data allow for a decomposition according to sectors, since data on rural and urban incomes per capita are available. Already in the 1990s it became obvious that the sources of disparities began to change with China attaining a higher level of income. In the coastal areas the contribution of urban inequalities to total coastal inequalities began to grow. At the same time, rural–urban inequality has been a major contributing factor to total inequality in China, and total regional inequality is strongly influenced by rural inequality. This points to the very strong impact of urban privileges on the equalization of income across the country. Thus, the fact that the Western regions fall behind the coastal areas is principally a story of stagnating rural growth.

These statistical observations demonstrate that the interaction between economic development and institutional evolution cannot succeed at a high level of aggregation. The causal dynamics of government competition imply that evolutionary institutional change takes place within a structure of endogenous political constraints that displays the features of a complex heterarchy with both top-down and bottom-up processes interacting and giving rise to certain economic outcomes that eventually come to light in economic statistics. Reflecting on the complexity of the evolutionary political economy of China, the necessity of disaggregate statistical analysis becomes apparent.

From this point, it follows that the search for a ‘Chinese model’ or ‘strategy’ may be misguided right from the beginning. The methodological conclusion is to move on to a lower level of disaggregation. This is in keeping with the importance which has been more recently attached to case studies in China studies. However, case studies in terms of specific local cases always face the problem that they cannot represent China as a whole. For this reason, it seems to be sensible to work on an intermediate level of aggregation. One approach is to identify certain important causal mechanisms in an evolutionary model of Chinese transition and to illustrate these by a number of observations from different places in China. Thus, I would like to continue with this line of thought in my subsequent considerations.
6.3 Case studies on evolutionary institutional change in China

Once we adopt the evolutionary perspective, our analytical focus is directed towards discovering empirical counterparts to concepts such as political entrepreneurship, cognitive models or strategic groups. We identify actors, processes and evolving constraints. The four case studies which I will now briefly discuss are particularly significant for understanding the nature of Chinese transition as a complex phenomenon driven by government competition. Therefore, we will begin with the example of fiscal reforms. We will then continue with the issue of property rights, which is regarded as a core issue of transition by many economists. This leads to a short discussion of the role of rural and urban interest groups and the interaction between expectations and the formation of strategic groups. I conclude with a reflection on the dynamics of cognitive models in Chinese transition.

6.3.1 Province and centre: fiscal federalism or fiscal disintegration?

In the theoretical section we have already discussed the limitations of a ‘quasi-federalist’ account of Chinese transition. The idea of a local/central competition over resources seems to imply that the two poles of the political system are actually represented by two different strategic groups, i.e. local political elites and central elites.

Evidently, this view cannot be maintained, at least as far as the provincial level is concerned. One of the major political constraints on transition in China is the CCP control of the nomenklatura, which has very important effects on career incentives and behaviour resulting from these structures (Chan 2004; Naughton 2005). The higher the position in the national job hierarchy, the more fluid assignments become, and the more open the career opportunities as well. This means that the party hierarchy indeed forms a fundamental constraint on behaviour, and ‘local interest’ emerges due to the structure of the incentives. The latter focuses on economic success in the jurisdiction for which a decision maker has assumed temporary responsibility. That would imply that local interest is not autonomous, but merely a reflection of the political constraints on local autonomy. From this follows:

1. The locus of truly independent political entrepreneurship is located below the provincial level.
2. At the higher level we need to apply a model of intra-bureaucratic bargaining, which is a far cry from the ‘federalist’ analogy.

One observation supporting this view is the fact that the Chinese fiscal system is highly integrated at the provincial level, and much less coherent at the sub-provincial level. Since the tax reforms of 1994, the central government was able to recentralize resources to a considerable degree, based exclusively on the
redistribution of provincial revenue to the central government. In spite of some opinions about relative provincial autonomy that were fashionable in the 1990s, the central government is able to define the rules of the game and to secure its share according to its interests (Tsui and Wang 2004). This reflects the fact that the political elites operate under a fairly homogenous structure of incentives. Thus, we can say that the fiscal system operates under the constraint of the nomenklatura, imposed exogenously by the CCP. So far, there are no indications that its grip on career opportunities is weakening. The result is a strong extractive power of the central state.

The situation seems to be very different at the sub-provincial level, particularly if we look at the rapidly urbanizing rural areas and the cities outside the metropolitan regions. The mere fact of the rapidly narrowing career ladder implies that the political constraints on behaviour are different at lower levels, and, more importantly, that they become endogenous to economic development. Compared with the low probability of stepping up in the national career ladder, the opportunities linked with local political office and with the entrepreneurial networks related to local government are much richer and promising. Hence, reasonable strategies for upward social mobility will concentrate on the local environment, and less on the national system. One of the results of this fact is the increasing diversity and opaqueness of the local fiscal systems, which is directly related to subversive strategies of tax avoidance on the part of local elites. Until now, the central state has adopted the countervailing strategy aiming to shift public tasks downwards, resulting in a fiscal squeeze on local government. Two of the main effects are the increasing indebtedness of local governments, in particular at the county level, and the difficulties of the central government to reign in the fee system and other ‘out of system’ local revenues (Yep 2004; Kennedy 2007).

If local opportunity merges with the priority of economic success in the incentive system of local officials, there are strong forces driving decision makers to maximize short-term goals over long-term viability, i.e. they thus tend to postpone the costs of transition. At the same time, the local level of economic development generates political constraints on its own, driving the emergence of a diversity of public governance schemes.

In their classification of local governance structures in China, Baum and Shevchenko (1999) distinguish between at least four types of local state, namely the developmental, the entrepreneurial, the predatory and the clientilist. There is a clear correlation between the level of development and the factual emergence of certain types, since a low level of development mostly implies a weak fiscal buoyancy and, hence, very few opportunities for redistribution. This causal pattern can be related to some observations that we made when discussing the prefecture-level data in section 6.2.3.2. In particular, lower levels of development tend to coincide with a greater divergence of rural incomes, as well as a higher convergence of urban incomes within a province. Presumably, it is the predatory state that produces such a pattern, with local elites redistributing resources from the rural to the urban areas, thus suppressing opportunities for
peasants. The result is that the urban living conditions are equalized, especially in provinces with a low level of development, whereas differences in rural conditions might be further aggravated, particularly if the predatory state prevails in the poor areas, although more beneficial types such as the developmental state can be precisely maintained and grow in more developed areas. Given the political system of China, a vicious circle between poverty and fiscal predation is a highly probable outcome, which can be observed in certain trends emerging from the statistical data (Tsai 2002).

From the above perspective, the Western development issue is also one of government competition that drives the local governments into a trap of government failure, i.e. the patterns of the predatory and/or the clientilist state. In recent years, indebtedness of county-level governments has increased most rapidly in the Western regions. At the same time, the local SOE sector is the main reason for the accumulation of non-performing loans. Local governments operate under the constraints of the development goals and need to engineer an institutional change which endangers the employment opportunities of the urban population. As a result, dynamic change might just end up producing a continuation of traditional economic structures, and the core issue of a stagnant rural sector might not be resolved.

In sum, endogenous political constraints in the fiscal sector can explain stable patterns of divergent development discernible in the disaggregate data. The higher the level of development, the more probable a positive feedback between growth and institutional development towards good local governance becomes. The proximate cause is the easing of the fiscal bottleneck, which reduces direct incentives to predation. Further, a larger variety of career opportunities opens up for local elites, because apart from local office entrepreneurship, crossing the border between government and market becomes increasingly attractive. Thus, the incentives to create organizational structures of the developmental state increase. Good governance feeds back into economic development.

6.3.2 Farmers and local elites: who owns China’s land?

In China, local governance is closely related to property rights, because in both the state and the collective sector actual control of economic assets is distributed across the highly complex administrative structure. Thus, the evolution of local governance is at the same time a major determinant of the endogeneity of economic institutional change (Che and Qian 1998; Chen 2004). However, this cannot only be understood in terms of government action, because economic actors have increasingly adopted an autonomous role. A highly illuminating case in point is institutional change in the rural areas. After a decade of stagnating rural incomes, farmers have become an important target group for central economic policy in recent times (Chi Fulin 2005: 13ff.).

Once we look at the local level, it is here where the concept of strategic groups becomes applicable in terms of local groups of farmers and the local groups of officials with whom they interact. In the Chinese political system,
there are narrow limits on the direct representation of farmers’ interests, such that they are seriously restricted in building a potential as a strategic group. Thus, farmers rely on traditional instruments to voice their dissatisfaction, such as petitions and public unrest. Among the groups they are confronted with are the officials and their networks.

One of the most intriguing developments in the recent Chinese transition experience is the redistribution of land use rights from farmers to newly emerging urban elites, which is a very important example of endogenous political constraints that nevertheless reproduce existing features of the Chinese politico-economic system. Legally, the Chinese constitution clearly assigns rural land ownership to the collectives, which would imply that these are the villages, in most cases at the level of administrative villages. Such an assignment would reflect the former distinction between people’s communes and Production Brigades, with the lowest formal level of local government assuming the role of the holder of collective rights. This legal stipulation is simple to apply as long as the village economy is static, but becomes a very difficult issue during times of rapid urbanization and with an increasing degree of mobility of people. The political constraint becomes endogenous, which, from the economic point of view, is reflected in a fundamental ambiguity of property rights in land (Ho 2001).

Without being able to delve into the details of the problem, the important fact is that according to some estimates, during the so-called ‘third enclosure movement’ in recent years some lands equivalent to the total national area of townships have been transformed for urban–industrial uses; and in rapidly urbanizing areas such as Zhejiang the township area expanded even faster (on this and the following, see 21 shiji jingji daobao 2004: 459ff.). ‘Enclosure’ refers to the underlying institutional change by which collective land use rights are factually expropriated and transformed into urban rights, which are formally state-owned, but factually controlled by private agents via the assignment of usage rights. In other words, collective rights are transformed into private rights. So called ‘absentee officials’ in rural areas have moved their residence to new urban areas close to existing cities and exploit business opportunities resulting from the transformation of rural lands into industrial spaces. In extreme cases, setting up rural enterprises and giving land use rights to them can finally bring about a complete transformation of ownership through further sales of land use rights. Behind the legal façade of legal persons, local elites transform themselves into privileged classes. Repeated land transactions result in a complete expropriation of the original owners. One of the simple devices is to exploit the current regulations on land prices, which stipulate that farmers receive a compensation based on the calculation of lost future agricultural earnings: of course, this price is much less than the value of the land use rights after transformation.

Thus, the ‘enclosure’ of farmers’ lands is at the same time a prime example of endogenous political constraints and of the action of strategic groups in Chinese transition. ‘Urbanites’ are a category which cannot count on the national level, but which becomes a more manageable one on the local level.
The rush to redefine regional units and to change rural entities into urban ones is driven by economic interests of urbanizing strategic groups which have access to the government or are parts of the government. In changing the administrative nature of a regional unit, the entire legal framework for the administration of land is shaken, with a considerable weakening of the farmers’ constitutional rights on the land. ‘Newly emerging urban people’ build clear common interests and collaborate in the expropriation of rural land rights. Since political constraints seriously hamper the formation of farmers’ interest groups, they only have weak instruments to stop this trend. Conflicts over land use rights are one of the most important triggers for local unrest.

Again, these patterns defy a generalization across China. For example, when rural areas are completely transformed into urban areas (a typical case in the Pearl River area), other cleavages may emerge, as between ‘old’ and ‘new’ settlers, with only the original population enjoying the right to partake in the collectively owned land. There are cases where local communities join together to organize a full buy-out of land use rights, provided that the fiscal coffers are sufficiently stocked with cash. In these cases, the cleavage is no longer between the rural and urban populations, but between different strata of the urbanizing population.

The CCP is well aware of this development, yet the final consequences may not be at the centre of attention. The consequences include the formation of a landless class which does not enjoy traditional urban privilege. This group is structurally different from the migrant workers of the past, because it is composed of persons that have become proletarians in the true sense of the word. That is, economic transition under certain political constraints leads to the formation of new latent interests that await mobilization by political entrepreneurs.

In conclusion, the Chinese land system is a fascinating case of exogenous political constraints that are slowly endogenized via economic development. The existing structure of land rights allows for rent extraction via administrative changes, with the latter following divergent pathways depending on the regional development pattern. The formal owners, the farmers, may end up in very different states, the extremes being an urbanizing middle class and a landless proletariat. This gives rise to new potential strategic groups whose role will be shaped by the interaction between the political system and political entrepreneurship in overcoming obstacles to collective action and to entry into the public realm. Via micro-level processes, the entire pattern of interacting political constraints and strategic groups reproduces a macro-property of the Chinese political economy which seems to be remarkably resilient, namely the economic discrimination of agriculture in favour of industry and urban society. This is reflected in a state of ‘institutional ambiguity’ in which formal and informal property rights diverge, and no general account of the Chinese system is possible. And yet again, we discern this causal mechanism in the disaggregate statistical data, which clearly show that rural–urban disparities are a major determinant of inter-regional disparities in China, hence of the macro-pattern of growth.
6.3.3 Managing expectations, corporate governance and social structure

The case of urban strategic groups is also interesting in an additional context. Observers of the Chinese transition are frequently inclined to expect a correlation between the rise of a middle class and the demands for democracy. Clearly, these demands face serious political constraints on democratization, yet a closer look at Chinese realities may reveal that we need to recognize the simple arithmetic of political economy (Unger 2006). In recent years, the Chinese government undertook many measures to reconstitute the economic advantages of being an urbanite, albeit in a new context. For example, huge public investments, a systematic increase of public salaries, and a strong improvement in urban education led to the emergence of a new ‘middle class’ aptly described by Luigi Tomba (2004).

This is a typical example how the government can actually manage the perceptions of gains and losses from transition via redistributive fiscal measures in the broadest sense. Yet, at the same time there are clear losers who can even stay within the limits of the political system while voicing complaints, in particular the urban pensioners. This is an illuminating case for understanding ideological constraints on transition, because the pensioners are one of the groups who can directly mobilize the ideology for their purposes, as their demands can be shaped in the language of loyalty to the communist cause and can be presented as expectations of fair treatment of the generation who actually built the nation (Hurst and O’Brien 2002). As a side effect of demographic change, the pensioners seem to be emerging as one of the strategic groups in urban society which supports the maintenance of the SOE sector and creates political constraints for further SOE reforms, in particular at the local level.

Indeed, avoiding social unrest originating from transition is one of the highest priorities for the Chinese government on every level. From this priority, a whole range of political constraints emerges which eventually determines the path of transition. The resilience of the SOE sector can be mainly explained by these constraints (in much detail, see Oi 2005). Even if the CCP supported a full-scale privatization programme, this would not be fully implemented, because for many SOEs no workable solution for the superfluous workers and for the pension problem can be found. Hence, SOE reforms always try to maintain a balance between efficiency and employment goals. For example, large SOEs might spin off efficient parts and even transform them into private enterprises, yet these enterprises might continue to be a part of a state-owned holding company. Thus, the holding company can increase total efficiency and revenue, and at the same time the basic employment guarantee can be upheld. As a result, despite political announcements on restructuring of SOEs, the fundamental nature of the economic system is only changing slowly.

This causal connection works together with the nomenklatura system that has already been emphasized above. Chinese managers operate with mixed objectives, the higher they climb on the career ladder. Although in recent years,
efficiency goals seemed to have superseded political goals, the most recent shift of the policy model towards a ‘harmonious society’ has re-emphasized political goals. On the surface, restructuring of the SOE sector via the asset management companies should provide a solution through a separation of economic from political goals, yet the performance so far leaves much to doubt, as long as the foundations of a unified politico-economic cadre management are not shaken.

These political constraints on SOE reforms will vary across space and time. They are endogenous because of the role of expectations which influence the perceptions of cost and benefits of institutional change. In a region in which opportunities outside the SOE sector are plentiful and growing, political constraints on privatization will be less stringent, and vice versa. Thus, the reform stalemate in some cities of the northeastern part of China is an outcome easy to explain. The crucial point is that precisely because there is no national master plan of transition, there is space for the discovery of regional solutions for the efficiency/employment trade-off. This is obvious from the lack of any clear commitments of the SASACs to a particular scheme of ownership transformation. The important task of the central government is to steer expectations in order to engineer a readiness of the population to carry on with transition. This is translated into specific solutions only in the context of highly diverse local political economies. The most important mechanism through which this translation is engineered seems to be the propaganda and media management of the CCP and the Chinese government.

The role of social structure in Chinese politics became most evident in Jiang Zemin’s strategy to increase political inclusion of private entrepreneurs in the CCP organization. Private entrepreneurs face many kinds of political and bureaucratic discrimination, which also affects essential business dimensions such as access to credit. This discrimination is difficult to erase as long as the socialist state upholds its traditional values, which eventually are reflected in cadre assessment procedures. Thus, simply changing technocratic policy procedures is never sufficient, as it has become evident in the relatively weak response to the promulgation of a number of initiatives to support Small- and Medium-Scale Enterprises (SMEs) in the context of the new law on SME. Without changes in the underlying social structure, policies will fail because the basis for the formation of expectations has not changed. Therefore, the CCP had to face the challenge of adapting the ideological and legal position of private entrepreneurs to the needs of future economic development, a manoeuvre which was disguised in the enigmatic formula of the ‘Three Representations’.

These observations may explain why in China there is only a weak link between the emergence of a ‘middle class’ and demands for democracy. The concept of the ‘middle class’ denotes a certain structural result without specifying underlying causal mechanisms. The Chinese case shows that superficially similar results (e.g. in terms of income and distribution of wealth) can be based on very different causal processes, which in turn can be the object of social engineering and political intervention. In the end, patterns of political behaviour become much more diversified.
6.3.4 Political entrepreneurship and cognitive models

During Chinese transition political leaders do not seem to stick to a precise content of socialist ideology in terms of descriptions of outcomes. Indeed, many observers are cynical about Chinese ideology. Still, there seems to be something more to it. Ideology is a political constraint on the communication of cognitive models, and if communication has any social effects at all, then changing ideology must produce some results. From the economic point of view, ideological change may reduce transaction costs for certain political measures, thus opening up new opportunities for political entrepreneurs.

An example is the fundamental shift in the CCP strategy induced by the ‘Three Representations’ and the simultaneous political drive against corruption and towards a clearer separation of politics and the economy (Lewis and Xue 2003). In a field study that was implemented between 2000 and 2003, it became evident how strong the impact of ideology can be (Herrmann-Pillath and Feng 2004). Gujiao City in Shanxi province, near Taiyuan, was a place on the outskirts of the urban areas, heavily geared towards traditional coal mining. ‘Absentee officials’ were a common picture, the local fiscal system in disarray. The city left the image of a typical administrative area maintaining a decent urban living standard in a depressed rural environment. In this place, the ‘Three Representations’ actually paved the way for political entrepreneurship and an increasing legitimacy of local complaints of the status quo. The city leadership was accused of having faked the outcome of local cadre elections and was finally removed from their posts. The new leaders faced a much more aware public and started to implement a series of public sector reforms which imbued the place with a vibrant mood to reform and grow.

The role of political constraints on communication is particularly strong in local learning processes. An interesting case in point is the way in which the dismantling of the Sunan (Southern Jiangsu) model of collective rural industry in favour of a private sector strategy was slowed down, precisely because the ‘Sunan model’ had become an important interpretive pattern in local politics (Caijing 2001). In spite of the fact that the neighbouring Zhejiang approach towards private sector proved more successful in fiscal terms, Jiangsu province could not simply abandon the Sunan model story. Endogenous political constraints resulted from the increasing difficulties with the profitability of collective TVEs in Sunan, in a similar way as in the case of SOEs. Thus, hardening fiscal constraints interacted with political constraints to produce a peculiar Jiangsu performance of transition.

Throughout the Chinese transition process, political entrepreneurs played a leading role in pushing change. This role is recognized in the Chinese political communication by the emphasis on ‘experiments’, ‘models’ and ‘local experience’. Political entrepreneurship implies that there is no fixed causal pattern that links structure and performance in Chinese transition. Political entrepreneurs can fix new solutions; similar environments can thus produce different results (cf. Chung 1999).
However, as it has just been outlined, one of the forces leading to path-dependencies even in the performance of political entrepreneurs is that of local culture, which can be described on the disaggregate level as a set of cognitive models that determines problem perceptions and legitimate ways to problem solution. Local culture is influenced by national media and other modes of information diffusion. In the CG approach, this has been coined the ‘Salmon mechanism’. In neoclassical models of CG, the driving forces of change are actual factor movements and actual market forces. In evolutionary models, autonomous change of cognitive models is important and can be described as a sort of ‘benchmarking’ procedure. In China, this mechanism is actively nurtured via a large number of specific activities to communicate local experiences, such as media reports or organized political tourism for education and training. Still, this process operates within general political constraints defined by official ideology. For example, ‘privatization’ cannot be a dominant and explicit strategy for any political entrepreneur, even if this is the actual result of political measures.

This observation reveals an astonishing parallelism between ideological change, administrative and political structure, disaggregate statistics and polici-centric institutional change. In the same way that China manifests a large variety of development patterns, cognitive models demonstrate the feature of nested structures in which local cultures stand in a complex relation with ‘Chinese’ culture, and political concepts of local officials do not unequivocally relate to central political ideology (Herrmann-Pillath 2006).

6.4 Conclusion: theoretical insights of the Chinese experience

We have collected a great number of observations on the political economy of China. In order to summarize, we may return to Figure 6.1 and fit a couple of observations into this conceptual framework. For example, we have observed that the government imposes certain political constraints on the economy via the fiscal system. However, in the wake of transition these constraints contribute to the emergence of certain patterns of local governance, which in turn support particular constellations of strategic groups. One of them is what has been termed the ‘newly emerging urbanites’, i.e. rural local elites who manage to shift their locus of social and economic identity to the urban areas. They rely on the inequality of the distribution of economic and political resources across social groups in the countryside to further ratchet up their relative status. One crucial mechanism is endogenous institutional change in the economy, namely the cold privatization of collectively owned rural land. This transforms existing political constraints on ownership, ending up in a huge redistribution of wealth.

The resulting economic change interacts with existing social structures, with the urban population being a target of social engineering by the government. One effect is the diffusion of shared cognitive schemes that create a linkage between economic growth and institutional resilience in the political system. The urban middle classes expect further economic improvements, a hope which
they fear to be jeopardized by overly radical political changes. This is reflected in particular patterns of political entrepreneurship, which at times even strengthens existing institutional structures in the economy, such as state-owned enterprises.

All this takes place in a highly diverse spatial setting in which even formally homogenous government institutions may manifest highly diverse extractive capacities and, hence, adopt very different roles in the local environment. Government and economy co-evolve with convergent speeds, which causes endogenization of political constraints.

What can we learn from the Chinese case for the social sciences in general? I would maintain that the most fundamental insight is to move from essentialist to population thinking, which is the hallmark of the evolutionary approach. Many economic analyses of China treat the country as a ‘system’ that can be described using a single set of generalizations, average indicators and universal parameters. Our approach shows that we need a methodology that deconstructs China as a unified system and reconstructs it as a disaggregate evolutionary one. Whether China manifests certain features of a unified system depends on the structure of political constraints. For example, the country has a unified monetary system with a national legal framework, and yet this does not imply that the system is fully integrated. The persistence of administrative and even ideological levers of controlling credit creation reveals that the influence of regional actors on the banking system is only in a slow retreat, and the imperfections of national money and credit markets imply that there are still features of fragmentation that forbid the analysis of China as a fully integrated monetary economy.

In order to deal with a fragmented evolutionary system in the first place, we need medium-level analytical constructs. This point has been made by philosopher Daniel Little (1992), and it continues to be valid. From this perspective, the Chinese way to understand political economy in terms of ‘models’, ‘places’ and ‘experiments’ does not simply reflect the transitional nature of the system, but may reveal an essential property. Our analytical approaches need to acknowledge this property. The concept of competitive governments with endogenous political constraints is promising in this regard.

This is not new to practitioners in Chinese studies, of course. What I would like to pinpoint is the fact that the actual practice of China-watching has some theoretical merits. The main difficulties with China as a case emerge in those disciplines which are especially inclined to adopt the systemic view, such as economics in particular. In mainstream economics, the preferred methodology is to design complete models of the economy and to feed them with data to achieve analytical results. Case studies are not a part of the economist’s toolkit, serving only as a first point of entry into defining a research issue. The Chinese experience demonstrates that the ceteris paribus condition needed for all systemic modelling in economics does not always hold, and that therefore we need to rely on more eclectic methodologies which grasp the fragmented and evolutionary nature of our object of investigation.
In that sense, our analysis of the Chinese political economy of transition might bring about a ‘sinicization’ of the methodology of social science, which was indeed envisaged by some Chinese scholars already in the mid-1990s. Our theoretical framework needs to adapt to the Chinese case in the sense that it might also take on fragmented and evolutionary characteristics itself. A ‘system’ cannot be used to understand a ‘non-system’. Instead, a flexible set of tools is needed which are loosely integrated via a set of fundamental assumptions about constant features. These, in turn, need to be explained in the light of long-term evolutionary viability, such as the dichotomy between the rural and the urban society. I believe that this requirement of a fit between methodology and reality is a major lesson to be drawn from doing China studies.

6.5 References


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7 Internationalizing China’s capital markets
Changing actor constellations and emerging transnational professional communities

Svenja Schlichting

7.1 Introduction

Despite the initial notion that capital markets – seen as core institutions of a capitalist market economy – inherently contradict the socialist nature of China’s economic order, they have gained both considerable size and significance over the course of economic reforms. Starting in the early 1990s, the Chinese stock markets saw feverish expansion and have developed into substantial mechanisms for allocating capital in China’s transforming and rapidly growing economy. Yet, with state-owned enterprises continuing to be the main issuers of securities, most large financial institutions being state-owned, and the strong role of regulatory organizations persisting, the Chinese capital markets remain caught halfway between industrial policy and systematic financial market development. Due to these factors and the underlying extensive control of China’s Communist Party (CCP), China’s capital markets display a distinct political economy. Many have argued that they are a vital component not only of China’s reforming economy but also of political rule, as they stabilize existing coalitions of power and distribution, mainly in favour of state-owned enterprises (SOEs).

Within this context, this chapter looks at the effects of internationalization on the development and political economy of the Chinese capital markets since 2001. The market side – including the market entry of foreign firms and the increasingly internationalizing market environment for domestic firms – and the regulatory side, e.g. the internationalization of the regulatory regime, will be analysed consecutively. Increased competition and cooperation between foreign and domestic firms will be discussed, as well as the effects that China’s participation in schemes of international cooperation and exchange has had on its main securities market regulator, the China Securities Regulatory Commission (CSRC). Through this analysis, the chapter aims to offer a detailed picture of important changes in the political economy of China’s capital markets, and to shed some light on the role of transnational actors and markets in influencing domestic reforms and changing domestic actor constellations, an aspect that has often been overlooked in the analysis of China’s capital markets. The main
interest of the analysis, however, lies in the political effects of market development. To approach these effects, the chapter poses the following questions: First, what effect has internationalization had so far on the institutional structure, as well as the competition and cooperation patterns in China’s capital markets? How have new regulatory ideas been transferred? Second, in what ways has internationalization impacted domestic actor constellations? How have the power and bargaining strength of key actors been affected? Third, what effects are these changes likely to have on the role of the capital markets in CCP rule over resource allocation and the maintenance of established distributional coalitions? In order to answer these questions, the chapter first gives a short overview of the initial market conditions (section 7.2). Then, changing actor constellations are analysed, distinguishing between the market side (section 7.3.1) and the regulatory side (section 7.3.2). In section 7.3.3, some more general conclusions are developed, before proceeding to discuss the likely political impact of capital market internationalization in section 7.4.

The main argument of this chapter is that internationalization has a considerable impact on the domestic actor constellation in China’s capital markets and the emerging regulatory regime. As internationalization brings about changes in the constellation of market actors, adds in many cases to the organizational strength of firms and contributes to the emergence of a new ‘regulatory state’ in China, it enables both market actors and regulators to act in a more professional, market-oriented and (potentially) autonomous way. Through this, internationalization impacts the principles of resource allocation in China’s capital markets, causing it to move gradually into a more efficiency-based direction. At the level of professional staff in the capital markets, internationalization additionally contributes to the development of internationally attuned and well-trained new professional staff that increasingly builds linkages to the transnational financial community. As capital markets are part of the political system and the resources they allocate have political significance, internationalization also alters the foundations, mechanisms and the scope of action of CCP rule. It contributes to a new definition both of the role of the state in the emerging market economy and the extent to which the CCP controls both state institutions (regulators) and market actors (domestic financial firms). Internationalization, therefore, not only has economic significance, but with the growing role of capital markets in resource allocation, it is reshaping an important institution of political control over the economy. Changing patterns of resource allocation in turn may significantly challenge established distributional networks and thus regime legitimacy.

However, this is not to say that there is a clear and secure one-dimensional developmental path leading towards the end of CCP rule over resource allocation in China that can be identified in the capital markets. Reality is much more complex. First of all, the central role of political leaders in the determination of financial market policies has to be kept in mind, upon which internationalization only has a limited and hardly observable, let alone scientifically verifiable impact. Up to now, both central leaders and the CCP have played a crucial role
in shaping capital market reforms, as well as in preserving control and stability. Second, the role of the regulatory organization CSRC in defending its key position as referee and market player, must also be kept in mind. Some CSRC policies still display elements of an interventionist approach, despite much improved professionalism and market orientation. Third, market actors may engage selectively in opportunism, favouring market orientation in some cases, and opposing it in others. Why is the analysis of internationalization nonetheless important? This chapter argues that offering new perspectives on recent changes allows underlying fundamental changes in China’s (financial) economy with regard to market players, regulators and the professional foundations to be highlighted, including the processes of differentiation among both government institutions and (state-owned) market players. Even though political obstacles remain, the analysis of capital market internationalization provides an important contribution for the identification of ‘change agents’ in market development and the assessment of the political consequences of economic reforms.

7.2 Internationalization as a driving force for the reform of China’s capital markets

In providing an introduction to capital market internationalization, this part gives a brief overview of the initial conditions of China’s once impermeable capital markets and the political changes that led to their (reluctant) opening. It is pointed out that capital market opening, although dominated by political considerations, has been able to gain considerable speed since 2001.

7.2.1 Initial conditions before 2001

The overall structure, characteristics and problems of China’s capital markets have been discussed by several authors who have emphasized both their immature, segmented and regulation-driven nature and the enduring legacy of the planned economic structure. For the purposes of this chapter, one characteristic of the pre-2001 setting stands out: the enduring closure of China’s capital markets, with foreign market entry largely sealed off and investment abroad equally restricted. In fact, capital markets have been one of the most shut off sectors of the Chinese economy – in contrast to many other sectors that aimed excessively at utilizing foreign capital, technology and expertise to foster economic reforms. This setting had important consequences for the structure of domestic actors. Before 2001, these actors mainly included securities companies, originating from state-owned commercial banks and being state-owned themselves in most cases. Given the young age of the capital markets and in particular the stock markets (only developing after 1991/92), these firms were immature, and often held a weak financial position based on less-than-professional management, as well as limited skills and experience. In addition, as a second large actor group, fund management companies have emerged alongside the development of investment funds business after 1998 (CSRC 2004).
In this situation, the regulator CSRC, itself established after 1992, faced two dilemmas: the first being between the interests of market development and tight regulation and the second, between market development, industrial policy and political interests. This led to contradictory and conflicting regulation. Only with the major shock exerted by the Asian Financial Crisis on the Chinese political leadership after 1997 did a consequent re-evaluation of financial market problems occur.

### Market opening and the entry of new firms

However, consequent changes took some time to take effect. Thus, only since 2001 have Chinese capital markets seen a gradual and reluctant opening for foreign financial firms, mainly through Joint Ventures (JVs) and (few) strategic investments. The opening policy has been enshrined in the WTO entry-related commitments of Chinese decision makers (WTO 2001a, 2001b). Commitments include market access for foreign firms mainly through mandatory JV structures. Hence, JVs in securities firms and investment funds are a precondition for foreign firms to access broader market segments. The alternative fully foreign-owned brokerages remained excluded from important and lucrative business lines.

As discussed in greater detail below, this fostered cooperation between foreign and Chinese financial firms. The direct impact of the market entry has been twofold: competition increased; but, due to the mandatory JV structure, cooperation was also very important. Since foreign firms are unique actors in the Chinese markets due to their sound capital foundation, experience and product sophistication, the CSRC tried to utilize the strongest advantages of foreign firms in order to solve or diminish some of the problems of China’s capital markets (statements on the CSRC website, interviews with CSRC officials in Beijing and Shanghai, conducted in November 2003 and June 2004).

As this approach has proven reasonably successful, the opening policy was extended to strategic foreign investments in domestic Chinese firms in the securities business. This allows foreign firms to buy into Chinese securities market players under certain conditions (China Daily 2004b).

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities companies</td>
<td>91</td>
<td>97</td>
<td>94</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>100</td>
<td>109</td>
<td>127</td>
</tr>
<tr>
<td>Securities retail outlets</td>
<td>2,262</td>
<td>n/a</td>
<td>2,420</td>
<td>2,412</td>
<td>2,412</td>
<td>2,412</td>
<td>2,680</td>
<td>2,700</td>
<td>2,936</td>
</tr>
<tr>
<td>Fund management companies</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>6</td>
<td>10</td>
<td>10</td>
<td>15</td>
<td>21</td>
</tr>
</tbody>
</table>

7.2.3 The increasingly international market environment

The market entry of foreign firms has constituted only one part of a more complex process: under internationalization, domestic players are operating in an increasingly international environment, in which they interact with a growing number of international players and are also confronted with international market forces. Two main aspects have contributed to these developments: first, a Qualified Foreign Institutional Investor Scheme (QFII) was introduced in 2001. This opened up the Chinese markets for domestic, RMB-denominated shares and bonds to foreign investments. International investment banks, funds management companies, insurance companies, securities companies and commercial banks can apply for QFII status and engage in the intermediation of these transactions under certain restrictive rules. QFIIs can also participate in domestic IPOs and secondary share issues. Hence, the QFII scheme enables foreign institutional investors to trade in Chinese securities without being present in the Chinese market through a JV.6 At the same time, it offers new international business opportunities for Chinese securities companies who act as brokerages in the process. Custodian banks and brokers for international investors have thus developed new comprehensive QFII platforms since 2001.

Second, beyond the QFII scheme, the market environment of domestic firms has changed due to an increase in the domestic demand for internationally oriented services. As increasing numbers of Chinese enterprises start to operate on an international scale, they also need more international investment banking services. In addition, due to the large amounts of foreign direct investment (FDI) that China has been receiving, international contacts and financial requirements of domestic firms and JVs have increased considerably. The need to provide cross-border and foreign-currency services has thus greatly increased for domestic financial firms over the course of the economic reform and opening process.

Both aspects highlight that regulatory policies have shifted to allow more foreign participation. The CSRC as the main regulator in the Chinese securities markets now actively uses foreign securities firms in order to foster market

Table 7.2 Who can do what type of business?

<table>
<thead>
<tr>
<th></th>
<th>Underwriting</th>
<th>Trading</th>
<th>Issuance of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholly foreign-owned brokerages</td>
<td>No</td>
<td>Yes, but only in B shares (denominated in foreign-currency)</td>
<td>No</td>
</tr>
<tr>
<td>JV securities houses</td>
<td>Yes</td>
<td>Only trading foreign currency equity, but all bonds</td>
<td>No</td>
</tr>
<tr>
<td>JV fund management companies</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Own compilation based on WTO documents and Chinese regulations.
development. This approach coincides with more comprehensive regulatory pol-
ices in a bearish market. Since 2001, there have been considerable efforts on the
part of the CSRC to streamline the market and to increase transparency.⁷
However, there are also signs that the CSRC is essentially following an infant
industry logic in allowing domestic firms to grow before having to compete with
international investment banks (as discussed with CSRC officials in 2004, also
see Green 2003). Still, China’s capital markets have undergone considerable
opening and related market-oriented reforms since 2001. The next section dis-
cusses the implications of these market changes.

7.3 Changes in domestic actor constellations induced by
internationalization

7.3.1 The market side: domestic financial firms under
internationalization

7.3.1.1 New strategies in response to the changing market environment

As pointed out above, the quantitative importance of the (independent) business
of foreign financial firms in China’s capital markets is still limited. Yet, the
market entry of foreign financial firms in China has had a significant impact on
the market environment that domestic players face. New business opportunities
have become available to these actors in international markets and the Chinese
regulatory system has increasingly allowed firms to expand on an international
level. Domestically, firms have faced increased competition and a shift in
demand towards international services. They have also been challenged with
regard to customer orientation in service provision, the quality of services and
the introduction of new products. As foreign firms are eager to enter more
deply into Chinese capital markets in order to secure more international busi-
ness and are particularly well positioned to provide these high-quality, innova-
tive and internationally oriented services, future additional opening of the
capital markets already creates additional pressure. Overall, therefore, the deeper
international integration of the Chinese economy in general and Chinese finan-
cial markets in particular has brought about considerable change in relation to
the incentives and constraints of domestic financial firms.

In response, domestic financial firms have developed new strategies that can
broadly be divided into proactive strategies of ‘embracing’ internationalization or
passive ‘evasive’ ones. The most prominent way to proactively respond to the
changed commercial environment has been to conduct internal reforms, such as
organizational reforms of the governance structure, and reforms with regard to the
products and services offered (Hu and Zhang 2004). The readjustment of their
business and product strategies has also helped securities firms and fund manage-
ment companies to broaden their product range and to provide internationally ori-
ented services, such as in the case of QFII brokerage (Wang 2002). In this process,
the cooperation with international partners has become both a means and an end.
Two types of JVs have to be looked at in this regard. The first type consists of investment banking joint ventures, also called securities firms JVs, whose founding on a routine-level became possible after the promulgation of the new *Implementing Rules on the Administration of Foreign Financial Institutions* in June 2002. Before 2002, only the China International Capital Corporation, a JV between China Construction Bank and the American Morgan Stanley, had existed as China’s single international investment bank. After 2002, however, new securities JVs were licensed, including a JV between XiangCai Securities and CLSA, as well as a JV between Changjiang Securities and the French bank BNP Paribas. A later example of cooperation are the American investment bank Goldman Sachs and Beijing Gaohua Securities, a brokerage inheriting the operating licence from troubled Hainan Securities (Iyengar 2004). Second, after WTO entry, the CSRC allowed for the set-up of fund management JVs with a foreign participation of up to 33 per cent of all shares. This limit was raised to 49 per cent at the end of 2004. It is, however, also seen as a transitionary stage to wholly foreign-owned fund management companies by many industry participants, although a clear timeline for the establishment of controlling majorities in fund management JVs is missing. Fund management JVs can engage in all business that is allowed for entirely domestically owned fund management companies, essentially raising and managing funds inside China. Prominent examples include Guotai Junan Allianz and Fortis Haitong Asset Management with German and Belgian participation, respectively. At the end of 2003, there were 37 fund management companies in China, of which 13 were Sino-foreign JVs. By October 2005, the number of fund management JVs had risen to 20, as listed on the website of the CSRC.

*Table 7.3 JV securities companies in China in 2004*

<table>
<thead>
<tr>
<th>Investment banks</th>
<th>Cooperation with Chinese partner</th>
<th>Name of JV securities firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley</td>
<td>China Construction Bank</td>
<td>China International Capital Corporation (CICC)</td>
</tr>
<tr>
<td>CLSA</td>
<td>XiangCai Securities</td>
<td>China Europe Securities (CESL)</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>Changjiang Securities</td>
<td>Changjiang BNP Paribas Peregrine</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>Gaohua Securities</td>
<td>Beijing Gaohua Securities</td>
</tr>
</tbody>
</table>

Source: Media reports.
Table 7.4 Selected Sino-foreign fund management JVs

<table>
<thead>
<tr>
<th>Foreign partner</th>
<th>Chinese partner</th>
<th>JV Fund management company</th>
<th>Date of approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Societe General Asset Management</td>
<td>Fortune Trust &amp; Investment</td>
<td>Fortune SGAM Fund Management</td>
<td>October 2002</td>
</tr>
<tr>
<td>Fortis Investment Management</td>
<td>Haitong Securities</td>
<td>Fortis Haitong Investment Management</td>
<td>October 2002</td>
</tr>
<tr>
<td>ING Investment Management</td>
<td>China Merchant Securities (and others)</td>
<td>China Merchants Fund Management</td>
<td>December 2002</td>
</tr>
<tr>
<td>Invesco Asia</td>
<td>China Great Wall Securities (and others)</td>
<td>Invesco Great Wall Fund Management</td>
<td>February 2003</td>
</tr>
<tr>
<td>Allianz Dresdner Asset Management</td>
<td>Guotai Jun’an Securities</td>
<td>Guotai Jun’an Allianz Fund Management</td>
<td>March 2003</td>
</tr>
<tr>
<td>Franklin Templeton</td>
<td>Sealand Securities</td>
<td>Franklin Templeton Sealand Fund Management</td>
<td>August 2003</td>
</tr>
<tr>
<td>BNP Paribas Asset Management</td>
<td>Shenyin &amp; Wangguo Securities</td>
<td>SW BNP Paribas Asset Management</td>
<td>August 2003</td>
</tr>
<tr>
<td>ABN Amro</td>
<td>XiangCai Securities and Shandong Xinyuan</td>
<td>XiangCai Hefeng Fund Management</td>
<td>September 2003</td>
</tr>
</tbody>
</table>

Source: Bolland (2004), various media reports.
These JVs represent an important change in the institutional landscape of China’s capital markets, because they mark the emergence of better shaped, capitalized and organized, more professional financial intermediaries: in market conduct, the newly founded securities firm JVs were clearly seen to be internationalizing as rapidly as possible, in particular with regard to offering internationally oriented services to domestic customers.13

The impact of fund management JVs is similar, basically introducing stronger and more efficient institutions.14 Due to the high competition in the fund management business, the pressure on these firms to differentiate themselves is even higher. As a consequence, a trend of domestic fund management companies to enter JVs and to ‘internationalize aggressively’ through cooperating as much as possible has emerged. In some of these JVs, this has led to a share of foreign control that is actually larger than their (officially restricted) capital contribution.15 On the back of the reputation and brand name of their foreign partners, as well as his know-how, skill and management transfer these fund management JVs have aimed both to increase their domestic competitiveness and their international orientation as forcefully as possible (Bolland 2004). Here, international cooperation has also been seen as an option to increase independence from state interference: a number of interviewees discussed that international partners may decrease the probability of political interference in business, a notion that confirms the finding of Heilmann (2005).16 Yet, only a long-term study can show if this is really the case.

One more factor has to be taken into account: besides forming JVs, the organizational structures of domestic financial firms have increasingly displayed both international linkages and a high degree of complexity due to their international cooperation and their orientation towards international customers. An example of this is the case of XiangCai Securities, the seventh largest broker among Chinese securities companies. XiangCai Securities, originally a securities company from Hunan, became the first nationwide comprehensive securities firm in 1999. It has since then entered a JV with CLSA in 2002 and a fund management JV with the Dutch bank ABN AMRO. In addition, it has a representative office in Hong Kong, offers comprehensive financial and investment services to domestic and international clients, and has established a significant QFII department in which it employs international staff. It displays a comprehensive international orientation in its products and its organizational structure and highlights the organizational consequences of internationalization strategies of domestic financial firms.

On a more fundamental level, the role of new personnel strategies in this process of internationalization-induced reformulation of business strategies and organizational structures shall also be noted: in order to reposition themselves competitively, domestic firms in China’s capital markets have started to set new priorities in personnel policies and employ new measures in human capital management. They have hired both younger and internationally trained returnees as well as Hong Kong and overseas personnel.17 Additionally, they have internationalized training standards and procedures, as well as remuneration and the
design of incentive systems. Gradually, professional standards in the securities industry have thus significantly increased and moved in the direction of international practices. With these changes, the new personnel strategies have started to alter the micro-foundations of domestic financial firms. Based on evidence collected in the interviews conducted for this study, it shall be argued here that these strategies have contributed to the formation of new professional elites and the increasingly international orientation of young financial market professionals in China. With the aid of internationally attuned training and examinations, a new professional elite with new tools and techniques as well as new intellectual concepts regarding market operations, all in line with international business practices, has thus started to emerge.

7.3.1.2 Differentiation among domestic firms in the capital market

However, as noted above, not all domestic firms followed the active path of embracing internationalization in order to respond to the changing, increasingly internationalized market environment. Some domestic firms have not moved in the direction of internationalization and increased competitiveness, but have instead chosen to continue with their original business approach. Some have even resisted further market opening and have lobbied for the protection of their incumbent position. The most notable consequence of the different strategies of domestic financial firms towards restructuring and internationalization has thus been the emergence of some significantly stronger securities firms domestically (as domestic partners profit from the strength of their international partners) and in consequence an observable differentiation among the domestic firms in China’s financial markets. Overall, for those firms that have chosen active reform and internationalization, international cooperation has enabled them to reform themselves successfully and has increasingly led to their organizational and financial strengthening – an effect in stark contrast to the widely expected weakening of domestic firms through international competition. The most important factors in this regard have been the organizational reform and stronger market orientation of the firms, which is also likely to have positive effects on their commercial behaviour and success.

It can also be argued that the increased strength of domestic firms is likely to increase their political leverage on the domestic level, as it helps them to break out of the weak position vis-à-vis the regulators. Based on the evidence collected for this chapter, it can be pointed out that these firms more often than others stand in opposition to government interference in their business and financial markets in general; they also often call for the stronger implementation of rules and ‘better regulation’ (interviews with domestic financial firms in Shanghai, October/November 2003 and June/July 2004). While more research over a longer period of time must still be conducted on this process, there are indications that these firms are starting to emerge as important actors in demanding institutional change in China’s financial markets. Domestic actors may thus be able to provide more impetus for reform in a process that had long been dominated by regulatory bodies.
7.3.2 The regulators’ side: the CSRC in an international context

Internationalization has also affected the regulatory side of capital market development. The CSRC, China’s capital markets’ regulator, was founded in 1992 and has since then gradually consolidated its power. Parallel to rapid market development, its scope of action has grown considerably. This section looks at the impact of internationalization on the current regime organization and orientation.24

7.3.2.1 The role of international cooperation and integration in shaping China’s regulatory regime

The role of international influences on the organizational side of the regulatory regime in China’s capital markets has been considerable, just as the international influences in the emergence of the markets themselves.25 During the interviews conducted for this study, it was pointed out by market participants and regulators alike that the American model of ‘Wall Street’ was very important as a reference system for overall stock market policies. This view is supported for example by Green (2004) as well as Heilmann (2001a). Despite severe intergovernmental rivalries, international models of stock market regulation have also been important for shaping the organizational structure of the regulatory regime in China: with regard to convergence towards international standards in regime organization, Lo (1999) points out that the role of the CSRC as defined by the Securities Law conforms with the five main principles for the regulator in the Principles of Effective Securities Market Supervision published by the International Organisation of Securities Commissions (IOSCO).26 The Securities Law in fact implements international norms with regard to the position, legal backing and responsibilities of the CSRC. Overall, it can thus be stated that the organizational framework for regulating China’s capital markets has been moving towards an internationally accepted configuration of regulatory bodies and has been influenced by international norms, standards and principles of regulation. It was repeatedly pointed out by both regulators and market participants during the interviews that the CSRC was on its way to becoming the Chinese version of the American Stock Exchange Commission (SEC).27

With regard to regime orientation, international influences have also played a considerable role.28 Since 1992, a number of channels for international exchange and cooperation have been established by the CSRC. They are reflected organizationally in the CSRC department for international cooperation, which was originally intended to be CSRC’s exclusive window to the outside world. However, other departments and sections have established strong international connections as well. The modes of exchange and interaction in this regard include:

- Study groups and international research seminars.
- Active membership in international regulatory organizations, such as the IOSCO that the CSRC joined in 1995.
• Bilateral cooperation on the level of stock exchanges and securities market regulators.
• Cooperation with international financial institutions, such as the World Bank and the IMF.
• An emerging network of individual international advisers, such as Anthony Neoh, and the Council of International Advisers that was set up in October 2004.

These channels have allowed for the influx of international ideas, as well as for increased and substantial interaction with international experts. The increased exchange and cooperation has, however, hardly been a way of *implanting* international regulatory standards into the Chinese financial markets. Instead, as confirmed by interviews with CSRC officials in Beijing in July 2004, they have led to a broadening of the ideas that dominate the regulatory process and an alignment of perceived policy options with international discourse.

These effects have to be seen in parallel with the institutional and organizational characteristics of the CSRC, such as the specific personnel policies that have been aiming at hiring more professionally trained and internationally experienced staff, recruiting in Hong Kong and overseas markets and building a more flexible, competitive and incentive compatible mode of staff management and remuneration (on this see also Pearson 2003).

7.3.2.2 Building a new regime orientation?

In what ways, then, has the regime orientation in China’s capital market regulation been impacted by internationalization? Are there traceable signs of direct or indirect effects? Measured against the IOSCO *Objectives of Securities Regulation* – stating as the three main aims of securities regulation the protection of investors, securing fair, efficient and transparent markets and the reduction of systemic risks (IOSCO 2003) – it can be stated that in general, the CSRC has used its powers to gradually bring the Chinese securities markets more in line with these internationally accepted standards. This was particularly the case after the Asian Financial Crisis in 1997/98.

On a more detailed level, with regard to the securities houses as the predominant market intermediaries, the IOSCO *Objectives* call for the regulation of capital requirements, as well as for standards of internal organization and operational conduct (IOSCO 2003). In this regard, the CSRC has set regulatory standards through the *Securities Law* that have been further specified by the *Rules on the Administration of Securities Houses* in 2001, and the *Guidelines on the Internal Control System of Securities Houses* in 2003. The *Securities Law* specifies minimum capital requirements for different types of securities houses, as well as conditions for those who administer the securities houses’ business. A sound management system, separating the business on the own account and brokerage is called for in Article 121. In the *Rules on Administration*, procedures and requirements for the establishment of a securities firm are specified, along
with provisions for its closure (Articles 4–19). In part IV, measures for internal control and risk management are set out, including minimum capital requirements. The Guidelines, however, lay out the most comprehensive framework for internal control with regard to capital, as well as single lines of business such as brokerage, transactions on the own account, investment banking services, and research services, but also areas such as human resource management and incentive systems, therefore, setting standards for the internal organization and operational conduct. In addition, a codex for the corporate governance of securities firms was issued by the CSRC in December 2003 (CSRC and SETC 2001). The regulation of Chinese securities houses has thus moved significantly into the direction of international standards and has incorporated IOSCO principles, as well as broadly accepted concepts, such as corporate governance systems.29

With regard to the administration of securities investment funds, the IOSCO objectives set out four principles for the regulation of collective investment schemes, including standards and regulations for those who set up funds, the legal form and structure of funds, segregation of assets, disclosure of information, and rules for asset valuation. These principles are well reflected in the provisions of the CSRC. The Securities Investment Fund Law, promulgated on the 6 January 2004, provides the overall framework for the establishment of securities investment funds ‘in order to protect the legal rights and interests of investors’ (Article 1). It sets rules for the segregation of client assets (Article 6), conditions for the fund managers (Article 12ff.), as well as rules for fundraising, trading, the purchase and redemption of shares and information disclosure (Article 57ff.). The Information Disclosure Rules on Securities Investment Funds, promulgated on the 8 June 2004, set out rules for publishing information in nationwide newspapers and on internet websites, and outlined types of information which require mandatory disclosure (Article 5), as well as information which does not (Article 6). Rules for the special disclosure for fund-raising and operation, as well as for the establishment of an administrative system to manage the disclosure, are provided. The Measures for the Administration of Securities Investment Fund Management Companies, promulgated on the 16 September 2004, set out rules for the establishment of fund management companies, as well as its alteration and dissolution. The Chinese regulatory framework thus provides comprehensive rules that reflect international standards of the IOSCO.30

On a broader level, the ‘Nine Articles’, an important policy direction paper on capital market development issued by the State Council in February 2003, also reflects the increasing alignment of regulatory aims, principles and norms with international standards. They mirror a comprehensive approach to a better regulated market and highlight, incorporate and frame new initiatives to further develop the bond market, an area of increased international attention. They also lay out a framework for the future development of institutional investors in China’s capital markets.31 Therefore, it can be reasonably argued that both with regard to regime organization and orientation, the channels of international influence, such as the exchange of ideas, interaction on a professional level and
international role models have had a significant impact on the new regulations in the Chinese financial markets.

7.3.3 Consequences

7.3.3.1 The changing constellation between market and regulatory actors: creating a market-preserving relationship of tension?

It has repeatedly been argued that for more market-based capital markets to grow, a new relationship between market actors and regulators of fostering and preserving markets needs to emerge in China (Davies 2004). In this line of argument, market actors are the (natural) counterpart of regulatory actors and only strong actors on both sides will be able to keep a balance between prudential regulation and spontaneous market development. Do the above mentioned changes in actor constellation contribute to an increase in this welcome and productive relationship of tension?

It shall be argued here that the changes in the actor constellation and the emergence of stronger and more independent financial firms constitute an important contribution to changing the power balance and bargaining positions between market actors and regulators in China. More market-oriented firms that are financially and organizationally stronger, with increased capabilities in regard to risk management and product design, and greater capabilities in tailoring products to customer needs are a welcome new group of actors. They are more profit-oriented and generally tend to favour a reduction of direct regulatory interference in their business. However, while these new firms, therefore, have the potential to grow into important change agents, some important caveats for the above analysis also have to be kept in mind. Most importantly, in China, both regulators and market actors remain institutionally incorporated into the state network and subject to the political control mechanism of the CCP, most clearly executed through the nomenklatura system and institutionalized party committees in commercial enterprises (Burns 1994; Heilmann and Kirchberger 2000). This may limit the (necessary) change in incentive structures, as the decision makers within the firms still remain geared towards the state and the party. In addition, even for stronger firms, strategic behaviour may include seeking protection through regulators and evading more market-oriented reforms. Requests of market players for increased state interference may thus also persist, as empirically highlighted in the discussion on a stock market bailout and a capital injection into securities firms in 2005. Here, a third part in the creative tension-framework set out above is necessary in order to ensure more market-oriented reforms: an independent financial press. In theory, it is the task of a free and vibrant press to expose misconduct and sluggishness, both on the side of the regulator and the market players. An independent financial press has the task of ensuring transparency and providing relevant information on all sides. Although some tentative changes have been observed (Wu 2000, with regard to the financial market see Green 2003), the tight control on information
and the media through the comprehensive system of predominantly state-owned media and content censorship provides clear obstacles to capital market development in this regard.

Overall, therefore, while a new actor-constellation and more creative tension are emerging, it has to be kept in mind that market actors and regulators are still bound in the organizational structure of the CCP. The changes in the actor constellation discussed above are thus best understood as trends and indications for new lines of development and potential conflicts in the future. Nevertheless, the changed actor constellation may be an important ingredient in future capital market reform.

7.3.3.2 Changes in capital market foundations: the emergence of a transnational financial community?

In judging the consequences of the changes both on the side of the regulators and the market actors, the nature of the changes in personnel management strategies also needs to be acknowledged: based on the increased international orientation and particularly the broadened recruitment strategies, the structure of professional staff both of market players and regulators has changed considerably in the last few years. It is argued here that these changes provide the basis for the emergence of a new professional elite in China’s capital markets and that this group has the potential to alter the micro-foundations of decision making in capital market business considerably. This is because the members of these communities – due to their international training and exposure – often use prototype, textbook liberal financial markets as their reference system and thus more often than not stand in conflict with political interference (as confirmed by interviews with domestic market participants and regulators in Beijing and Shanghai, 2003 and 2004). In some cases, Chinese financial market experts are already intellectually more closely linked to Wall Street than to any place in China. They hold their own strong perceptions on the proper role of government agencies in the markets. Therefore, while they still operate within the transitional structures of the Chinese financial system (with admittedly limited political leverage), they simultaneously form the professional foundation of a new financial market order and support the change of informal institutions.

On the side of the regulators, this argument for an internationalized professional community – following Haas (1992) – can be further developed into the idea of a regulatory or an epistemic community: members of these communities share common ideas about regulation, and have a similar orientation, as well as a regulatory culture, and thus become – as a group – change agents in the process of regulating the development of financial markets. Regulatory communities are characterized by (national and transnational) horizontal linkages between regulatory actors as well as a common concern and common expertise. It is, therefore, argued here that based on the channels of internationalization and international cooperation of the CSRC, a group of internationalized capital market regulators is indeed emerging in China as a part of a
transnational regulatory community. The members of this community include internationalized parts of the CSRC in China, such as the heads of departments and research staff that are internationalized themselves or engage directly in interaction with regulatory agencies from abroad, but also the key regulators on the leadership level, as well as research institutes, internationally connected advising economists and government agencies related to the policy consultation process. These people interact frequently with each other, with international experts at national and international conferences and also through the dialogue between regulators. The key members of this community have been internationally trained, have spent time abroad and are exceedingly familiar with the international discourse on financial market regulation. They have learned to ‘blend in with their international peers’, professionally and personally, as several interviewees have pointed out. On the top level, regulators like Zhou Xiaochuan and Shang Fulin, who have impressed international experts with their professionalism, cosmopolitanism and international orientation, are role models and figureheads for this group.

The concept of a transnational regulatory community is used here as a means to emphasize three points: first, the perspective of an emerging transnational regulatory community in China stresses the international dimension of the changing regime orientation in China’s capital market regulation. Second, the concept of a transnational community highlights the emergence of a group of connected actors within and among the regulatory bodies and market players who share their international outlook in regulation. Third, the broad definition of this community draws attention to the blurred boundaries of the regulatory process.

7.4 Capital market internationalization, resource allocation and CCP rule

The main point of this chapter so far has been that internationalization has altered the structure of domestic market players and has influenced the regulatory regime considerably, both with regard to regime organization and orientation. It has led to considerable changes in the domestic actor constellation in China’s capital markets and has contributed to an emerging productive tension between market players and regulators. With regard to market players, it has contributed to organizational and financial strengthening of some players and has thus led to a differentiation among actors. With regard to regulators, it has contributed to an increase in market orientation and the introduction of international standards. In addition, internationalization has fostered the emergence of a new professional elite that is part of a transnational community.

These observations highlight significant changes in the mode in which the state governs the emerging capital markets in China: the new regulatory regime and the internationalization of the CSRC have important implications for the process and content of rule-setting in the Chinese capital markets. They may also indicate more general changes in the relation between state and market actors. While further research remains to be conducted in this regard, both the
new actor constellation, after all more typical for a market economy, and the increased bargaining position of commercial actors vis-à-vis regulators are significant. Here, on the operational level, it can be observed that regulators and commercial actors have started to interact on more rules-based and formalized terms. Both the stronger differentiation among regulators and firms, and the increasingly rules-based mode of interaction between regulators and commercial actors are two systemically important consequences of the process of internationalization and contribute significantly to the institutionalization of the market economy in China.

Does the new role of the state in the market economy order also have implications for the political control over resource allocation and the CCP role in this process? It shall be argued here that internationalization and the differentiation of actors contribute to the gradual reduction of political control over resource allocation on a day-to-day level.\textsuperscript{33} Interviews with domestic market participants indicate that the willingness of domestic commercial players to cooperate on the ‘old terms’ of administrative interference and politicized allocative decisions has decreased. This trend is likely to continue when domestic firms have to compete on a level playing field with transnational actors. As internationalization contributes to the increasingly market-oriented perspective of domestic firms, political interference in their business becomes less agreeable for them, as it reduces profits and turns into a competitive disadvantage vis-à-vis (foreign) competitors. As a consequence, interests tend to differentiate, and conflicts and frictions between political actors and domestic firms increase. After all, the greater organizational strength and market orientation of domestic firms enables them to oppose interference where it hurts their interests, although it might not stop them from seeking political protection whenever they can profit from it.

Thus, while mechanisms of party control over domestic firms, based on the nomenclature system within the CCP and organizational party structures, remain operational, they increasingly exist parallel to new personnel structures and principles of resource allocation in day-to-day business. In addition, mechanisms of party control may themselves become increasingly weakened due to the ongoing market reforms such as privatization and the increasing market entry of foreign financial firms that are per definitionem not part of the CCP control structures. While this further contributes to market orientation, it may have two important consequences: first, it may endanger the comfortable position of long-established interest groups as well as distributional coalitions. But, second, it may also lead to decreased capital market stability, at least in the short to medium term, particularly as the risk management systems of domestic financial firms may not yet operate on a viable basis. Both disintegrating distributional coalitions and market instability may endanger the legitimacy of CCP rule. A medium- to large-scale financial market crisis would very likely lead to considerable political consequences.

Therefore, it would be naïve to expect market-oriented capital market reforms in China to proceed quickly and smoothly. After all, these changes constitute a
process that power struggles and interest group interferences will likely obstruct. Even with internationalization contributing to the emergence of new foundations and actor constellations, much depends on decisions of the CCP leaders. These decisions are tough choices, as a more efficiency-based resource allocation implies dissolving political control over markets. On the other hand, short- and long-term stability seem to contradict each other. In any case, therefore, a straight transition to a more market-orientation cannot be expected. Instead, a complex new institutional order, based on a mixture of administrative and market-oriented regulation, seems more probable than a mere copying of models from abroad. Yet, international influences and actors will very likely play an important part in this process.

7.5 Notes

1 This chapter presents some of the results of a PhD project on the internationalization of China’s financial markets, conducted at the University of Trier, Germany. Some of the information it offers has been collected during anonymous interviews with market participants, regulators and academics in Beijing and Shanghai in October/November 2003 and June/July 2004. Whenever possible, the information collected has been cross-checked with other interviewees, news reports and the available academic literature. Some information has been confirmed by additional interviews with market experts and academics in London and Hong Kong during the second half of 2004 and early 2005. The results of the entire study are published in Schlichting (2005).


3 Accordingly, during this time, only the B-share market was accessible for foreign investors and intermediaries and even here entry was channelled through cooperation with domestic firms.

4 On the other sectors see, for example, Howell (1993), Moore (2002) and Huang (2002).

5 See Heilmann (2001a) and (2001b) on the policy driven nature of the market.

6 The specific regulation of the QFII scheme requires a minimum capital of US$50 million per QFII account. The upper limit is US$300 million. A single stake in a company may not exceed 10 per cent, while total foreign investment may not exceed 20 per cent. Lock-in periods necessitate that remitted money from an open end fund must be held in the account for one year, money from closed end funds for three years.

7 The end of the predominantly bullish market that China’s investors enjoyed for nearly ten years before 2001 was marked by a five-year low in September 2004 (China Daily 2004a). However, in 2005 the indices fell even further.

8 The BOC Hong Kong also set up a JV that was regarded as a special deal connected to the buying of bad debt (Pang 2005).

9 Remarkably, European firms have engaged more actively in creating securities JVs and have been more willing to enter minority positions vis-à-vis American firms (The Economist 2003).

10 The construction of this particular JV, approved in mid-2004, allows for an untypical way of founding the JV that actually antedates the transfer of control to the minority shareholder.

11 Fund management companies have a much more focused business scope than (comprehensive) securities companies and a differing risk profile.
13 Interestingly, CICC, the first JV securities firm in China, is the main competitor of other JVs, but also was portrayed more like a flagship in the market, fostered by political support and preferential regulatory treatment.
14 Yet, it is too early to conduct large scale quantitative performance comparisons, as these JVs are all still relatively new.
15 The share of the foreign partner is limited to 33 per cent. However, some JVs arrangements have given operational control to the foreign partner despite his smaller equity contribution. This has been interpreted as a strong impetus to maximize the international component of the JV (interviews with representatives of fund management JVs, Shanghai).
16 Several interviews with investment fund managers were conducted in Shanghai in October and November 2003. Interviewees included Chinese partners of already existing JVs and firms which aimed to set up a JV in the near future.
17 This was extensively discussed during interviews with market participants in Shanghai and Beijing, October/November 2003 and June/July 2004. Evidence was also found in the fact that numerous interviewees were themselves returnees from overseas or staff hired from Hong Kong.
18 In order not to overstate this point, it has to be kept in mind that this does not necessarily mean that a de-politization of financial business is taking place.
19 This argument is based on extensive interviews with regulators and market participants in Beijing and Shanghai, October/November 2003 and June/July 2004.
20 Analytically, these firms are difficult to grasp, as their actions remain essentially unchanged and therefore non-descript in the context of changed institutional behaviour patterns.
21 For the time being, these conclusions are mainly based on the interviews conducted for this study. A more systematic approach, comparing the financial and business performances of different types of firms needs to be conducted as these cooperations grow more mature and more data becomes available.
22 In an international comparison, Crystal et al. (2001) found that firms with investments from abroad behave more prudentially than domestically owned counterparts.
23 It is important to note that a more rules-based system in general will not necessarily hinder the firms in seeking political protection and regulatory exceptions.
24 A central argument underlying the following analysis is that made by Vogel (1998), who has identified both the organizational structure of regulatory bodies (regime organization) and the orientation of these regulatory bodies (regime orientation) as the determining dimensions of the regulatory regime.
25 Green (2004) explicitly identifies an informal stock market promotion group, encompassing internationally trained and experienced experts who were key actors in the early years of experiments with stocks and shares in China.
26 The five principles set out in section A of the IOSCO Principles are (1) clear objectives, (2) operationally independent and accountable, (3) adequate power, resources and capabilities, (4) clear processes of regulation, (5) high professional standards (IOSCO 2003).
27 Green (2004) points out that Zhu Rongji is supposed to have ‘a personal preference for the American model and so designed China’s framework along the same lines’. Also see Green (2004) for a comparison of the CSRC and the SEC.
28 However, since the change of beliefs, ideas and accepted theories of regulatory organizations is a complex and opaque process, in a first step, this section briefly reviews the channels of international exchange and cooperation that have emerged since 1992, thus highlighting the increasingly international context in which Chinese regulatory bodies operate. Section 7.3.2.2. will then examine the traces of these channels in actual regulation.
Interestingly, the formation of these rules highlights the process of international exchange and influence as well: in the preparation of the 2003 rules and guidelines, there was a conference on risk management in securities regulation, co-sponsored by the World Bank and PricewaterhouseCoopers. The structure of the conference, as well as main aims and the target audience can be referred to on the World Bank’s China website (World Bank 2003). In this context, the title of a report on this conference by the People’s Daily (2003) is noteworthy: ‘China’s securities regulators have invited overseas experts to help design a new risk management scheme for domestic securities companies.’

The regulation of securities investment funds has also been evolving under the active advice of international agencies, such as in the FIRST Initiative that runs a project on the revision of the ‘Provisional Measures on the Supervision of Securities Investment Funds’ issued in 1997, and the further development of the Securities Investment Fund Law (FIRST 2004).

On the bond market see Zhou (2003). The World Bank has been particularly active as an advisor to China as well as other countries.

Bowles and White (1993) point out the important effect of international ideas on the Chinese leadership.

Yet, in the course of this thesis, no indications have been found that party structures in the case of a crisis that threatens stability have lost their effectiveness.

7.6 References

7.6.1 Chinese sources of law

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Internationalizing China’s capital markets


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8 Censorship and marketization
Institutional change within China’s media

Doris Fischer

8.1 Introduction
Western research on China’s development during the last two decades have often oscillated between praise, astonishment and admiration concerning China’s economic progress on the one hand, and criticism towards the political and legal system, especially in relation to human rights protection, on the other hand. Until the second half of the 1990s China’s media were mostly understood to be part of the political system, as they were state-controlled and utilized as a means for propaganda. As a consequence, press coverage on China’s economic development generally ignored the role of media, whereas press coverage concerning China’s political system generally included criticism of the media. But, at least since the second half of the 1990s, as a result of China’s media reforms, media are no longer only part of the political system. They have become economic players as well, already attracting awareness among potential international investors. At the same time the new role of media as economic agents has raised the question of how the economic and political roles of the Chinese media are being consolidated. One hope has been that economic liberalization would naturally lead to less political control, because – at least for observers from western democratic societies – it is difficult to imagine media work could be market-orientated and still follow government instructions concerning content. Nevertheless, the Chinese Communist Party (CCP) has not indicated any sympathy for far-reaching political reforms to this point, and the liberalization of media content has yet to make it onto the political agenda.

As the commercialization of media and comparatively successful control of its content already co-exist for quite a number of years in China, this chapter starts from the preposition that a certain degree of institutional equilibrium has already been reached in the past. A central argument of the chapter is that media control to some extent shifted from propaganda to self-censorship and that the main challenge for the political authorities has been to adjust contractual arrangements to ensure effective self-censorship. Yet, recent changes in China’s media policy as well as reactions to these changes might also be indicative of a profound destabilization of the former institutional equilibrium.

The following chapter first discusses different methods of controlling or
manipulating media content and proceeds to give a review of media reforms in China. Section 8.4 applies concepts of the new institutional economic theory to explain the overall stability of the system during the 1990s. Section 8.5 then addresses recent changes in the central government’s policies towards media, and the respective reactions of people working within the media. It is argued that these changes endanger the former institutional equilibrium, raising the question of whether we may expect a new equilibrium to be attained or whether Chinese media politics will enter a state of crisis.

8.2 Governing with the news

Western discussions about the role of media in a society are regularly based on the assumption that a democratic system should guarantee both freedom of the press and freedom of expression. There is a common understanding that manipulation or suppression of media contents via government intervention or economic power limits pluralism and thus endangers the democratic system (Salomon 2006).

Nonetheless, in other countries in the world, particularly countries with authoritarian political systems, this common understanding is not shared by political decision makers. As organizations like reporters without borders (www.rsf.org) regularly point out, the control of media content, limitations to freedom of press, as well as the repression of journalists, are widespread phenomena occurring around the world. China is one of the countries most often blamed for suppressing freedom of the press and freedom of expression (Batistella 2005), though both rights are principally guaranteed by the Chinese constitution. This chapter will argue that the patterns and instruments of ‘thought work’ or content control have changed over time in reaction to economic liberalization. Moreover, this change is related to alterations in the property right structures and contractual relations within the media sector. Yet, some distinctions regarding forms of media control are important. Thus, for the purpose of this chapter, I would like to distinguish between propaganda, censorship and self-censorship.

8.2.1 Types of manipulating media content

Propaganda shall be understood as coercive and detailed instructions for media content, especially news, drafted by political authorities. Through the use of propaganda, authorities provide and determine the content of a media product, either in its entirety, or only partially, targeting, for example, political news, commentaries, single programmes or other specific content. Propaganda is aimed at stabilizing the existing political system by controlling or influencing public opinion (Leidinger 2003: 83). Though endeavours of governments in democratic systems to manipulate public opinion are sometimes also discussed as propaganda, the functioning of this kind of manipulation has to be distinguished from propaganda as practised in authoritarian political systems.
“Propaganda states” [...] overwhelm their citizens – in the media, in the workplace, and even in the home – with official information and interpretation of reality. Initiating political challenges to these states becomes virtually unthinkable – which is precisely the goal’ (Lynch 1999: 3). Propaganda is different from other media content in that there is no market for it. Even if we assume that a certain demand for propaganda exists on the part of those people who want to understand the reasoning of a given political leadership, for example, party members, no market price for propaganda will evolve, because propaganda is not a scarce resource. Quite the contrary, the suppliers of propaganda are interested in the widest possible diffusion of its contents, in this way facilitating a more thorough manipulation of public opinion.4

As a consequence, quite similar to advertisements, propaganda has to be distributed free of charge or combined with other, more marketable media content.

Censorship is similar to propaganda in that it aims to influence public opinion as a means to stabilize the existing balance of power. Yet, unlike propaganda, which provides content, censorship tries to suppress content that is not deemed favourable for the goals of manipulating public opinion and stabilizing the existing balance of power. Generally, censorship is understood as state-practised censorship. Censorship may be implemented by setting up clear-cut regulations concerning prohibited content and interpretations, but more often it relies on the control of content before publication. Censorship and propaganda are not exclusive means of media content control. If the government does not prescribe and provide the entire content of media products, censorship can work as a complement to propaganda, as it may ensure that those parts of media content not dictated by the authorities do not challenge the interpretative monopoly of propaganda.

Self-censorship pertains to self-imposed restrictions of media, especially by journalists and editors. Certain content is not published in order to avoid possible reactions by the authorities (or others). As a political means to manipulate public opinion, self-censorship is a special, somewhat sophisticated form of anticipatory censorship. For those interested in manipulating public opinion, self-censorship has the advantage that – compared to propaganda or censorship – it is less obvious to the consumers of media products and thus less prone to reactance.

8.2.2 Content manipulation: an institutional perspective

Propaganda, censorship and self-censorship differ not only in degree of direct prescription and control of media content, but also in terms of the institutional arrangements necessary to achieve successful content control.

Let us suppose there is a one-party state with a ruling party that wants to manipulate public opinion in order to stabilize the political regime. In the eyes of the ruling party, propaganda, censorship, and self-censorship are different means to achieve the same goal of manipulating public opinion or ‘thought work’, with each means of manipulation being associated with different transaction costs.
The ruling party could decide to rely solely on propaganda media produced by party organizations. In this case of in-house production, all content of the media product would be produced by party members and within the party organization. The risk of unintended content being published is small, as long as members of the party organizations are true ‘believers’. However, to make sure that media products of this kind are consumed at all, considering that the content would presumably be relatively unattractive, the party would have to make sure that no alternative sources of information were accessible for the public. This would also be necessary to uphold the interpretative monopoly on information. Obviously, the establishment of such a propaganda apparatus would not only incur the production costs, but also high costs of supervision. At the same time, the party could not expect to sell the propaganda. Nevertheless, even if propaganda was made freely available, the party could not rule out that media products and content thus produced simply be ignored.

An alternative, coupling propaganda with other content, could be implemented to create more interesting and appealing media products. Two ways to realize such coupled production are possible: the ruling party produces media products within the party organization, but allows for the inclusion of non-propaganda content, or the ruling party allows other actors (institutions/enterprises) to produce media products, while forcing them to integrate some propaganda content provided by the party. These two cases differ significantly from the pure propaganda approach described above in that both create a principal–agent relationship. The ruling party becomes a principal that delegates the production of part of the media content to an agent. The agent becomes responsible for the marketable part of media content, which makes the sale of the product possible, thereby guaranteeing sufficient ‘propaganda contacts’. Still, the party organization, as principal, would have to control, i.e. censor, the marketable content to make sure that this portion of the media products does not come into conflict with the accompanying propaganda. In the case of ‘in-house’ production, such control would supposedly be easier and, therefore, cheaper, but the final media product would most likely be less attractive to the public, as control and manipulation of content would be more obvious. If, on the other hand, external media producers are forced to integrate propaganda content provided by the ruling party, it would be possible to generate higher revenues and more attention (propaganda contacts), since the propaganda character of the product would be less obvious. On the other hand, due to the degree of censorship necessary, the costs of supervision would probably be higher compared to ‘in-house’ production. In addition, within this latter principal–agent relation, it is probable that the agents oppose the publishing of propaganda content, at least if they bear the economic risk of production. Placing propaganda content ceteris paribus reduces the attractiveness of a media product. Thus the principal would have to compensate the agent for its publication.

Obviously, as soon as the publication of non-propaganda content is allowed, and as long as the ruling party is interested in controlling media content for the purpose of stabilizing the political status quo of a one-party regime, censorship
becomes a necessary instrument to guarantee that those parts of media content not stipulated by the ruling party do not question or contradict the overall political targets and the substance of party propaganda. Ideally, a perfect system of censorship would make propaganda superfluous. The better censorship works, the more the ruling party is able to abstain from coercive publication of propaganda content. Media consumers would perceive more diversity in publication even though media content would still be controlled; diversity of opinion would still be suppressed. Supposedly, the less obvious the influence of the ruling party on media content, the more recipients are willing to pay for the consumption of media products and the higher the degree of attention paid to media content.

Censorship also incurs transaction costs, however. These include the costs of establishing a corresponding bureaucracy that is able to control content before and/or after publication. In addition, especially in the case of news, opportunity costs arise from the time needed to control content prior to publication: lags limit the topicality of news. These specific costs of censorship add to the attractiveness of self-censorship, at least from the principal’s point of view. Self-censorship in the sense that the producers of media content, i.e. the agents, internalize the political intentions of the ruling party and restrain from publishing content which challenges these intentions can function as a replacement for censorship to a certain extent. Effective self-censorship as a means of media control requires information from the principal to the agent concerning political intentions. In addition, the principal must employ incentives to ensure that the agents practice self-censorship as intended. This is because, as a contractual relationship, self-censorship differs from propaganda and censorship in that it is characterized by an asymmetry of information prior to the conclusion of the contract. The principal can and will control media content only after publication to detect failed self-censorship and to punish opportunistic behaviour. However, the main target of the principal is to avoid any failures in self-censorship, since the political impact resulting from unintended media content, once published, is difficult to control.

In sum, propaganda, censorship and self-censorship are different means for the principal to pursue the intention of manipulating media content for the purpose of stabilizing the political balance of power. These means are not mutually exclusive. From the perspective of the principal, as soon as he renounces the unadulterated propaganda approach, the main task is to combine the three approaches in a way that minimizes opportunistic behaviour of the agent(s), while at the same time spreading the political messages as widely and effectively as possible.

8.3 China’s media development and media policy

Since 1978 the Chinese media landscape has undergone significant changes. The number of newspapers and magazines available for readers has increased tenfold and the supply of TV and radio programmes has also expanded considerably. Though statistics concerning media publication and outreach are known to be
flawed, the daily experience in China sustains the image that they represent, namely, that Chinese media have gained in number, volume and quality. The overall impression of growth cannot hide the fact, however, that Chinese media expansion has not always been a smooth process. The industry experienced quite a number of fluctuations, induced mostly by changes in the media policy of the government and the respective changes in the institutional environment of media production. Thus, different periods of media development can be distinguished based on shifts in the underlying understanding of the function of media and in the property rights structure. The new institutional environment defined by modified government policies induced, in turn, changes in the contractual relationships supporting media production. Modifications in media policy have not always been implemented simultaneously for print media and broadcasting; they follow, nonetheless, a similar logic across these sectors.

In the first years of economic reform in China, media policy did not change substantially in comparison to pre-reform times (Lynch 1999). With little change to their previous status, media were supposed to function as the ‘mouthpiece of the Party’, the diffusion of government propaganda being their most important task. ‘Party organs’ owned by the Chinese Communist Party or its sub-organizations continued to dominate the media landscape. There was hardly any principal–agent problem, as the production of media content was done ‘in-house’ and the Party as principal had direct control of the production process. Publishing houses, as well as television and radio broadcasters, were administrative units with political instead of economic tasks to fulfil. As such their personnel was selected and assigned just as any other personnel in the public service (Brødsgaard 2004). Media production followed state plans and financial resources for investment and production were provided for in the budget (Fischer 2001), since revenues from subscriptions, sales or fees were negligible. The distribution of media did not follow market criteria. In general, other administrative or enterprise units (danwei) made up the bulk of the subscribers, who then offered the various publications free of cost to their employees. As the main target of media production was propaganda, newspapers were set out in public places and radio programmes were transmitted via public address systems.

Though the institutional environment for media remained basically unchanged during this first period, one reform initiative was to be important for the future development of media: starting in 1979, media were once again permitted to publish advertisements. The symbolic effect of this reform was of great significance, as the permission granted to advertise was part of an overall reform policy to rehabilitate competition and market mechanisms (Lynch 1999: 56; Fischer 2000). Yet, the bulk of advertising at this early stage was for industrial, not consumer goods, and did not contribute significantly to media revenues.

The second phase of media reform began in the mid-1980s and lasted until the mid-1990s. The main driving force behind media reforms during this period was the limited financial and administrative capacity of the central government, which impeded the expansion envisaged for media production and distribution.
In the print media sector, due to rising costs for newsprint, postage and modernization of printing facilities, government-provided subsidies were no longer sufficient to support the growing number of newspapers and magazines published. In the case of broadcasting, revenues were needed to finance the extension of the broadcasting area and to invest in cable networks.

Thus the government tried to stimulate the interest of local governments and other administrative units to invest in publishing houses, broadcasting stations and cable networks. The main stimulus provided for local investment in media was to allow for local governments to have their own propaganda ‘mouthpieces’. At the same time, most publishing houses and broadcasting media were allowed to retain profits for reinvestment. Originally, media were encouraged to explore new sources of revenue as a complement to government subsidies, thereby enhancing their development potential. Starting in the 1990s, the government even hoped to reduce absolute state support for media. Media units were expected to ‘be public institutions that are managed like enterprises’. They were supposed to generate income and to work in a profit-oriented manner. It is not well documented, though, to what extent media have actually become less reliant or even independent from government support. According to Shao and Liu (1998: 59), as early as 1993, 50 per cent of local newspapers were run independently from government support. Zhao and Meng (2004: 53) take China Central Television as an example to show how contracts improved the financial situation of CCTV in the 1980s. CCTV signed contracts with the government to freeze government subsidies, while allowing the TV station to retain a growing share of the revenues. Similar contracts during the 1990s aimed to reduce government support. According to Xu (2003: 336), state subsidies accounted for only 12 per cent of all revenues of China’s broadcasting industry in 2001. It is probable that other sources of revenue such as subscriptions, cable fees or sideline activities also gained in importance; they have not, however, been documented in past statistics (Cui et al. 2005: 5). On the other hand, as statements concerning media policies and reforms since the 1990s have regularly stressed the necessity to close down or reorganize media units that do not generate sufficient revenues and are too dependent on state subsidies, it can be inferred that government support for media continued to some extent.

Despite the access to new revenue sources, Chinese media in this period were still supposed to circulate propaganda and influence public opinion according to the political needs of the CCP as a means to stabilize the political status quo. The task of earning money was added to their political function, regardless of the possibility of a conflict in goals. Chinese media became ‘coupled products’ in the sense that they were expected to establish ‘advertising contacts’ as well as ‘political contacts’ with their consumers (Ollig 2004). Content was still mostly produced within the state- or party-owned media units, thus reducing the problems of provision and control of propaganda content. But content was no longer completely dictated by party or government institutions. Media received some freedom to produce marketable content themselves. Still, in-house production by
internal agents soon showed disadvantages in terms of producing an adequate amount of attractive and entertaining content for the readers or viewers.

The third period of media development started in the second half of the 1990s when the government began to restructure publishing houses and broadcasters into conglomerates (jītuán). This phase lasted until 2002/2003. One important feature of media politics during this period was the realization that media should be understood as an economic branch. The economic activities of media units were no longer merely tolerated as a necessity to earn money for technical upgrading and expanding the range of the service area, but were increasingly encouraged as a strategy to change the media into a profit-making and tax-paying industry. Speculation flourished concerning the future contribution of media to the gross domestic product and to economic growth.

Against the backdrop of this new understanding, the policy to establish conglomerates was, first of all, a means to circumvent the dilemma of media content control on the one hand and market orientation on the other. In the course of group formation, Chinese media developed two strategies to benefit from the permission to grow and to earn profits: one was to assemble different media products with different target groups within a single conglomerate, for example popular city tabloids and specialized newspapers or magazines were grouped around a traditionally more conservative Party organ, and specialized channels or programmes were introduced by TV and broadcasting stations to reach special target groups. Whereas the popular products concentrated on entertainment and less sensitive information, the Party organ continued to serve as a mouthpiece of official politics. The second strategy was to separate news and information-producing activities from other business activities such as advertising and distribution. While the former were responsible for content and propaganda, the latter were expected to generate profits and to subsidize the political parts of media content (Fischer 2005).

Both strategies combined were pursued to create profit centres within the conglomerates without raising the sensitive question of ownership or status of the group as a whole, although some groups tried to change their legal status, at least in name, if not in substance. Until 2004, Chinese media in general were still supposed to be so-called shìyè dānwěi (non-profit, government-funded industrial and commercial units) and not enterprises. The establishment of groups did at first not change the government’s attitude concerning the status of media units or state ownership. Still, some variations did occur. Summarizing the status quo in 2001, Zhou Wei (2002: 28) distinguishes four types of media conglomerates:10

- A small number of conglomerates that actually changed into enterprises by registering as limited liability companies with the Administration for Industry and Commerce and thus becoming enterprises with the status of ‘legal persons’, for example, the Guangzhou Daily Newspaper Group Ltd and the Harbin Newspaper Group.
- Media groups that are formally registered as administrative units with direct
state ownership, such as the Hunan Broadcasting Group, the Shanghai Media Group, etc.

- Conglomerates that combine different forms of ownership. The conglomerate which remains an administrative unit receives permission from the government or party organization in charge of the conglomerate to act as owner of registered companies and to transfer the business activities of the conglomerate to these companies, for example, the Dazhong Daily Group (Shandong Province).
- Media conglomerates that had been renamed into ‘group’, but had not been registered as such, their legal status thus remaining obscure.

The policy of conglomeration was attractive for both government and media organizations. In the eyes of the government/party, the policy was a useful instrument to pursue control and commercialization at the same time. It was also attractive in the eyes of the media, as it allowed for certain economies of scale and more independence in business operations. Up until the beginning of the new century, though, the strategy had clearly defined limitations: conglomeration was basically restricted to media of the same region and to media of the same sort (print, radio or television). This was mainly due to the fact that most media were linked to a central or local government department or party organization. Given the fact that media entities were not established as enterprises, mergers across the boundaries of a government or party constituency necessarily turned out to be complicated. In addition, local government or party organizations were extremely reluctant to accept media operating within their geographic realms if they were not locally controlled (Chan 2003: 163).

As before, the policy of conglomeration of the late 1990s was not designed as a policy to loosen control over media content. With certainty, the scope of topics and formats within Chinese media at that time was much larger than during the 1980s. The strategy to transform media into tax-paying entities would have failed without increased and improved content. Interesting content was necessary to attract consumers and thus became a prerequisite to generate advertising revenues. The need for more and better content also resulted in a growing part of the content being produced by external agents. Not surprisingly, the second half of the 1990s witnessed the growth of private firms engaged in the production of soap operas, entertainment programmes and advertising. But, state regulations continuously prohibited the delegation of news or information production to outsiders. Even in cases where conglomerates were established as enterprises with a legal personality and created a variety of affiliated enterprises, the production of news content had to remain in the hands of the state-owned core company of the group (Xu 2003).

8.4 Media policies and institutional equilibrium

The process of commercialization and conglomeration during the 1990s was clearly accompanied by a policy of reducing propaganda. Nevertheless, media
reforms have not resulted in critical journalism of the likes we would expect in a liberal political environment without state media control. Some prominent examples of journalists and editors who have been punished for publishing articles deemed too critical have become known, indicating journalists’ willingness to challenge the boundaries that limit their professional freedoms. Still, with hindsight, the process of media commercialization up until the beginning of the twenty-first century has developed without too many challenges of state control over media. How did the ruling elite in China achieve the goal of turning the media into a revenue generating business, while simultaneously continuing to manipulate media content to maintain the political status quo?

8.4.1 Internal media organization, responsibilities and incentives

The production of media output, especially information and news, is a hierarchically organized process. At the lowest level of the organization, journalists are engaged in information collection and production of news content. Not all information collected and reproduced by journalists is destined to be included in the final product (i.e. the next issue of a newspaper or broadcasting programme). It is at the editorial level that media content for publication is selected. Generally speaking the selection criteria at the editorial level are determined by the overall targets of the media organization. Thus, the editors bear the responsibility to support the targets associated with media publication.

The internal organization of the Chinese media changed considerably during the last decades as economic targets gained in importance. As long as one media organization was basically responsible for a single media product (newspaper, magazine or channel), and costs were covered by government subsidies, media organizations were headed by an editorial board. Today, the typical newspaper publishing house, for example, is headed by a publishing house commission (sheweihui). Beneath this highest level organ, daily management tasks are divided between an editorial board and the chief editor, on the one hand, and the management board headed by the chief executive manager, on the other. The chief editor is responsible for the published content in all the publications produced by the publishing house, while responsibilities of the chief executive manager consist of the commercial activities directly connected to publishing (e.g. advertising and distribution), as well as for business operations of the publishing house that are not related to publishing (real estate, shopping malls).11 Apart from the chief editor of the publishing house, other editors are responsible for single publishing products, for example newspapers, or their specific parts, i.e. recurrent sections or pages. Chinese publications stress the gate-keeping function of the editor(s). Though all people involved in the production of media content are supposed to support its ‘political correctness’, it is the editors who bear the final responsibility and who are best equipped to fulfil this task (cf. Ye 2006). Editors receive detailed information related to correct political interpretations and content to be suppressed, etc. The chief editors are normally part of the central or local party nomenklatura. On the basis of their more detailed
information, the editors are encharged with ensuring that no unfavourable contents are published. They also bear the responsibility to protect the media workers, for example, journalists engaged in investigative reports, from publishing ‘harmful’ articles, i.e. ‘harmful’ to the society according to the interpretation of the CCP, but also harmful to the future of the journalists and – possibly – the media product. A problem arises, however, from the fact that political correctness is no longer the only target to be fulfilled. With commercialization on the one hand and the need to produce ‘political contents’ on the other hand, editors clearly face a dilemma of balancing quality and topicality of information with political correctness.

3.2 The role of the editor: incentives and games

Assuming the importance of the editors’ role in the process of producing media content and securing political correctness, it is possible to conceptualize media production as a repeated game, with the editors of different, competing media being the players.

In the past when the economic success of the media was not deemed important, competition between different media did not necessarily exist, or was at least not of great relevance. Competition between editors in terms of career opportunities occurred nevertheless. Given the rules of the game, editors could expect that the government/party would promote those editors who successfully promoted government propaganda and punish others who failed as gate-keepers. Punishment could be relatively harmless, in that it only served to diminish career perspectives or, however, more severe when it ended in prison detention. Thus, in case of an issue arising within the society that was seen as politically incorrect to report, the editors had no incentive to allow for a breach of rules. On the contrary, they could expect to be promoted as long as they successfully fulfilled their gate-keeping role. Even if – either from a journalistic perspective or as citizens – they hoped that the issue might become public, aware of the probable consequences, they would refrain from publishing any related content within their areas of responsibility.

Table 8.1 summarizes the strategies and the pay-off structure for two competing editors, in the absence of commercial targets and assuming party control is in place. Each editor faces the same strategic choice and pay-off structure. In the case of a sensitive issue which arises, the editors, in principal, have the choice of either allowing the publication of the true information (not the propaganda version), or suppressing the information in accordance with party propaganda/censorship principles. Let us assume that publication of sensitive news in defiance of party censorship rules is always detected and ends in punishment, and that the editors are loyal to the party. In this case, they stand to lose the most if the information is published within their medium (−5), because they failed in their gate-keeping role. They suffer slightly if they suppress the information, but others publish it (−1), because they would not support the publication of the information in any form if they were loyal party members. And
they gain the most if all editors suppress the information (+5). For both players (editors), non-publication of sensitive news is the strictly dominant strategy. The suppression of the information by the media in general becomes the dominant strategy equilibrium (Bowles 2004: 34).

Even if we assume that the competing editors are not completely loyal to the party ideology, i.e. they would not mind if the sensitive issues were to become public, aware of the personal consequences resulting from publishing sensitive issues they stand to gain most (+5) if the sensitive information is published by others. In this case, they tend to view the publication of the issue positively and perhaps even profit from the relegation of the competitor. To publish the information within their own medium is still the most harmful strategy, even if other editors do the same (–5). Given their political attitude, they gain less from the suppression of the information than politically loyal editors. If all editors are faced with the same set of choices and expect the same pay-off structure, the suppression of sensitive news will still remain the dominant strategy, resulting in the strategic equilibrium of an overall suppression of sensitive news. But even if a loyal and a less loyal editor compete with one another, the result will still be the same. As long as the editors can expect that deviating behaviour will be detected, they will continue to suppress sensitive news.

For the purpose of the argument it is helpful to compare this pay-off structure to the (idealized) situation of editors working within the commercialized media system of a democratic society (Table 8.3). In this case, the main determinant for editors’ careers is the success (circulation, audience rating) of their medium or programme. Contrary to the above scenario, editors have no incentive to refrain from publishing ‘sensitive’ news (e.g. political or economic scandals) because – ideally – they do not have to fear punishment or retaliation from the political establishment. Instead, they actually have to hope that competing

Table 8.1 Pay-off consequences of publishing sensitive information within a non-commercial, party-controlled media system with editors loyal to party goals

<table>
<thead>
<tr>
<th>Editor 1/editor 2</th>
<th>Publish sensitive news</th>
<th>Suppress sensitive news</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publish sensitive news</td>
<td>–5/–5</td>
<td>–5/–1</td>
</tr>
<tr>
<td>Suppress sensitive news</td>
<td>–1/–5</td>
<td>+5/+5</td>
</tr>
</tbody>
</table>

Source: Author.

Table 8.2 Pay-off consequences of publishing sensitive information within a non-commercial, party-controlled media system with opportunistic editors

<table>
<thead>
<tr>
<th>Editor 1/editor 2</th>
<th>Publish sensitive news</th>
<th>Suppress sensitive news</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publish sensitive news</td>
<td>–5/–5</td>
<td>–5/5</td>
</tr>
<tr>
<td>Suppress sensitive news</td>
<td>+5/–5</td>
<td>+2/+2</td>
</tr>
</tbody>
</table>

Source: Author.
Editors overlook the information or fail to acknowledge the potential of the information in terms of attracting readers/listeners/viewers’ awareness and thus ‘advertising contacts’. This is reflected in the strategies and pay-off structures summarized in Table 8.3. Editors gain the most (+10) if they can report sensitive news exclusively or at least earlier than their competitors. They lose the most (–2) if the competitor is the first to land a story. As a result, it can be expected that sensitive news will always be published (+5/+5). In this set of game rules, publication of sensitive news is the dominant strategy. The widespread expectation in democratic societies that media strive to detect sensitive issues and publish them impartially is actually the basis of explaining the importance of free media within democratic societies.14

Having characterized the two contrasting pay-off structures for editors within a non-commercialized, party-controlled media environment on the one hand, and within a totally commercialized, not politically controlled environment on the other hand, the dilemma of media policies and editors in China resulting from commercialization in a basically unchanged political system becomes obvious. The authorities expect the editors to ensure commercial success and to continue to suppress sensitive information at the same time.

It is suggested here that the Chinese government has tried to solve this dilemma by a change of the pay-off structure of the commercialized media example (Table 8.3) in such a way that editors adapt strategies which conform to the pay-off structure typical for the politically controlled media environment (Table 8.1). Basically the arrangement of the 1990s has been to link the income of the editors/producers (as well as of journalists) to the economic success of their respective publication or programme/channel (Esarey 2005: 57). Career perspectives, on the other hand, were linked to political viability, i.e. the effectiveness of the editors in their role as ‘gate-keepers’. It should be noted that the repercussions of this policy are created through an implicit monetary equivalent. Editors can thus weigh possible increases in media revenues and their personal incomes against the ‘costs’ of impeding their political careers.

Interestingly enough, there has been no evidence of rules or legislation stipulating this arrangement. On the contrary, the arrangement has been a result of media/editors continuously testing the boundaries of their editorial liberties, numerous administrative clamp-downs on media and an overall rise in salaries and bonuses for people working within the media.

<table>
<thead>
<tr>
<th>Editor 1/editor 2</th>
<th>Publish sensitive news</th>
<th>Suppress sensitive news</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publish sensitive news</td>
<td>+5/+5</td>
<td>+10/−2</td>
</tr>
<tr>
<td>Suppress sensitive news</td>
<td>−2/+10</td>
<td>0/0</td>
</tr>
</tbody>
</table>

Source: Author.
8.4.3 Institutional equilibrium

The game-analytical approach to understanding institutions presented above adds the perspective that individual agents interact strategically with each other according to their motivations (Aoki 2001: 5). A common interpretation of the new institutional economic theory is to regard an institution as being comparable to the rules of a game, i.e. ‘institutions define and limit the set of choices of individuals’ (North 1990: 3–4). The respective formal rules cannot be constructed or changed by the players of the game themselves as long as they are playing it. This can be explained by referring to the fact that the rules are determined politically and thus prescribed and enforced by actors outside the economic game.

But this explanation is neither sufficient to understand the phenomenon of change in institutions nor to explain the success or failure in implementing the rules of the game. Acknowledging problems in the conception of institutions as rules of the game, Aoki (2001: 10) has suggested instead to characterize an institution ‘as a self-sustaining system of shared beliefs about a salient way in which the game is repeatedly played’ and to understand the ‘way by which the game is repeatedly played’ as the rules of the game. By that he understands the rules of the game not as exogenously given or conditioned by the polity, but as being ‘endogenously created through the strategic interactions of the agents, held in the minds of agents, and thus self-sustaining’. Aoki interprets the ‘equilibrium state’ as a socially constructed reality that coordinates the beliefs of agents. Agents’ strategic choices made on the basis of shared beliefs jointly reproduce the equilibrium state (Aoki 2001: 12).

Following this interpretation, media developments in China in the 1990s, especially the seemingly contradictory pursuit of commercial and political objectives, the gradual expansion of business activities on the side of the media, as well as the ups and downs in the perceived grade of ‘liberalization’ of media content, can be understood as rounds played within a repeating game. At the outset of commercialization party representatives, politicians, editors or journalists did not know exactly how growing financial pressure on the media and the extension of management competences would change the logic of political control over the media (Zhao 2000). The actors in the game did not know the exact strategies of the other actors involved; but, through repeated moves, each agent came to have a reasonably good idea about how the game was played. Some features or shared beliefs have been most important for the equilibrium found during the 1990s:

- Competition among media entities has been limited. Competition basically concentrated on competing for advertising revenues, hence not a game of ‘survival of the fittest’. As cross-regional and cross-media cooperation and market extension were practically prohibited, most media had a secure market and a local government or party committee interested in the survival of ‘their’ media (Chan 2003).
• Entertainment can be distinguished from information/news, leaving enough leeway for Chinese media to generate income from commercial activities by producing entertainment programmes of mass appeal, magazines or tabloids.
• The media workers’ income/bonuses depended on the journalistic quality of their work and the economic success of media products.
• Demonstrated loyalty to the CCP might be important for certain types of careers, but is not directly linked to media workers’ pay-roll.

Until the end of the last century, people working within Chinese media had adjusted their chosen strategies according to these ‘rules of the game’ as they were perceived. Returning to the strategy set of editors exemplified above, editors generally practised self-censorship because they expected their colleagues in other media to do the same. This expectation was based on the experience that the publication of politically incorrect information would be detected and prosecuted by the authorities. The incentives for editors to act otherwise were limited, as the survival of media in general did not yet depend on economic success.

8.5 Equilibrium endangered? – Recent developments

In the aftermath of China’s accession to the WTO, many people realized that the new membership would have an impact on China’s media sector, even though the accession protocol did not say much about the opening of the media market. This realization was based on two factors. First of all, according to this protocol China was obliged to open up certain service industries related to media. Chinese media experts warned that the Chinese government had made concessions concerning advertising and the distribution of print media, thus allowing foreign capital to enter the most promising media-related business activities. In addition, just as in other industries, the WTO accession nourished the long-term vision of establishing Chinese media conglomerates able to compete globally with multinational companies such as News Corporation or Bertelsmann.

Consequently, hopes were high as the new party and government leadership around Party Secretary Hu Jintao initiated several policy measures starting in 2002/2003 to further economic liberalization within the media sector.

In 2003, the political leadership decided to cut off all newspapers and magazines from government financial support, exempting only one Party newspaper, one Party journal and one government organ for Party committees and governments at the provincial level (GAPP 2003). Those print media unable to survive without subsidies were then supposed to stop production and circulation. At the beginning of 2004, the State Administration for Radio, Film and Television published plans to open all commercial activities (excluding editorial or information producing activities) related to film and broadcasting to private and foreign investment. Detailed instructions for joint ventures in broadcasting production followed in November 2005 (SASAC 2005). In addition, beginning in 2005, the
previously held notion that media were public non-profit institutions (*shiye danwei*) which were only managed like enterprises, was given up in favour of the decision to transform media into actual enterprises. A logical consequence of this decision was the possibility of bankruptcy. In the meantime, first ventures in cross-regional as well as cross-media cooperation have been established, thus diminishing the hold of local government/party organs on the media and paving the way for future consolidation of the currently crowded media market.

In sum, during the past years, the Chinese media have been provided with a greater portfolio of financing and management instruments to enhance their competitive position. At the same time they were forced to face more serious business risks.

At the beginning of this recent wave of economic liberalization, observers expected that content liberalization would follow commercial liberalization. But, quite the contrary, media policy developments in recent years indicate that the Chinese government decided in continuing in its course of content control and grinding down the opposition. For this purpose, a number of new regulations refining the administrative control over media personnel have been promulgated. For example, in early 2005, the Propaganda Department of the CCP, the SARFT, and the General Administration of Press and Publication (GAPP) jointly decreed new regulations concerning press cards. These regulations clearly aim at enhancing administrative efficiency, but also put pressure on journalists or information processing media workers, as the validity of press cards is subject to annual re-examination of their work. The early announcement of the policy in 2003 to unify the supervision of media personnel caused different reactions. One journalist interviewed by the author in 2004, who did reportages on sensitive issues such as local corruption and AIDS, was highly concerned by the new policy trend, clearly seeing it as a means for the CCP to impose pressure upon journalists. Other interviewees were not troubled, however, and saw no significant change in policy due to these reforms.

Another issue in media personnel management provoked a more public protest during the late summer of 2005. At that time, the chief editor of *China Youth Daily*, a newspaper run by the Chinese Youth League and known for its comparatively open and critical reporting, announced new standards for evaluating the work of journalists and editors. According to the new standards, journalists shall receive 50 rating points for articles that were praised by readers, with additional points for praise coming from officials. For example, praise expressed by the Party Secretariat of the Chinese Youth League entitles an author to 100 points, praise by leaders from the Propaganda Department of the CCP should be acknowledged with 120 points. The highest score of 300 points is to be received for praise expressed by members of the CCP leadership (Politburo level or higher) (Liu 2005). The points received are important, because they are directly linked to bonus payments. Internal and external protest against this policy did not question the points-based bonus system per se, as similar, merit-based practices have become common within Chinese media organizations, but focused instead on the *explicit* linkage established between political correctness
and bonuses paid, while degrading the relevance of readers’ satisfaction with the newspaper. As explained above, the institutional equilibrium achieved during the 1990s relied on bonuses and punishments as well, but the price of political correctness remained concealed. The perceived insult – from the perspectives of the editors and journalists – was to make the price explicit.

Another example for relating political correctness with the personal incomes of media workers is demonstrated by a report on the handling of an example of ‘political incorrectness’:

The article ‘Wang Tiancheng accuses the doctoral father, Zhou Yezhong, from Wuhan University’ published [...] on 20 March infringed on the proper spirit of instructions given by higher level authorities, thus producing certain negative impact, resulting in serious criticism from some higher level leaders. According to our investigations the following people bear direct responsibility: Su bears management responsibility, as he failed to circulate the spirit of the higher level authorities within the cultural department in time, the editor Jin bears the editing responsibility because he did not question the article and allowed its publication, the journalist Zhang [...] bears the responsibility of not having observed the routines, Ren, who was in charge of the paper’s printing layout on that evening and did not realize or practise the spirit of the corresponding instructions, bears management responsibility. The deputy editor in charge, Sun, bears the gate-keeping responsibility for not having inhibited the publication of the article. Based on the relevant stipulations of our publishing house and investigations by the publishing house commission, it has been decided that the responsible persons will be punished as follows: 1. Jin and Zhang will receive a reprimand and a reduction of 1,000 yuan each from their bonuses, 2. Su and Ren will be criticized in a circular letter and 1,000 yuan will be deducted from their regular wages, 3. Sun will be punished by a payroll deduction of 2,000 yuan and will be asked to go through self-criticism in front of the publishing house commission.

(italics added by D.F.)

Again, in deviation from the institutional equilibrium reached in the past, political incorrectness here is directly linked to the salary of the persons involved, with the graduation of punishments underlining the special responsibility attributed to the editors.

In a further step to tighten (self-)censorship, in October 2005, new ‘Rules for the Regulation of Newspaper Publishing’ (GAPP 2005) replaced the corresponding interim rules from 1990. Apart from stricter regulations concerning the licensing process for newspapers, a four-level system of supervision is expected to guarantee ‘political correctness’ of content. The system includes a daily ‘control reading’ (shendu), regular assessments of newspapers’ publication quality, annual revisions of newspapers and administrative rules with respect to newspaper staff qualifications. Control readings as a means of ex post supervision of ‘political correctness’ had been practiced before, although not based on
written or published regulations. According to the new regulations, not only the GAPP and its subordinated regional branches, but also the units in charge of newspapers (zhuguan danwei), as well as the newspaper publishing houses themselves, are expected to carry out control readings and to forward related reports to the relevant authorities, that is, GAPP and its local branches. Qualification management refers especially to requirements concerning education and political education. For example, publishers and chief editors have to take part in job-related training organized by GAPP.

Note that three levels of the four-level supervisory system are ex post measures; only the training and qualification rules are instruments to ensure loyalty ex ante. Still, these regulations can be quite effective, since the new regulations formally allow for cancellation of the publishing licence of the newspaper in the cases of non-compliance with these rules or poor evaluation results. In combination with the above-mentioned internal procedures for the evaluation of the work results of media staff and annual reviewing procedures for press cards, the new rules impose considerable pressure both on editors and journalists.

8.6 Conclusion and perspectives

Obviously the CCP/government recently has been willing to invest more money and effort in the supervision of media in order to ensure self-censorship. This change in policy is documented by the numerous new rules concerning media. Some implicit policies of the past have been made explicit by formulating new regulations. Financial incentives are more directly linked to political correctness. Obviously, the authorities see the necessity that growing commercial freedom of media be accompanied by stricter controls, thus once again balancing the potential income gains stemming from publishing sensitive information with punishments to be expected for such political incorrectness. Attempts to strengthen ex post control of content are necessary to maintain the expectation by editors and journalists that deviant behaviour is not worthwhile.

Nonetheless, the changes in the government policies towards media seem to have triggered some changes in the attitudes of the editors and other media workers, too. Some prominent examples have become known of single editors or groups of editors deliberately withdrawing from their positions as a sign of protest. These examples indicate that some editors no longer feel obliged to demonstrate political correctness. Instead of weighing income with career chances and submitting to political pressure, they chose the ‘exit’ option. The willingness to leave their positions is strengthened by the fact that with ongoing media expansion and marketization, it has become easier for good journalists and editors to find a new job. The readiness to protest by leaving the original media unit is at first sight just one of many possible strategies to interactively find a new institutional equilibrium for the media production in a state-controlled, market-oriented media system. It might become detrimental for some media, though, if in the future media reputation is increasingly based on the reputation of prominent journalists and editors.
8.7 Notes

1 The chapter is part of a larger project ‘Commercial information and stability – approaches to understanding the economic relevance of institutional change within the Chinese information system’ supported by the German Research Foundation. The project supported several research stays in China to collect data and background information. Some of the information presented here was gained during interviews with media managers, journalists and media experts conducted in Beijing, Shanghai and Wuhan from 2003 to 2005.

2 Cook (1998) uses this heading as the title for his book on the interrelation between media and politics in the US.

3 This paragraph follows a similar analysis of the author published in Fischer (2005).

4 Suppliers of propaganda may consider limiting the spread of propaganda to avoid reactance, a phenomenon known in communication research. Recipients of the communicated message might ignore or reject a message, if it is mediated too aggressively.

5 Problems might occur, though, if the party-line is not clear or different party factions compete for supremacy.


7 See also Esarey (2005), Stevenson-Yang (2003) and Zhao (1998).

8 CCTV reported 12.4 billion yuan in total revenues for the year 2005 and 8,618 billion yuan in advertising revenues. Thus advertising revenues accounted for roughly 70 per cent of total revenues, limiting state subsidies to a maximum of 30 per cent. Beijing Ribao, 20 February 2006.

9 The first print media conglomerate, Guangzhou Daily Newspaper Group, was established in 1996. The first conglomerate in broadcasting was Hunan Broadcasting Group established in December 2000 (Huang and Ding 2001: 109). In 1999, the State Council stated its encouragement for the creation of broadcasting conglomerates, but the real starting point for this policy was ‘Decree no. 17 (2001)’ (Some opinions concerning the deepening of reforms in relation to the news publication and broadcasting) jointly formulated by the Propaganda Department of the CCP, SARFT and GAPP (Xu 2003).

10 See also Zhao and Meng (2004: section 3.2).

11 The separation of the tasks of chief editor and chief executive officer is not always realized in practice. Often both tasks are concentrated in the hand of one person, be it out of convenience or lack of qualified media management personnel.

12 Interview 1, Shanghai, 4 April 2004. The interviewee asked not to be named in publications.

13 In most societies regulations concerning media content exist to protect privacy, minors etc. ‘Sensitive’ information does not pertain to challenging these regulations.

14 This picture of the role of media is necessarily idealized. In reality, regulation of media market concentration and the support of public broadcasting are important means to guarantee media quality and impartiality in otherwise commercialized media systems.

15 During discussions with the author, media representatives in the past years have repeatedly expressed the importance of ‘testing the boundaries’.

16 See Buckwalter (2003).


18 See ‘Woguo jiang jian quanguo xinwen jizheng guanli ji heyian wangluo xitong’,
19 Interview 1, Shanghai, 4 April 2004. Interviewee asked not to be named in publications. Interview 2, Shanghai, 5 April 2004.

20 The complete Chinese text of these regulations at China Youth Daily has been placed on the web, see www.xys.org/xys/ebooks/others/report/zqb5.txt, accessed 5 October 2005.

21 Some kind of evaluating commission is part of most media organizations. Generally speaking, evaluation pertains mainly to writing skills, such as correct use of characters, eloquence etc. See also Zhao (2005).


23 Other examples show that some journalists have internalized the principle that ‘political correctness’ has a price: in recent years some prominent cases of journalists taking bribes from local authorities or enterprises for not reporting sensitive issues, as well as cases in which journalists allegedly asked for money from workers to publish their complaints became public (South China Morning Post, 16 May 2006, reprinted by Asia Media – Media News Daily, 16 May 2006, www.asiamedia.ucla.edu/article-eastasia.asp?parentid=45675, accessed 16 May 2006).


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Part III

Society
9 Social security in contemporary China

Barbara Darimont

Whoever deals with social security from the perspective of a developed country is appalled by circumstances prevailing in China and is inclined to forecast the impending collapse of the system. Nevertheless, when viewing this country’s transformations as a whole, one must acknowledge that China has accomplished a sheer unimaginable feat. Why should it fail on account of lacking social protection of its citizens? Escalation scenarios are easily evoked, but remain speculative and offer no basis for solving problems. And finally, it seems presumptuous to propose Western notions of solutions for a country such as China, which is faced with virtually Sisyphean tasks.

In political terms, given the immense social problems currently on its agenda, the Chinese government, and hence the Communist Party, is essentially confronted with the risk of losing its legitimation. In democratic states, such as Germany, such a loss of legitimacy could lead to a change of government – an occurrence which in contemporary China, however, seems quite out of the question by political and peaceful means.

9.1 Social security framework

Under socialist regimes, social protection was long regarded as a great societal achievement that served to legitimate Communist Party rule. Under the planned economy, social benefits were rendered exclusively by state enterprises. Hence, practically only the workers in state enterprises profited from such extensive social benefits as low-rent housing, childcare facilities, subsidization of convenience goods, and so forth (Darimont 2004: 35). With the introduction of the market economy, competition among enterprises was accelerated, so that state enterprises with high costs for social benefits were no longer competitive under these new conditions. Consequently, since the early 1980s, the introduction of economic reforms has engendered the need to reform previous social protection under the planned economy.

In 1986, the seventh Five-Year Plan laid down that a new social security system was to be established. The Plan summoned the responsible authorities to initiate various projects and to gather experience (Wu 2000: 4). Subsequently, in 1993, the ‘Resolution of the Central Committee of the Communist Party of
China on issues concerning the establishment of a socialist market economy’ (= Zhonggong Zhongyang guanyu jianli shehui zhuyi shichang jingji tixi ruogan wenti de jueding – dated 14 November 1993, RMRB of 17 November 1993) specified the fundamental social policy objectives which had been identified during this period:

A social security system shall be erected on several levels. The reform of enterprises and units having economic character shall be enhanced and social stability protected. The social security system shall comprise social insurance, social assistance, social welfare, job allocation to war invalids and cooperative aid, as well as security based on individual capital accumulation. Social security policy shall be unified and the administration juridified. The level of social security shall be adapted to our country’s gross national product development and to load capacity in all areas. The social security guidelines for the urban and rural population will continue to reflect differences. Cooperative aid shall be promoted. The commercial insurance sector shall be developed and viewed as a supplement to social insurance.

(C.a. 1993: 1084)

The Constitution of 1982 specified the right of citizens of China to material support rendered by the state and society upon retirement and in the events of illness and incapacity for work. This provision must nevertheless be seen as a programmatic approach rather than as a subjective right, since neither a constitutional nor a social court exists in China. The establishment of social insurance was first prescribed in the ‘Labor Law of PR China’ of 5 July 1994. In terms of constitutional law, the building of a social insurance system was anchored in the amendment to the Constitution of March 2004: ‘The state shall erect and complete a social insurance system in accordance with the level of economic development.’

The constitutional embodiment of social security has been recognized for the urban population; whether rural inhabitants can likewise invoke this constitutional right is disputed (Yang 2004: 12). In reality, the family still functions as the social ‘safety net’ in the country. The dispute can nonetheless be left open, as this right is not enforceable (Zou 2005: 45).

Besides social insurance (shehui baoxian), the main elements of social security are social assistance (shehui jiuji) and social welfare (shehui fuli). Welfare can be regarded as a relic from Communist times and is steadily being retrenched or privatized (Wong 1998: 155). Formerly, it comprised benefits to city dwellers, such as childcare facilities, care for the elderly and disabled, educational facilities, as well as allowances for heating, food and local public transport (Zheng 2002: 348). Welfare is currently divided into support for the elderly, persons with disabilities, children and youths and for housing and education.
9.2 Urban social insurance

The Labor Law sets forth five branches of social insurance: pension insurance, unemployment insurance, health insurance, accident and occupational disease insurance and maternity insurance (Article 70).

All of these branches have been subject to legal regulations, thus reflecting a basic conception. Considerable implementation difficulties, nevertheless, persist. Moreover, coordination of the individual social insurance branches has been lacking thus far. According to the Ministry of Labor and Social Security, it is estimated that 30 to 40 years are required until a functioning social insurance system has taken root (Wang 2002: 84).

9.2.1 Scope of application of social insurance

The Labor Law theoretically applies to all workers with an employment contract pursuant to this law. The groups of persons insured are regulated differently for the individual social insurance branches, as well as in the individual regions; for example, self-employed persons in Beijing are integrated into the individual branches. In an innovative scheme, accident insurance was amended in 2004 and now covers all employees – even migrant workers (Article 4 of the ‘Accident Insurance Rules’ (Gongshang baoxian tiaoli), RMRB of 6 May 2003). Since the beginning of this century, the groups of insured persons have been actively expanded in all social insurance areas, as is evidenced by high rates of increase in the number of insured, especially in pension and health insurance. For an idea of the scope of coverage, a few figures are shown in Table 9.1 which permits a comparison of the numbers of insured persons in 2004, 2002 and 2001, respectively.

9.2.2 Pension insurance

In principle, China wishes to install the so-called three-pillar model of pension insurance. Accordingly, retirement provision is to consist of state pension insurance, occupational pension insurance and private supplementary insurance. Both occupational and private retirement provision, however, are still in the early phase of development. The state pension insurance scheme is based on a concept

<table>
<thead>
<tr>
<th>branches of insurance</th>
<th>2004</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension insurance</td>
<td>163.53</td>
<td>111.28</td>
<td>105.47</td>
</tr>
<tr>
<td>Health insurance</td>
<td>124.04</td>
<td>94.00</td>
<td>50.26</td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>105.84</td>
<td>101.82</td>
<td>102.51</td>
</tr>
<tr>
<td>Accident insurance</td>
<td>68.45</td>
<td>44.06</td>
<td>n.s.</td>
</tr>
<tr>
<td>Maternity insurance</td>
<td>43.84</td>
<td>34.88</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

elaborated by the World Bank which provides for the partial formation of coverage capital (Chow 2000: 184). This concept is supposed to have been implemented on a uniform national scale since 1997.

The state pension is subdivided according to a solidarity-based or basic pension scheme whose claims are financed from a solidarity fund, and an individual pension scheme backed by nominal individual accounts funded by the prior contributions of insured persons. The solidarity-based pension is financed by the state and enterprises, and is organized along pay-as-you-go lines. Conversely, contributions to individual accounts are paid exclusively by employees and are used for the formation of coverage capital. The current contribution rate for employees is 8 percent of their wages, and for employers a maximum of 20 percent of total payroll. As of 1 January 2006, the entire employee contribution will be posted to the individual accounts, while the full employer contribution will be paid into the solidarity fund, thus no longer comprising a 3 percent accrual to the individual employee accounts.

A major problem of the partial funding principle in China is its implementation. In the past, no capital base was formed for today’s pensions, meaning that funds for present pension claims are lacking. These lacking funds are therefore to be financed from the solidarity fund via current contributors. On the one hand, entrepreneurs are thus faced with rising contributions, which in part amount to over 30 percent of their payrolls (Wang 2002: 11). On the other hand, the funding of the individual accounts on behalf of future retirees is used to defray current pension payments. The upshot is that China does not really adhere to the partial funding principle, but actually practices a pay-as-you-go procedure – which, however, has now come under pressure owing to population aging.

The general prerequisite for the receipt of old-age pension is the attainment of retirement age, which is 50 for women, but 60 for men. In reality, many employees are sent into early retirement, so that the average pensionable age is about 51 (RMRB of 9 March 2002). On account of rising life expectancies and the discriminatory treatment of women under this regulation – they have ten years less to accumulate contributions to their individual accounts and, therefore, receive lower pensions – there are considerations to approximate the retirement age for men and women, setting it at 60 or 65 (Zheng 2002: 315). Following the 1997 reform, a further prerequisite for the receipt of pensions is the fulfilment of a 15-year qualifying period.

In old age, insured persons receive pensions from the solidarity fund and their individual accounts. The benefit ratio is two-thirds from the individual account to one-third from the solidarity fund. Currently, the solidarity-based pension is equivalent to 20 percent of the average local wage and is paid to the insured until his or her death. The pension amount paid from the individual accounts is calculated as follows: the account sum is divided by 120 and this quotient is paid out for ten years on a monthly basis. Hence, workers who retire at the age of 50 or 60 receive payments from their individual account for ten years. In 1999, average life expectancy in China was 70.2 (C.a. 2002: 960). After ten years of pension receipt, retirees are supposed to receive the interest which had been
accruing on their individual accounts. But if these interest payments do not suffice until death, it remains unclear whether retirees are then expected to live from the mere 20 percent of the average wage which they receive as a pension from the solidarity fund (Ye and Feng 1997: 15).

In 2003, government employees received an average monthly pension of 790 RMB (approximately €80), while state enterprise employees were paid only 663 RMB (approximately €66.30) (Ministry of Labor and Social Security statistics).

9.2.3 Health insurance

At the beginning of the 1990s, diverse pilot projects were carried out in the field of health insurance (Shi T. 2000: 187), the findings of which flowed into the ‘Resolution of the State Council on the Establishment of a Basic Health Insurance System for Employees in Cities’, adopted on 14 December 1998. The provinces and regions were given greater leeway in the implementation of health insurance, compared with pension insurance or unemployment insurance. In this way, the central government has sought to accommodate local particularities. This, however, has led to confusion with regard to competencies and administration, resulting in enormous implementation difficulties that have even raised demands to abolish the entire system in its present form and to replace it by a new system.

In principle, the system of health insurance is conceived along the same lines as pension insurance. Employers pay contributions into a so-called solidarity fund and employee contributions flow into individual accounts. The employer contribution is currently at 6 percent of the total payroll, while employees contribute 2 percent of their wages. Basic health insurance is to be funded by employee and employer contributions and the interest accruing from accumulated capital; state subsidization is not planned (Zheng 2002: 144).

Thus health insurance is only to ensure basic medical care. The insured as a rule defray the costs of ‘minor illnesses’ with payments from their individual accounts, while ‘major illnesses’ are covered by the solidarity fund. The definition of ‘minor’ or ‘major’ illness differs from province to province. Many provinces distinguish between ambulant and in-patient medical treatment. Or, in some cases, minor illnesses may only incur costs up to about 2,000 RMB (approximately €250). Some regions operate exclusively with a solidarity fund, because the administrative cost of maintaining individual accounts would be too high (Yu 2000: 311). In the debate on health insurance reform, the abolition of individual accounts is vehemently demanded (Duckett 2004: 158). Individual accounts in cities such as Shanghai or Beijing exist in the form of charge or credit cards, which allows account funds to be used both for medical payments and for other purchases such as clothing and the like. Thus, the insured often use the money on their individual accounts for various expenditures, but not for the payment of medical treatments, causing the employee contribution to health insurance to be lost. The abolition of individual accounts thus seems to be an
absolute necessity. Yet it is also argued that the state has assigned the health insurance responsibility of the former work units (danwei) to the local governments instead of accepting it itself (ibid.). The financial responsibility, in particular, thereby often tends to exceed the capacities of those local authorities. The number of non-insured persons has risen drastically in recent years: in 2003, 44.8 percent of city dwellers were not insured, and 79 percent of the rural population had no access to medical care or health insurance (Duckett 2004: 158). The upshot is that the cost of health insurance has risen for many insured persons since the beginning of reforms (ibid.). The central government first reacted to this development in March 2005 through the introduction of social assistance in the event of illness (yiliao jiuzhu).

Insured persons must pay out of their own pockets the cost of any medical treatment that exceeds the fourfold amount of average previous-year wage. The Chinese Ministry of Labor and Social Security estimates that this maximum disbursement will be annually surpassed by 0.5 percent of the insured (Ministry of Labor and Social Security 1999: 161). According to Western views, these are cases of social hardship, which nevertheless cannot be circumvented under Chinese social policy. Moreover, in past years, many provinces, autonomous regions and cities in government proximity have imposed additional restrictions. In Beijing, for example, insured persons whose hospital care costs exceed 10,000 RMB must contribute 20 percent of these costs from their individual accounts or, if the necessary funds are lacking from that source, then the costs must be paid from their own pockets. Hence, the greatest fear of many people is to become ill and find themselves unable to pay for their treatment (Liu 2005: 43). An additional factor is that medications and the services rendered by hospitals and physicians have grown disproportionately expensive in the face of competition spawned by the market economy (Lin 2005: 45). Many hospitals boost their budgets by selling pharmaceutical products at elevated prices. The state regulation of drug and medical service prices is thus far missing. Furthermore, cost settlement procedures with health insurance institutions lack transparency in numerous regions, thus giving rise to misuse here as well (Zheng 2002: 155).

Women are entitled to financial support for maternity and upon childbirth pursuant to the ‘Provisional Measures Directive on Maternity Insurance of Company Employees’, dated 14 December 1994. However, as there is no obligation to insure, only very few enterprises actually contribute to maternity insurance, meaning only a small number of women are covered in the first place. Although the State Council was to be presented a ‘Draft on Maternity Insurance’ in 1998 (Wang 1998: 387), the legal elaboration of this line of insurance is not a priority of Chinese policy.

9.2.4 Unemployment insurance

According to official records, the unemployment rate in 2004 was 4.2 percent of the employable urban population (Ministry of Labor and Social Security stat-
istics). This figure does not begin to express the actual situation, since it only reports those that are officially registered as unemployed in cities. Not included in this count are workers who have been made ‘redundant’ in state enterprises (xiagangren), as they are still officially engaged with the respective enterprise, as well as non-registered persons. The Development Research Center of the State Council estimates a jobless rate of between 13 and 15 percent, including redundant workers (Wang 2002: 58). In some areas of China, such as in the northeast, rates of over 25 per cent are assumed (Xiao 1999: 40).

From the mid-1980s, initial regulations sought to cover only a certain category of persons, mostly only workers of state enterprises. With the adoption of the ‘Rules on Unemployment Insurance’ of 26 December 1999, all urban enterprises – including state and collective enterprises, companies with foreign investments, and private enterprises – as well as public organizations and their staff now participate in unemployment insurance.

Currently, employers contribute 3 percent of payroll and employees 1 percent of their wages to unemployment insurance. These monetary resources are used for: unemployment benefits, sickness allowances during the receipt of unemployment benefits, funeral allowances, survivors’ pensions upon the death of the unemployment benefit recipient, allowances for job placement services and training, and other benefits stipulated by the State Council.

Employees who lost their jobs in a state enterprise were to be protected by a threefold safety net scheme until the end of 2004. First, subsistence aid was received for redundant workers. This aid was withdrawn in 2005 and fully replaced by unemployment benefits. During the period of aid receipt, they attended a re-employment center financed by the state enterprises for retraining purposes (Wang 2002: 102). If they did not find a new position within three years, the relationship to the former state enterprise was terminated, whereupon they received unemployment benefit for a maximum of two years, followed by social assistance. Table 9.2 compares the amounts received under unemployment benefit and subsistence aid in various cities in 2005.

At present, about 6 to 7 percent (Wang 2002: 205) of redundant employees and unemployed persons do not receive support because the ailing state

<table>
<thead>
<tr>
<th>City</th>
<th>Monthly unemployment benefits, per person</th>
<th>Monthly subsistence aid for city dwellers, per person (social assistance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>382–491</td>
<td>290</td>
</tr>
<tr>
<td>Shanghai</td>
<td>400–580</td>
<td>290</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>548</td>
<td>330</td>
</tr>
<tr>
<td>Xian</td>
<td>368</td>
<td>200</td>
</tr>
<tr>
<td>Chengdu</td>
<td>238–315</td>
<td>210</td>
</tr>
</tbody>
</table>

Source: The Internet pages of the respective city, administered by the authorities for labor and social security, as well as for civil affairs (accessed on 12 March 2006).
enterprises who have made them redundant or dismissed them lack the means needed to provide subsistence aid to their former employees. These enterprises try to shift their financial burden to the local government, which in turn seeks to pass it on to the central government. This leads to payment arrears, especially in the northeastern provinces, which encounter mass public protests (Wang 2002: 48).

9.2.5 Accident insurance

Under the planned economy, employees in state enterprises who suffered an accident at work were entitled to a refund of their medical treatment costs and, if necessary, to invalidity pension. Compliance with precautions against occupational accidents and the attendant preventive measures was monitored by the departments responsible for industrial safety within the state enterprises. Only state and collective enterprises adopted safety measures and paid medical costs and invalidity pensions in the event of work-related accidents.

In the course of reforms, many enterprises have given up their former safety administration on cost grounds, because the state occupational safety authorities have now been charged with this function. Those authorities are, however, often not yet in place. This is one of the reasons for the drastic increase in industrial accidents. In 2000, over 5,000 workers died in mining disasters; experts even estimate the number of unreported mining deaths at 10,000. In the first half of 2001, the official number of workplace accidents was reported at about 350,000, of which some 50,000 ended fatally. These catastrophes led to protests and resentment among the population, prompting the Chinese government to adopt legal regulations to remedy these grievances (C.a. 2001: 729).

Accident insurance is practiced on a pay-as-you-go basis and financed exclusively by employers. The rate of the levy depends on the industrial sector and the concomitant hazard category. Depending on the regulation, contribution rates range from 0.5 to 2 percent of total company payroll (Shi, T. 2000: 213). Insurance coverage extends to accidents at the workplace, commuting accidents and occupational diseases. The benefits include medical appliances, curative treatment and income replacement for loss or reduction of pay. Compensations, long-term care allowances, occupational rehabilitation measures, survivors’ pensions and grants in the event of death are also included. In the event of an accident at work (gongshang) or an occupational disease (zhiyebing), the entire cost of medical treatment and a variety of rehabilitation measures are covered. Until a medical opinion on the remaining capacity for work has been delivered, injured workers receive their former standard monthly wage, that is, without allowances or bonuses.

Full work-related disability may lead to early retirement. In such cases, injured workers are entitled to a life-long invalidity pension, which, depending on the degree of impairment, ranges from 75 to 90 percent of the prior individual wage. Invalidity pension payment is also upheld after retirement age has been reached. If the payment is lower than the amount of the old-age pension,
the invalidity pension is augmented out of the accident insurance fund up to the old-age pension amount.

The biggest problem for employees is to suffer from an occupational accident or disease confirmed as such. Enterprises often attempt to shirk their duties in these cases, even if this means reverting to unfair practices (China Labour Bulletin 2005). This has been demonstrated time and again by accidents in mines which had been closed down for not meeting safety standards but had recommenced operations nonetheless.

9.2.6 Financing issues

For the most part, the insurance branches are to be financed by employer and employee contributions, with state subsidies awarded only in exceptional cases. In the pension insurance system, for instance, state subsidization is needed, as the present pension sums of retirees who paid no contributions under the planned economy must in some way be financed. Pension insurance funding comes under the responsibility of the local governments, who are nevertheless often unable to meet their obligations, so that in practice, the central government must often assume the financial burden (Hu 2002: 51). This notion of paternal assistance stems from the so-called ‘father–son relationship’ between the central government and local governments. The central government is the last responsible entity and, hence, committed to vouching for its ‘offspring’ under the planned economy. Yet, if individual government bodies do not know the duties incumbent upon them, it is, understandably, impossible to clarify the distribution of financial burdens. The ones who suffer are the insured.

This applies not only to pension insurance, but to the other social insurance branches as well. Competencies between enterprises and central and local governments are not clearly delineated. Moreover, the financial resources of local authorities are limited, particularly due to the drastic increase in their burdens over the past years (He et al. 2005: 10). The bottom line is that, for example, some 80 percent of all retirees receive no basic pension. All in all, only 2 percent of the gross national product is expended on social security benefits. This low percentage is, nevertheless, also attributable to the rise in the GNP (China Labour Bulletin of 28 February 2006).

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>82.1</td>
<td>90.4</td>
<td>92.4</td>
<td>86.7</td>
<td>89.6</td>
<td>90.2</td>
<td>88.0</td>
<td>89.7</td>
</tr>
<tr>
<td>Local government</td>
<td>17.9</td>
<td>9.6</td>
<td>7.6</td>
<td>13.3</td>
<td>10.4</td>
<td>9.8</td>
<td>12.0</td>
<td>10.3</td>
</tr>
</tbody>
</table>

9.3 Social insurance in the countryside

Since the restructuring of government bodies in 1998, the Ministry of Labor and Social Security has also been entrusted with the responsibility for rural social insurance. It took several years until the Ministry was furnished with the necessary information and the respective competencies had been allocated. During that time, no reforms or supervisory activities in respect of rural social insurance occurred. Only slowly is the political need to contend also with this sphere of social protection being recognized. One of the major discussions revolves around the question whether an independent social security scheme should be established in the country, or whether rural and urban schemes should be unified (Zou 2005: 44). The majority tends to advocate a dualistic system of rural and urban social insurance. Yet such dualism would lead to further economic discrepancy and thus enhance income differentials, which in turn would stir up resentment in the rural population.

9.3.1 The rural cooperative healthcare system

In 1968, the rural cooperative healthcare system (hezuo yiliao) was set up (Shi, T. 2000: 297). This state-organized system provided for medical institutions, prevention measures, hygiene campaigns and basic medical treatment. It was financed out of the local government budgets. Under the agricultural sector reforms, peasants acquired more responsibility for their work and the former collectives disappeared. As a result, local governments no longer felt obligated to contribute to cooperative healthcare funding, given that the necessary financial resources were also lacking. Nor were the rural inhabitants able to finance the system by themselves. As a result, especially the non-developed regions became incapable of providing medical treatment. In 1978, 90 per cent of the people living in the country had still participated in the cooperative healthcare system, whereas in 1985, just 5 percent remained (Shi, T. 2000: 177).

After SARS and news about the spreading of AIDS in the population, health protection in the country is now back on the political agenda. During the Zhu Rongji era, rural social security had not been a political focus, as it was of no interest to the economy. Reflecting the general lack of addressing this issue, the right of peasants to social security was never declared in the constitution or in any laws. The political focus has, however, changed in the wake of the aforementioned problems.

Chinese researchers identified the problematic situation in the country quite early on and engaged in a discussion of possible options (Shi, T. 2000: 274). The prime issue was the incapacity of the under-funded agricultural sector to establish a rural social insurance scheme. In 2001, average per capita annual income in rural areas was €250, which was insufficient for the payment of any kind of social security contribution (Tian et al. 2003). The payment of very low contributions, such as only one or two RMB, would have incurred disproportionately high administrative costs, making it too expensive to staff the personnel required to collect this money.
It has been criticized that the government spends less on the social security schemes for rural inhabitants than on those for urban residents (Zhu 2001: 127). The ratio of annual social security expenditures between the urban and rural population was 89 to 11 percent in 2001 (Zhu 2001: 129). This must seem paradoxical, as around two-thirds of the Chinese population lives in the countryside. Healthcare services in particular constitute a highly problematic issue. Rural health insurance has been subject to fiscal decentralization, thus shifting responsibility to the local governments – a responsibility which, however, they are not always prepared to meet, either because they lack the necessary funds or have no interest in doing so (Jackson et al. 2005: 138).

About 30 to 40 percent of the families living in the country, sometimes as much as 60 percent, are faced with poverty because one of their members requires medical treatment (Shi, T. 2000: 310). The fact that a growing number of sick persons consult miracle healers or seek religious solutions for their illnesses is quite another problem. Each year, some 60 to 80 percent of deaths among peasants occur because they treat themselves at home without consulting a physician or visiting a hospital (RMRB of 8 November 2004).

The above-cited health crises prompted the Central Committee of the Communist Party to tackle these problems in 2002 by reviving the previous system of cooperative rural healthcare. In taking this decision, the Communist Party proclaimed that all rural inhabitants should be integrated into the cooperative healthcare system by 2010; it did not, however, specify any concrete measures to that end. One of the main problems is that different healthcare schemes operate in different regions, some of which have no healthcare program at all. Obviously, a clear policy is missing (Duan 2001: 47).

A new cooperative healthcare project was launched in July 2003. Under this pilot scheme, every villager contributes ten RMB annually, while the central and local governments each contribute ten RMB per person toward building up a fund for the reimbursement of its members’ medical costs. Only the treatment of serious illness is reimbursed – that is, hospital treatment or expensive therapies with a maximum limit. Membership is on a voluntary basis (RMRB of 5 November 2004).

According to the eleventh Five-Year Plan, this new scheme is to cover 80 percent of the rural population by the year 2010; the current participation rate is reported at about 23 percent (RMRB of 30 March 2006). Many local governments, however, refuse to make the necessary payments on behalf of their inhabitants and have failed to implement the new pilot project. It thus remains to be seen whether this ambitious target can be achieved.

9.3.2 Migrant workers

Reforms have been flanked by the emergence of a great variety of activities in the informal sector, which exists alongside the formal economy (Hebel 2004: 1). The legal status of informal workers in terms of social insurance law is often not clarified; migrant workers are one example of a group in this sector that holds a
precarious social insurance-related status. This group numbers 150 to 200 million persons, thus comprising about 15 percent of China’s entire population (Chen 2005: 50). Most of them are males below the age of 35 (ibid.). They often live in a state of illegality that makes them susceptible to numerous forms of exploitation by their employers and to arbitrary treatment on the part of authorities (Hebel 2004: 29).

The new Accident Insurance Rules of 2003 seek to integrate the rural labor force into the urban accident insurance scheme. All the other social insurance branches are characterized by differing regional regulations. For example, migrant workers in Beijing are entitled to a pension if they have fulfilled certain qualifying periods. If they move back to the country, their personal contribution payments are refunded.

The actual crux of the matter lies in the creation of a legal employment relationship or an employer–employee contract with migrant workers, enabling them to participate in social insurance in the first place. Legal engagements are subject to multifarious approvals and certifications, which, taken together, can cost much time and up to three months’ wages. Required documents include, for example, a provisional residence permit (zaxxing zhu zheng) or migrant worker ID card (liudong renkou zheng), an employment permit (jiuye zheng) and, for women, a birth planning certificate (jihua shengyi zheng). To the extent that migrant workers are even capable of informing themselves about the long-winded procedures; the latter, however, are often not worth the costs involved, considering the insecure and ill-paid nature of the jobs in question (Schulze 2000: 269). According to surveys, only 22.4 percent of rural workers have a written employment contract. Without a contract, they have no recourse to legal protection and cannot sue for social insurance claims (Pei 2003: 40).

A State Council memorandum of 5 January 2003 addresses the problem of discrimination against migrants, which primarily takes the form of employers’ frequent failure to pay wages and prolonged work schedules of over ten hours. Thus, the local governments are called upon to cancel lengthy examination and approval procedures for the engagement of rural workers in cities, and to terminate restrictions. Throughout the countryside, temporary residence permits are to be issued. The Hukou system (resident registration) is to be repealed altogether over the long term (RMRB of 31 October 2005). Moreover, administrative procedures are no longer to be subjected to extra charges. It is questionable, whether the local authorities, however, will hear these appeals given that the discriminatory treatment of migrant workers often meets with their tacit approval (C.a. 2003: 21).

On 27 February 2006, the State Council published an additional opinion on how to improve the situation of migrant workers. This document, too, reiterates their problems, but again neglects to specify any concrete measures, although it does announce that trade unions are to be more strongly involved in monitoring employers’ payment of wages and social insurance contributions, and, notably, accident insurance (FZRB of 27 February 2006).

For this reason, there are proposals to enact a law on behalf of rural workers,
laying down labor and social law provisions governing this group (Pei 2003: 41). As there is yet no specific law for the protection of these workers, another alternative would be to provide for their further integration into the urban social insurance system (ibid.). Such a move, however, will only benefit migrant workers if they have an employment contract and are recognized as rural workers in cities. A solution for migrants in situations of exigency is seen in the establishment of a special social assistance system for this group.

Despite the continuingly critical nature of this situation, it can at least be said that the Chinese government has recently demonstrated a greater awareness for the problems of migrant workers and taken political steps toward resolving them.

9.4 Social support

Since the founding of the People’s Republic of China in 1949, rural poverty has been combated by means of special programs, which have, in part, met with success. Most recently, the poverty risk has risen drastically in rural areas on account of illnesses whose treatments are unaffordable for peasants (Shi, T. 2000: 177).

In the wake of mounting unemployment and a growing number of older persons whose pensions are below the subsistence level, urban poverty has experienced an increase. The Civil Affairs Ministry reports the number of urban residents living in poverty at 19.3 million. The Chinese research community nevertheless estimates this figure at approximately 31 million, based on its own data (SCMP of 5 August 2002). Chinese sociologists have been speaking of a ‘new problem of poverty’ since the early 1990s (Tang 1998: 117) because the urban population was previously provided for under the planned economy and signs of destitution were not overt. In light of these problems, since the mid-1990s, schemes for securing a minimum standard of living have been created in both rural and urban areas.

9.4.1 Social protection of the rural population

The Five Guarantees System (wubao) was established in China as far back as the 1950s (Zheng 2002: 240). This system provides for elderly or disabled inhabitants and minors in rural areas, who furthermore, do not have any dependants liable for maintenance nor their own income, or are no longer capable of work. It guarantees them food, clothing, housing, medical care and a decent burial. The funding responsibility for these welfare benefits falls primarily to the village collectives (Exner 1998: 31). The Five Guarantees System continues to apply only to the aforesaid category of persons, and the regulation dating from 1994 was revised on 11 January 2006. These new rules provide details on application formalities, but leave system funding to the local authorities.

Parallel to this system, a new system for securing the subsistence minimum is now being established. It resembles the urban scheme and applies to persons
who are still capable of working and do not belong to the group covered by the
Five Guarantees. Both systems have uniform funding sources and come under
the responsibility of the civil affairs authorities.

Rules governing such support are laid down differently by the individual
regions, depending on prevailing economic conditions. In the city of Shanghai,
for example, 32,000 persons are in need of assistance. This corresponds to about
1.6 percent of the population. Conversely, in the province of Yunnan, only
24,000 persons, and hence only 0.1 percent of the population, obtain such assis-
tance (Shi 2002: 128).

In the province of Guangdong, annual subsistence aid payments amount
to about 3,000 RMB per person (approximately €307), whereas in the province
of Qinghai, they total only 108 RMB (approximately €11) (ibid). These
figures show that the level of assistance granted depends on the economic
performance of the given region. The various provinces apply different models
(ibid.).

9.4.2 Social assistance for city dwellers

City dwellers whose minimum standard of living is not secured are recipients of
subsistence aid, which was placed on a national legal footing in 1999. Accord-
ingly, the people’s governments at various levels are responsible for social assis-
tance administration. They determine the local financial standards for securing
subsistence and the amount of social assistance paid. In some parts, however,
social assistance cannot be paid out due to insufficient funds in local budgets
(Shi 2002: 95).

The prerequisite for benefit receipt is that the beneficiary’s earnings fall below
the local subsistence minimum or no earnings at all. Moreover, in accordance with
the subsidiarity principle, the beneficiary may not be entitled to any other form of
maintenance payment, for instance, on the part of the liable spouse or children
(Qin and Fan 1997: 328). Needy persons themselves must become active and
submit an application for subsistence aid to the competent authority or resident
committee, upon which their personal situation is reviewed. In this context, the
role of so-called ‘residential quarters’ (shequ) is also to be strengthened in future.

A rather doubtful regulation is that the local governments are exclusively
responsible for financing subsistence aid, given that some of them are hardly
willing and, possibly, not in a financial position to do so (Jiang 1999: 55). As a
result, needy persons receive differing amounts of assistance depending on the
region in which they live.

The significance of subsistence aid has grown over the past years. At the end
of 2001, 11.7 million persons received such assistance, compared with 5.4
million in the preceding year, an upsurge of 117 percent (Shi 2002: 86). Claims
to subsistence benefits will increase proportionately to the growing rate of
unemployment.

The difficulties in health insurance, the large number of non-insured persons
and increasing poverty in cities have made it necessary to establish special
schemes of healthcare support for persons who are not health-insured. Since 2005, several provinces, autonomous regions and cities in government proximity have been experimenting with such healthcare support programs. To finance the programs, the local governments are to create appropriate funds, which are to be subsidized by the central government in the event of financial shortage. Support is granted to city dwellers who have already participated in health insurance, but are no longer financially capable of paying their contributions. Applications must be submitted to the resident committees, as in the case of general subsis-
tence aid. The specific regulations are to be elaborated by the provincial govern-
ments. Although this form of support likewise concerns only city dwellers, it is at least a start.

9.5 Institutional reorganization

Under the planned economy, state enterprise workers were entitled to social benefits from their employers, the *danwei*. The transition to a market economy and the attendant conversion of state enterprises into private companies necessit-
ated labor reforms because, for example, employment relationships were made terminable and remaining state enterprises needed to be relieved of the heavy financial burden of social benefit costs, which placed them at a competitive dis-
advantage in the new economic setting. The decision in favor of an industry-
wide social insurance system has cancelled out state enterprises as social benefit providers, calling for the creation of new institutions. The same applies to social assistance, which prior to the reforms was rendered by the work units (*danwei*) – in close cooperation with the street offices – or, in rural areas, by the collectives. In part, social assistance is still organized in the same manner today. Neverthe-
less, the administration of work units is gradually being phased out; moreover, many state enterprises have gone bankrupt. In the country, the people’s com-

munes have been dissolved, thus diminishing the influence of state control. Many local governments lack the financial resources needed to grant social benefits, so that new institutions of social security organization are required.

9.5.1 Organization and administration of social insurance

The former enterprise-based organization of social security had to be replaced and unified in the course of reforms. In 1993, social insurance authorities (*shehui baoxian bumen*) were established throughout the country and entrusted with all aspects of social insurance. The supreme administrative body responsible for the social insurance authorities is the Ministry of Labor and Social Security, which emerged from the former labor ministry. Until this day, no legally binding regulation governing the organization of social security has been adopted. Social benefits are still largely administered by state enterprises and paid out directly to workers and pensioners. It has proven highly problematic that the distribution of responsibility between enterprises, local governments and the central government remains unresolved (Wang 2002: 109).
The Communist Party expressly states that the general administration and the administration of social insurance funds must be placed in separate hands; but, so far, the social insurance bodies have retained all their functions – from administration to supervision (Lin 1997: 65). In this way, all aspects of administration and supervision are at the discretion of the labor and social security authorities, hence creating a situation that encourages the abuse of power and, in particular, inadequate use or even squandering of funds (Shi 1999: 164). According to the Ministry of Labor and Social Security, some form of autonomous administration is therefore to be introduced in all social insurance branches (Zheng 2005: 209). The problematic side of such a concept, however, is that China has neither strong employer associations nor free trade unions, so that these institutions would first have to be established as independent bodies – a process which would require at least ten years.

9.5.2 Socialization of social services in residential quarters

The economic reform process has made many former welfare arrangements and company social benefit schemes obsolete, for example, the allotment of housing or employer-sponsored eldercare. Under the concept of socialization (shehuihua) in social insurance, such duties are to be transferred from state enterprises to society and public institutions. Since the mid-1980s, society’s part in the assumption of these tasks has increasingly come to be known as ‘social services in residential quarters’ (shequ fuwu) (Wong 1998: 126). The term ‘residential quarter’ (shequ) can be translated more generally as ‘community’. In the context of Chinese social policy, the notion of ‘shequ’ is taken to mean a neighborhood-based community substantiated in ‘residential quarters’.

Communal residential quarters are either subordinated or affiliated to street offices and residents’ committees, which pursuant to Article 111 of the Constitution of 1982 serve as self-governing organizations of the masses at grass-roots level. Committee members are elected by the citizens of constituent city districts. These resident committees are responsible for propagating justice and law, arbitrating in civil disputes and performing social duties. Such matters are also dealt with by the street offices. A clear distribution of functions does not exist, however. Article 4 of the ‘Law on the Organization of Urban Resident Committees’ states that these committees ‘in order to disburden and benefit the people can organize social welfare activities through the social services in residential quarters, and can initiate and operate the relevant service institutions’.

Obligations of the residential quarters include the provision of social services to the elderly, children, disabled persons, families in social distress, disabled war veterans and families of revolutionary martyrs, as well as general welfare services (FZRB of 13 December 2000). In order to remove the care of pensioners from the charge of state enterprises, so-called ‘service administration centers’ are to be set up for communal residential quarters in districts with an appropriate infrastructure. In the absence of necessary preconditions, the competent social insurance body is to administer pensioner concerns. Failing that alternative as
well, this responsibility remains incumbent on the relevant entrepreneurial departments. In such cases, however, readjustment toward public administration is required.

Social services are offered in the respective establishments, for example, in clinics, old-age homes, seniors’ clubs and the like. These facilities are operated by the residents’ committees or, as the case may be, residential quarters.

The financing of social facilities in residential quarters proves difficult. Diverse other sources, such as monetary and in-kind donations from private citizens, are also supposed to be tapped. The governments lack the financial means to support these facilities as required, and the volume of private donations is hard to calculate (Shi, Z. 2000: 279).

So far, the intended status of residential quarters within the overall concept of municipal administration has not been clarified. It has been opined that the organizations of residential quarters should come under the direction of the street offices (FZRB of 13 December 2000). Yet there are also tendencies in favor of renaming street offices as ‘offices for social services of residential quarters’, thus gradually eliminating the term ‘street office’.

The procedures applied in the individual project areas differ. Thus, the city of Shenyang considers residential quarters below the rank of street offices and above that of resident committees. In other projects, residential quarters are affiliated to street offices or resident committees (Shi, Z. 2000: 259, 290). Chinese authors (Shi, Z. 2000: 290) therefore demand the soonest possible enactment of a ‘Regulation on the Administration of Social Services in Residential Quarters’ to resolve their legal status. It yet remains unclear whether residential quarters constitute the lowest government structure or are intended as a form of private, ‘neighborly’ help.

In China, the socialization of social services in residential quarters indicates that civil society, private institutions and voluntary welfare associations are being entrusted with social tasks on a larger scale than in the past. Differently than in Western countries, neither are the respective functions clearly defined, nor is a distinction between civil society, voluntary welfare and private institutions made. It would seem that in China these social benefit providers are intentionally intermingled to offer the widest possible scope social services. Further, in this way the government attempts to confer state duties upon these residential quarters in order to shift conflict-laden social security domains to the community level (Heberer 2004: 85).

9.6 Legitimation of the Communist Party through social security?

By extending the range of social benefits, the state secures the loyalty of beneficiaries. The neo-Marxist theory of state of the 1970s, in particular, argued along these lines and debated the concept of ‘bought mass loyalty’ generated by the welfare state (Narr and Offe 1975: 34; Lessenich 2000: 63). This strategy of ‘legitimation by enticement’ was nevertheless seen as bearing an inherent
contradiction, thus, the formerly held view: the state as legitimating instrument of a class-bound society makes itself indispensable by constantly having to expand social benefits, resulting in a withdrawal of capital and, ultimately, in an unsustainable burden on the capitalist economy (cf. Lessenich 2000: 63).

Contemporary discussions, too, see a connection between a government’s legitimation and social policy, especially in democracies, since the social policy demands of citizens are reflected in political processes, and the questioning of living conditions triggers a process of de-legitimizing political rule. The intended effect of social policy is to obtain citizens’ loyalty. In democratic welfare states, the downside of that policy is the incapacitation and de-obligation of citizens (Lessenich 2000: 61), which could be a strategic aim of the Communist Party.

9.6.1 For the urban population?

Taking a look at social policy on behalf of the urban population, we are able to distinguish the areas of social insurance, the welfare sector and new institutions. The groups of persons covered under almost all social insurance branches have been extended, considering that in the past mainly employees in state enterprises were insured, and now nearly all forms of business organization participate in social insurance. Even considering the unreliability of Chinese statistics, political efforts to raise the degree of social insurance coverage are evident.

Social insurance is challenged by the problems of mounting unemployment and decreasing numbers of persons covered by health insurance. Protests against state enterprises’ failure to pay unemployment benefits were especially pronounced at the beginning of this century. Notably, early retirees and unemployed persons in their late forties or early fifties experienced the Cultural Revolution and are thus more inclined to protest than their parents’ generation, for instance. This group of early retirees and others feel betrayed of its youth and, in any event, of its former education and training, and now sees itself prematurely ‘sorted out’. Unemployment benefits, early retirement pension or social assistance all generally suffice for the basic necessities of life, but not for more. Even so, the resentment of those unable to participate in China’s rising affluence remains within bounds.

The political intent behind newly created institutions is frequently to establish autonomous administration, this being a long-range objective of social insurance. The socialization of social services in residential quarters signifies an assignment of social problem areas to civil society. It is questionable, however, whether autonomous administration can be forced by the state, or whether it must not rather emanate from a need of the population. Otherwise, state-imposed self-administration may thwart its envisaged purpose, as those concerned are merely assigned administrative duties while the state strives to maintain control (Darimont 2004: 76).
For the rural population?

The Communist Party seeks to legitimate its rule by propagating ‘modest prosperity’ for all. Given that goal, to begin with, only a few coastal areas have played a leading role in economic reforms. This policy has brought affluence to some regions, but even the most ‘modest’ of prosperities has remained unattainable for the bulk of people living in the countryside. As a result, income disparity in China is among the widest in the world. This situation no longer has anything in common with Marxist ideals and has generated a highly explosive situation in Chinese society.

The establishment of social security systems in rural areas is a problem in many developing countries, since the necessary tax proceeds and contribution-based financial resources tend to be lacking in these areas. Up until a few years ago, peasants were permitted to cultivate, providing a source for boosting incomes and, hence, a resource for securing the subsistence of the rural population. Nevertheless, in past years, per-capita income in the country has declined rapidly in relation to urban income (Hussain 2004: 214), so that produce of the soil does not contribute to an increase in earnings and consequently fails to serve as a resource of social protection.

The revival of the cooperative healthcare system in the countryside represents the challenge for the political leadership. Neglect of the rural population over the past decades may now turn into a political boomerang. Indeed, the government has recognized these failures, yet it remains to be seen whether the expressed political will to do something for rural inhabitants is more than just propaganda. The enforcement of a national policy will, in any event, reveal the discrepancy between political leaders in Beijing and local potentates. Several of the projects initiated in the country have model character and are conducted only as selective experiments. On the other hand, owing to the arbitrariness of rural political actors, many people are prepared to do without social protection if they need not pay fees or contributions – all the more so, as they do not know in whose pockets these payments will land. In any case, access to medical care must be ensured. In that respect, the past years of rural healthcare policy have initiated a process of de-legitimation, which must now be halted.

It has been shown that dictatorships and autocratic regimes, precisely when they seek to prevent or repress political participation, are subject to substantial integration and legitimation pressure, to which they usually respond by way of social policy measures and welfare state interventions (Rieger and Leibfried 2004: 74). Yet, whether a deliberate incapacitation of the citizenry is intended by the Chinese leadership under its present social policy remains an open question. The immense social problems in fact seem to suggest that the government is merely reacting, rather than adopting long-term concepts or intentionally using social policy to legitimate Communist Party rule – especially as social policy is not a concept for achieving social or political harmony, but an enduring process. The procedural nature of welfare state development involves the reproduction, intensification and extension of social
policy intervention, the consequences of which are only partially predictable (Kaufmann 2002: 130).

9.7 Conclusion

In welfare states, social rights are invoked to enforce social policy. In East Asian states such as China, state social welfare assistance is, by contrast, embedded in an equally hierarchic and personalistic form of governance (Rieger and Leibfried 2004: 28). Owing to the weak institutionalization of social policy within the state organization, the low degree of juridification and the lacking judicial protection of social rights, social benefits are subject to the arbitrariness of party politics (Rieger and Leibfried 2004: 104). In China, the historically nurtured view is that rulers are ‘elders’ of the people, and thus under moral obligation to look after the citizenry and ensure their well-being. Based on this view, a kind of faith in the prevailing government has evolved that is only seldom abandoned. Even today, many Chinese citizens trust that although their legal claims to social benefits may not always be granted, they will be helped by the state in cases of exigency.

Protests against deplorable social conditions are steadily on the rise in China (SCMP of 20 January 2006). In many respects, the question is whether the actual state of affairs has objectively grown so much worse, or whether public sensitivity to social grievances has heightened. Protests are primarily directed at failed payments to redundant employees of state enterprises, at pension arrears, and at the high cost of medical treatment and medications (Hurst and O’Brien 2002: 345). Too many people are excluded from all social security schemes and thus generate potential for unrest. Much graver than the situation of former state enterprise employees, however, are the difficulties of the rural population in obtaining medical care. Protests from that corner have nonetheless been kept under control so far, given that in the face of an omnipotent and ‘always-on-the-alert repression apparatus’ (Heilmann 2002: 236), the opportunities to join forces on a supra-regional scale are limited (Derichs and Heberer 2003: 86).

9.8 Note

The author would like to thank Esther Ihle for the English translation. Abbreviations: C.a. = China aktuell, monthly journal, Hamburg; FZRB = Fazhi Ribao, legal journal, Beijing; GGB = Guowuyuan Gongbao, official journal of the State Council of PR China; RMB = Renminyuan Yuan, Chinese currency; RMRB = Renmin Ribao [People’s Daily]; SCMP = South China Morning Post, English daily, Hong Kong; ZSBGQ = Zhongguo Shehui baoxian gongzuo quanshu, working book and comprehensive survey of Chinese social insurance, publisher of Chinese statistics, Beijing, 1995.

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10 The emergence of a ‘socialist’ market labour regime in China

Jutta Hebel and Günter Schucher

10.1 Introduction

China’s transition to a market economy – albeit a market economy with Chinese characteristics – has primarily been a process of basic institutional changes and institution building. It is well known that no blueprint existed for remodelling the set of institutions during the transition process. As China launched its reforms at the end of the 1970s, the necessity of increased economic growth was not contested; fundamental struggles did, however, arise over how the process should be guided. Controversial positions were put forth; some of them advocated increases in efficiency and productivity within the institutional framework of the planned economy and others supported changes to the institutional set in line with market conditions. What ensued was a type of trial and error process, involving a good number of experiments. With the acceleration of the reforms, positions in favour of continued economic planning and state control were overridden.

Institutional change has a considerable impact on the economic performance of transition economies. Following initial reforms in the agricultural sector, the Chinese leadership focussed on restructuring state and collectively owned enterprises in order to increase economic growth. Moving enterprise institutions away from central planning implied reforms for more flexible allocation and reallocation of labour. The changes in labour (market) institutions are particularly important for the success of economic reforms, since they could act as catalysts or obstacles. This proved to be all the more true as China exposed its economy to the world market.

The socialist-type organization of labour, however, has been one of the backbones upholding the socialist system. Therefore, the organization of labour is a highly strategic field. The state and the CCP exercised their power by controlling work relations and defining people’s livelihoods. One may even hypothesize that the state’s monopoly over labour allocation and reallocation, combined with the exclusive distribution of basic resources (food, housing and welfare), might have had a deeper impact on people’s compliance with the socialist system than direct political control. For this reason, changes in the organization of labour and its related institutions are of crucial importance for both the economic and political systems.
In this contribution we will scrutinize the institutional change from a socialist labour regime to a ‘socialist’ market labour regime. The phasing out of the planned labour system and the concurrent emergence of a labour market in China are not disputed phenomena per se. Yet, talking about a Chinese labour market does not necessarily imply any convergence into a kind of globally valid market model. This idea may be summarized in three main arguments: to begin, institutional change is not strictly determined by universal economic laws, but follows its own dynamics. Second, labour market policy – as any other policy – is constantly confronted with conflicting political goals, e.g. economic growth, political stability and social harmony that have to be reconciled. Family policy or social control may restrict reforms aiming at a higher employment rate and/or increases in productivity. And lastly, the inclusion of the population in the labour market is not the result of any single institution, but rather an outcome of an ensemble of institutions, varying among different countries, as well as within different demographic groups (e.g. gender and age).

Focussing on the macro-level of labour reforms, we will take an ensemble of institutions into account. Therefore, the subsequent analysis of changes in the Chinese labour institutions during the transition period will be based on the analytical framework of regimes. We draw on the ideas of a set of institutions and institutional complementarities that vary systematically across regimes – while remaining mindful of the debate on labour regimes that they induced.

The emphasis in this chapter is on providing an integrative and rather reflective account of the main analytical issues. In the following section we will refer to the earlier debate on the labour process in the relevant literature and elaborate on the concepts of regime and path dependence and their relevance as analytical frameworks for labour. In section 10.3 we will outline relevant characteristics of the socialist labour regime as necessary background information for reconstructing the path-dependent labour process. Section 10.4 will scrutinize the emerging new ‘socialist’ market labour regime in China and elaborate its interrelatedness with the chosen set of institutions. In the final section we will draw some conclusions on the trajectory of the Chinese labour regime in particular and the regime concept in general.

10.2 The labour process under discussion: labour regime and path dependence

There is both consensus and considerable dissent among scholars when it comes to the labour market debate on how labour market theories should address the labour process, labour exchange and unemployment. Different approaches agree in that supply of labour should match demand and that ‘mismatches’ between the two are the grounds for unemployment. Underlying reasons for ‘mismatches’ and unemployment are sought either on the supply side, the demand side or both.

For a long time, economic theories dominated the mainstream of the labour market discussion with a powerful analytic theory that relies on the assumption
of a perfectly competitive market. Today, new concepts have been introduced into the debate that are more decidedly influenced by the social sciences and point to institutions and their particular role in shaping the labour market.

In general, economic theories refrain from analysing special characteristics of labour markets or pathways to the present state of a particular labour market. Using a powerful deductive apparatus, they conceptualize an abstract model of factor costs and prices that applies to all market economies. State intervention, subsidies or wage setting power of trade unions are viewed as distorting the basic function of economic laws.

In opposition to the mainstream of labour market research, social scientists started to contribute their own theories and empirical research. The pivotal studies of Braverman (1976), among others, influenced the later debate on the labour process (e.g. exploitation, degradation of work, Taylorism/Fordism and labour control in the workplace). Marxist analysis of capitalism and industrial work provided the framework for these studies and its assumptions guided their empirical research and findings. Consequently, the first aim of this type of research has been the detection of sameness and compliance with the laws of capitalism which standardize the labour process in all capitalist societies.

During the 1970s and 1980s, a number of American academics working along the disciplinary boundaries of economics and sociology began to investigate national characteristics of Western capitalist labour markets. Although still connected to Marxist assumptions, they developed new labour market concepts and contested the idea of a unified and competitive labour market. Instead they pointed to the dual character of labour markets and segmentation processes. The basic idea behind their work was that labour markets are split up into different segments that differ in their logic, in entry ports into the market, mobility and careers, and in the distribution of job rewards. These segments absorb dissimilar workforce groups who do not stand in direct competition with one another.

Various concepts of labour segments have been proposed. The different segments are either called primary and secondary segments, which represent different quality levels of jobs (contract security, work safety, wage level and qualification), or internal and external labour segments, highlighting processes of closure towards outsiders. Since the 1980s, the concept has also been used as an analytical tool for the investigation of labour systems in transition countries, namely in Eastern Europe, e.g. Hungary, the GDR and the PR China (Hebel and Schucher 1992; Jackson 1992; Yang 2002). Whereas explanations for segmentation processes in market economies draw on production regimes, human capital and training, job idiosyncrasies and the nature of work, the segmentation processes occurring in planned economies are identified as a result of state regulations, state strategies of production in the public sector, the management of human resources and socio-political population control.

In spite of these valuable insights, current scientific contributions have transcended the idea of segmentation. Segmentation theories remain attached to the attempt to elucidate universal causes for the creation of segments, be they economic or political. More recent concepts go beyond such unilateral perspectives
and proffer instead new ideas taken from a broader debate on the institutional embeddedness of the labour process and employment. In clear contrast to economic theories, these sociological approaches emphasize the specific features of labour markets in each country and bring a set of institutions into play that emerged during extended historical periods and resulted from trade-offs between different values, goals and power constellations in the society.

The present ‘face-lift’ experienced by ideas on the embeddedness of social action is, nonetheless, not surprising. Social embeddedness is one of the foundations of sociological thought. Instead of searching for sameness and convergence of labour processes, the new framework within the labour market debate intends to work out the national particularities of labour markets and highlights them through comparative analysis. A new term – *labour regime* – has been coined for this framework. The concept conceives the labour market as an outcome of the interplay between different institutions, each having its own particular rationale and history.

The present labour market debate parallels some other strands in academic discussions, namely on the welfare state (or welfare regime), the production regime or gender order (Pfau-Effinger 2001). Some authors have proposed regime typologies. The most famous contribution is Gosta Esping-Anderson’s analysis of the ‘three political economies of welfare states’ (Esping-Andersen 1990, 1994). Three variations of welfare states in the Western capitalist world cluster into regime-types (social democratic, conservative and liberal welfare regime). The institutional set varies between different welfare regimes, in accordance with different arrangements between the state, the market and the family. Labour markets are not only interwoven with social policy, but they also derive much of their logic from their particular embeddedness into the welfare state’s institutional framework, leading to coincidence of welfare-state regimes and labour regimes.

Other authors have amended Esping-Anderson’s inspiring contribution. Some comparative studies have challenged his proposed limitation to three worlds and pleaded for the additional worlds of a southern European or Mediterranean welfare state, a ‘radical’ antipodal welfare state or a Japanese case. Andreß and Heien (2001) added to the debate with their distinction between East and West Germany. The former (East German) socialist welfare regime underlined the dominant role of the state, a high degree of de-commodification and a strategy of high labour inclusion, whereas the West German conservative model was based on the principle of subsidiarity, a low to medium level of de-commodification and segmentation.

A further theoretical attempt which utilizes the regime idea comes from the discussion on the East Asian welfare system (Goodman et al. 1998). The authors compare different East Asian countries and elaborate similarities and differences in welfare arrangements. They conclude that, despite national characteristics, a particular East Asian welfare model can in fact be discerned.

In sum, the literature on labour regimes is not yet very well developed and still refers to the welfare regime typology. Together with other strands in the
labour debate, the concept of labour regimes shares its special concern about the characteristics of particular labour markets and reduces diversity into models. The debate is almost deficient with respect to socialist labour regimes or regimes in less industrialized countries with large agricultural sectors. An exception has been the contribution by Andreß and Heien (2001), who include the former East German welfare system, but do not elaborate the details. Especially the transition of socialist labour systems into labour markets has been neglected. Regime typology has remained a tool for cross-sectional analysis. The literature on varieties of capitalism also deals with the emergence of new types in Central and Eastern Europe – with a brief mention of China (e.g. Knell and Srholec 2006). In general, these writings assume that an achieved state of institutions shapes this development.

This article will provide a first survey on the transition of the socialist labour regime in pre-reform China to a ’socialist’ market labour regime. We understand changes of the labour market, adaptations to new challenges (e.g. globalization and transition) and the extent of work inclusion as being ‘path-dependent’, i.e. framed by history, former solutions of labour exchange and the interplay of institutions. Each labour market follows a unique (national) trajectory supported by a set of institutions of that particular society.

Pathways of institutional change are not strictly determined by the past. Instead of a deterministic perspective, the regime concept considers changes to be rather contingent. Ebbinghaus (2005) distinguishes between diffusion and developmental pathways, the first theorem being an unplanned ‘trodren trail’ that emerges through a subsequent, repeated use of an initially chosen path. Developmental pathways are composed of an interdependent sequence of events and allow for ‘road junctures’. Page (2006: 89, 111f.) has provided additional fine tuning to the concept of path dependence. He identifies processes in which only the set of past choices and the events in the past matter (which he calls phat or state dependence), setting them apart from path-dependent processes, in which not only the content, but the order and path of previous events are also significant.

Elaborating on the transition of the Chinese labour regime, we use labour regime as a generic term, which allows an entire set of institutional arrangements that influence the labour process to be deciphered. An institution is commonly defined as a set of norms forming an enduring behavioural pattern, which, in turn exerts social constraints on members of the society. Norms reflect or embody cultural values, are explicitly established or traditionally passed on and are followed as a result of socialization or backed by sanctions that promote conformity. A labour regime results from the interplay of specific institutions and has repercussions on all of them in return. The scope and limits of China’s labour reforms are shaped by the set and order of related institutions.

To our knowledge, one fundamental problem has, however, been widely excluded from the debate: Which institutions really matter? Even institutions having an adverse effect on economic performance often tend to persist for long periods of time (Bardhan 2005: 501). Some current literature in this area high-
lights various institutions that form and interact with the labour regime. For instance, Schmid (1996) lays out an ensemble of five institutions constituting the employment system: (1) the production system, (2) the system of industrial relations, (3) the welfare system, (4) the private household, and (5) the educational system. Our analysis will draw on the five institutions presented in the above literature. We will, however, add the system of social control as a sixth institution.

We will describe these six institutions and attempt to elucidate their interrelatedness with the labour market. Like Heidenreich (2000, 2004), we prefer the term ‘regime’ to ‘system’, as the latter implies unified and coherent structures of regulation. We understand regimes as patterns of traditions, past experiences and problem solutions, as well as of current expectations, perceptions, behaviour and relations. Insights from the various contributions on welfare and labour regimes and their trajectories mentioned above can, however, help us to analyse and better understand the Chinese labour market and its ongoing changes. Our purpose is not to present a further regime-type but to give an initial general outline of the regime framework drawing on the transition of the Chinese labour market. We will refer to the above-mentioned literature and our own empirical evidence from earlier research in an effort to steer research in this direction.

10.3 Characteristics of the socialist labour regime (SLR)

As necessary background, a brief outline of the pre-reform socialist labour regime (SLR in the following) will be given. The changes that occurred during the reform period were driven by both endogenous and exogenous factors. The official Chinese paradigm, which holds that institutions should have special ‘Chinese characteristics’ (e.g. ‘market economy with Chinese characteristics’) is very much in line with the basic assumptions of the regime concept. It paraphrases the embeddedness in a unique institutional setting with a particular pathway of changes. Traditional cultural and socialist elements inspire the logic of diverse institutions, such as the kinship and family system, industrial relations or the social security system.

With regard to the characteristics of the SLR, it must be pointed out that the divide between urban and rural employment is of outstanding importance. Similarly to some authors who warn against the analytical rigidities inherent to an approach which labels countries as having only one regime type, it may be argued that China actually had two different socialist labour regimes, an urban and a rural one, that are currently in the process of being forged into a single ‘unified’ labour (market) regime. Leaving this differentiation to further studies, we will reduce complexity by modelling only one ‘national’ regime – at the risk of having an urban bias.

In contrast to rural areas, where farmers were more or less subjugated to the production discipline of rural collectives, urbanites have been integrated into a particular type of employment that we call a ‘socialist normal work pattern’ (SNWP) (we adopt the term Normalarbeitsverhältnis from the German labour
The SNWP is considered to be a normative pattern, since it has been institutionalized as a model for the life span of urbanites. This model is characterized by a number of elements, including enterprise-specific work training, work assignment by the labour bureau, a normal work life as a member of a work unit (danwei), enjoying danwei-related social security and benefits (such as housing, education, subsidies), regular retirement at a prescheduled age and retirement benefits provided by the danwei. The SNWP structured the life course of Chinese individuals into three major phases: work preparation, full and stable employment and a post-retirement period.

The Chinese express this pattern with the well-known metaphor of the ‘iron rice bowl’. Seen from a societal perspective, this model served as a core means to stabilize society and control the urban populace. From an individual perspective, the SNWP determined work aspiration, motivation, training and job satisfaction. Life expectation was centred on work and danwei membership. Membership in the danwei was not confined to work relations (based on contracted time and work), but radiated into the private lives of people, interfering even in marriage and family planning. Personal relations were, as such, interwoven with work relations and vice versa.

The state dominated the pre-reform SNWP and excluded market activities. The state held a monopoly on work allocation and employment as well as wage setting within its planning system. Labour lost its character as a commodity. Social control dominated the logic of employment relations and took its toll on mobility and flexibility in the labour process.

The SLR has been upheld by a set or, in other terms, a mix of institutions. All these institutions follow a specific, tradition-based logic, in addition to various other factors, including the Western socialist ideology which relies on Marx’s fundamental analysis of capitalism. The institutions we present here shape the SLR, the urban SNWP and rural exclusion from urban labour. This set of six institutions will be briefly described in the following.

First, the socio-political control of the Chinese population refers to various state practices which aim at securing individual compliance, maintaining collective order and dealing with deviant situations. Order was mainly enforced by rigidly dividing rural and urban areas via household registration (hukou) and food rationing. The comprehensive integration of rural residents into the rural collective units (communes, production brigades and teams) and urban residents into work units (danwei) were crucial measures in this direction (Shaw 1996; Wang 2005).

Political institutions, namely the hukou system and work units (danwei), controlled population mobility. They gave rise to a segmented labour system, dividing the Chinese workforce into a privileged urban population with access to the SNWP and a rural majority essentially chained to rural areas. The rural–urban duality still influences China’s political economy today.

Second, the SLR corresponded largely with production planning and the production process, adapted from the Stalinist model of industrialization (Pei 2005). The established SLR relied on state-led industrialization, a high rate of invest-
ments in heavy industry and a vast labour surplus in agriculture at the expense of low urban wages and rural incomes. The public sector was funded by the state and absorbed the majority of the urban labour force. Planned allocation of the work force and state-induced labour immobility created the well-known urban labour redundancy. This practice of non efficient labour allocation was combined with a policy of low and equal wages (Hebel 1997; Tomba 2002).

Third, trade unions played a special role in the SLR. Directly after the declaration of the PRC, the CCP moved rapidly to monopolize working class organization and to promulgate a Trade Union Law. The basic political intentions were the reduction of worker unrest and labour control in a top-down, management-backed policy. The All China Federation of Trade Unions (ACFTU) was a hierarchically organized political institution, which received its power from its interconnectedness with the state and fulfilled political, social and recreational functions at the grassroots. Because workers were considered the owners of the means of production and masters of the enterprise, no particular worker protection seemed to be necessary. The comprehensive provision of welfare to dependent danwei workers has been connected to the basic level trade union.

Fourth, the Chinese welfare system was an early creation of the socialist state inspired by Leninist principles and Soviet practice and was established under the condition of a young workforce and full-employment. It became an important element in China’s industrialization strategy. Comprehensive welfare coverage, however, was strictly limited to centrally planned state employment in urban work units and urban state workers. The state financed urban welfare (e.g. old age, health and work insurance) and gave subsidies for housing and food. The system provided a cradle-to-grave security for a young and immobile population, albeit on a modest level. Although its development has not been continuous since the early 1950s, the welfare system of the SLR reproduced the dual-track structure of the society at large and reinforced the divide already produced by the hukou.

The strong connection between danwei membership and social security entitlement created the SNWP and inclusion of the urban population into the society in the absence of any alternatives. The functional logic of the interplay between the two institutions of control and social welfare has been inspired by the political goal of the formation of a working class as the system’s political avant-garde.

Despite the state monopoly over labour allocation and security provision, the SLR did not rule out the family. The Chinese social security system provided protection to only a limited part of the urban population. Those left outside the danwei-based provision of social security could not cover individual risks and shocks on the market and family and kinship networks served as fallback. In rural areas, the family remained the most important institution; and, in times of hardship, few forms of collective help and hardly any state assistance could be expected.

Fifth, immediately after attaining power, the CCP intended to reduce the power of clans. To this end, it promoted a radical change in the role of families,
kinship structures and women. The new gender concept advocated that women should no longer be kept secluded and dependent on their husbands and parents-in-law, but should achieve self-determination through participation in gainful labour. Women were also supposed to become key actors in production.

Education, work place and job allocation, the organization of production and social security all helped women to overcome their inferior status in the family and society. New concepts related to family and gender resulted in a dual earner pattern and enabled women to participate in the labour process. Yet, women’s inclusion into the workforce did not put an end to gender discrimination. Even though planned allocation did not officially differentiate between men and women, the majority of women worked in low ranking, poorly remunerated positions and the SLR remained biased with respect to gender. And what is more the housing shortage and migration control reinforced strong family relations and traditional patterns of co-residence, patrilineal structures in geriatric care and the persistence of son preference.

Sixth, pre-reform education in China has been crucial to the Party’s ideological foundations and policy. Deng and Treiman (1997: 394) point to three governing criteria: academic performance, family class origin and student loyalty. Education as a whole aimed at comprehensive social integration, the diffusion of basic education to rural and urban areas (e.g. literacy, inclusion of women), creating political loyalty and preparing the younger generation for a productive work life (according to the socialist model worker). Mass education programmes via state intervention stressed the creation of political consciousness as their primary goal; but, in doing so, they damaged the educational system by deteriorating its standards of quality and its contribution to economic growth. Educational policy transmitted basic socialist values such as equality, e.g. the detachment of educational chances from parents’ socio-economic and educational status, or the superiority of manual over theoretical work. These values had a significant and enduring impact on workers’ aspiration and satisfaction as well as on work performance.

The pre-reform educational system has been closely connected to the production sector. Strong weight has been accorded to primary education and training for manual work. Enterprises provided technical training for new entrants having been allocated by state labour bureaux. It was primarily on-the-job training which met the specific needs of a particular enterprise and even one special task. For the overwhelming part of the workforce, the educational system did not provide individual marketable qualifications or transferable skills. This type of training proved to be an additional and important source of workers’ immobility, at least for the part of the workforce with lower and middle level training.

Secondary and tertiary education found itself even more at the mercy of political waves. All this resulted in the lack of a medium to highly qualified stratum of experts in the workforce. Nevertheless, at the outset of the economic reforms no considerable gap between production demands and labour qualification opened up, as the production regime, work organization and the technical level of production remained low at that time.
The above-mentioned set of institutions formed the highly inclusive labour regime of the socialist period, producing full employment and comprehensive welfare, high rates of female employment participation due to the strict rural–urban divide and authoritarian dependency of the workforce. The SLR represented a trade-off between the goals of socio-political control and state-led industrialization in the urban regions. It favoured the urban working class, based on unfavourable terms of trade between the countryside and cities and the extraction of resources from the rural areas.

In sum, the deep and nearly insurmountable rural–urban divide shielded urbanites from rural labour competition. This ‘invisible Great Wall’ (Knight and Song 2005) has been only one prominent feature of the segmented pre-reform labour regime. The institution of the Chinese ‘work unit’ (danwei) supported the urban SNWP, symbolized by the famous Iron Rice Bowl. Employers and employees were not contractors in the Western sense of a labour relation and, as such, labour associations or free trade unions were deemed unnecessary. Danwei took on the character of so-called ‘mini welfare-states’ or ‘small societies’ that did not require a market for goods and services. Managers and cadres assumed the responsibility for and control over their dependent workers in the realms of both work and private life. Workers under the regime of the SNWP, particularly members of state-owned work units, enjoyed comprehensive security at the cost of flexibility, privacy and individual decision-making. Chinese urban workers were bound into an internal, firm-centred labour regime to a much higher degree than even their colleagues in other socialist countries.

The present transition period exercises an intensive pressure on all the institutions to change their principles and to rearrange in order to meet market conditions. Following our basic assumptions from the beginning of this text, these changes will be path-dependent in the sense of including former and present elements in a contingent manner.

10.4 The emerging ‘socialist’ market labour regime (SMLR)

The fundamental changes of the SLR during the reform period are obvious to every Chinese and foreign observer. A labour market emerged and contracted labour spread. As the various steps and measures undertaken by Chinese politicians have already been discussed elsewhere by several Chinese (Yang 2002; He 2003; Cai et al. 2005) and western researchers (Knight and Song 2005), as well as ourselves (Hebel 2005; Hebel and Schucher 1999; Hebel and Schucher 2007) Therefore, we confine to elucidate the institutional changes which affected the SLR and led to the emergence of the new ‘socialist’ market labour regime. We will argue for the presence of both continuity and discontinuity due to various endogenous and exogenous factors, such as privatization, globalization and WTO membership.

For most observers, the rapidity with which the SLR and SNWP have been dismantled in the past two decades verges on the fantastical. The most decisive step in this regime change has been the state’s withdrawal from labour allocation
and employment. This step corresponds with the transition towards a ‘socialist’ market economy and includes both the restructuring of the public sector and admittance of private economic activities. In the public sector the former lifelong job tenure and work unit membership have been challenged; in the private sector contracted work is now prevailing. Informal employment – within and outside the public sector – emerged and meanwhile absorbs a considerable part of the work force. Self-employment became an important option for the younger generation or dismissed workforce and, in particular, for the rural population. Mobility has been on the rise since the early 1990s, encompassing processes of regional migration (rural–rural, rural–urban, etc.) and job mobility (upward and downward mobility). The most important instrument of population control, the hukou system, has lost its overwhelming importance.

In the following section we will elaborate on the chosen institutions for our analysis and the changes they have undergone. Throughout the following discussion it should be kept in mind that these institutions are interrelated and exert contradictory influences on the labour regime.

10.4.1 Socio-political control

The socio-political control of the population was based primarily on the hukou system, which stratified the population into urban and rural segments and gave rise to either danwei access or membership in rural collectives. This system of socio-political control has been dismantled in the course of economic and political reforms, even though the core hukou regulations still remain. Two major rationales have driven the reform of the hukou system, an economic logic and concerns about social stability. Population immobility has caused economic irrationalities such as low labour efficiency, market segmentation, rural underemployment and slow urbanization. The transfer of rural surplus workers to the city appeared to lower the regional disparities and widening income gap between farmers and workers. Developing a unified labour market promised to increase rural incomes and stabilize the political system.

The first steps in the reform policy have been the dissolution of rural communes and the introduction of the Household Responsibility System, together with the rise in state purchasing prices and transformation of farm surplus into industrial investments (Pei 2005). Although the hukou has been upheld as an instrument of migration control, the rural population was released from the ties of agricultural labour and local bonding. Migration of rural surplus labour to urban areas increased and rural workers entered the urban labour market.

The second significant step of the reform policy has been the restructuring of the SOE, the dissolution of the danwei and the gradual deregulation of the SNWP. In order to facilitate flexibility of labour relations, the labour ministry introduced labour contracts in the public sector. Since 1986 short-term labour contracts and dismissals upon contract expiration launched a process of dissolution of the SNWP.

A third step of reform has been the opening up of the private employment
sector. Both formal and informal work under dependent work conditions and self-employment have accelerated. The Chinese government, aware of the problems arising from transition and restructuring, responded with a ‘Proactive Employment Policy’ which stipulates ‘workers finding their own jobs, employment through market regulation and employment promoted by the government’ (White Paper 2004b). The private employment sector opened up an unexpected degree of job mobility and regional migration.

The implementation of a labour contract system shows strong signs of path dependence. The system continued to privilege the established working class, mainly in fear of stirring up political and social unrest. The first addressees of work contracts in SOE were the new entrants. Later, the coverage of the contract regulations was gradually expanded to other groups of workers, including the core state employees. The same pattern holds true for the attempts to reduce the redundant work force in SOEs. Initial endeavours to improve the flexibility of labour relationships remained unsuccessful. Only since the mid 1990s did changes occur with the new concept of ‘removal from posts’ (xiagang), which allowed SOEs to lay off permanent workers. Xiagang workers do, nonetheless, experience special treatment: they remain affiliated to their work units and continue to receive basic remuneration. In the end, the ambiguous xiagang programme turned out to be a method to protect SOE workers from regular unemployment, as well as a selection technique for unproductive ‘privileged’ workers to be released from work relations. Official announcements to phase out these practices and to integrate xiagang workers into normal unemployment procedures has not been realized so far.

Recent Chinese labour legislation (Labour Law 1995) intended to respond to the consequences of the SNWP dissolution. Attempts were made to legally cover all new groups of workers and the private sector. Yet, rural migrants and the growing group of workers with atypical labour relations are still formally excluded and the implementation of the law lags behind. In June 2007, the National People’s Congress adopted a new law on labour contracts that will be legally binding for all types of labour relations (Schucher 2006).

The dismantling of the hukou system, labour contracts, migration and mobility and the disbanding of the danwei undermined the SNWP. A complete rearrangement of institutions became necessary, e.g. the call for a renewed welfare system, for new labour relations that fit with contracted work and for higher qualification of the work force. This ongoing transition must be brought in line with changes in the production regime, i.e. changes in the industrial structure, property rights, organization of production and technical standards.

10.4.2 The production regime

Changes in the state’s industrialization strategy and planning system are of great importance to the production regime. Pre-reform China followed a state-led policy of forced industrialization and created a typical dual economy. Chinese economic transition began with the rapid expansion in rural industrialization.
The political turning – Pei (2005) termed it a ‘reverse flow of capital from the state to peasants’ – resulted in a series of changes in the production regime. It brought both capital and investment goods to the countryside and led to the expansion of labour-intensive light industry. In addition, the previously neglected service sector in both rural and urban areas expanded. As the rigidity of the *hukou* declined, farmers migrated to urban areas or export processing zones in search of service and industrial jobs. Migrants became a mobile reserve of cheap labour in the cities.

The state altered its role from a prescriptive institution of production, prices, quantity and quality of goods and labour to one that defined and coordinated the legal and economic market framework. The reduction of state planning and public property and an active legislation for the market economy (i.e. labour law and social security regulations) is supplemented by a trend in political decentralization, providing regional authorities with increased decision-making power in industrial policy, fiscal and labour regulation and legislation.

Greater economic freedom of action enhanced new business and labour strategies within the public sector (Hebel 1997). SOE have been ‘restructured’ in a number of ways that deeply influenced the labour regime at large. (1) A turnaround in personnel policy took place. Labour redundancies were reduced by different strategies, e.g. less labour entries in line with economic demand in number and quality of the workforce and growth of unemployment. (2) Work compensation increased, albeit for a reduced number of urban workers, and created a considerable urban demand for consumer goods and services. (3) Labour mobility augmented according to individual aspirations or needs. (4) Technical and professional training became a prerequisite for employment and formal work contracts. The opening policy introduced new production technologies and created the demand for higher qualifications. (5) Comprehensive welfare provisions by the *danwei* were abandoned and a new and market-related welfare system was established. (6) Although work contracts came into general use, work relations did not change significantly. Political control remains important at the grassroots level and the free representation of workers’ interests continues to be suppressed. Nevertheless, the shift towards contracted labour has diminished the intermingling of workers’ work and private spheres.

The private sector is heterogeneous and comprises the whole range of production techniques, such as labour-intensive services and production on an inferior technical level, Tayloristic assembly line production of the early industrial period as well as high tech, capital-intensive and labour-saving production. In brief, the private sector established a completely new and comprehensive mode of labour management including work and authority relations, work control in the labour process, labour contracts, remuneration and social security schemes.

The current Chinese production regime transgresses older constituent segments defined by property, size and location of public enterprises. Globalization and privatization now shape its characteristics and have transformed its basic rationale from state-led to economic endeavour.
10.4.3 Industrial relations

The monopoly of a single legal union organization with branches in provinces, industrial sectors and enterprises determined the SLR. The dismantling of the SNWP, i.e. changes in property rights and the emergence of a private sector challenged the socialist worker representation. Interests of state, labour and management proved to be divergent as labour conflicts spread. Thus, the need for worker representation supported by a revised union concept became more apparent. In 1992 a new Trade Union Law was enacted and amended in 2001, Labour Laws in 1995 and 2007. In addition to this core legislation, numerous central and local regulations on employment have also been approved. Nevertheless, no fundamental change occurred so far, and, as Chen puts it, ‘organizationally, unions remain subjugated to state dominance and their cadres are still state nomenklatura’ (Chen 2003: 1012).

The 2001 version of the Trade Union Law still emphasizes union’s task to educate and mobilize workers to fulfil their production duties and other work (Articles 5 and 7). In case of violation of the law and work disputes, the union is called on to mediate conflicts, protect enterprise property, help restore the normal order of production and safeguard peace. The power of the unions does not stem from the organized labour force, but rather from the state.

Nevertheless, the economic transition introduced new elements into the Labour and Trade Union Laws. Labour laws apply to the workforce at large. Migrant labourers and workers in private enterprises are covered by the labour regulations. Unions are concerned with all types of employers. Unions must be set up in all enterprises, institutions or government departments with a minimum of 25 employees (Article 10), regardless of their type of property. The legal extension beyond the state sector is an important adaptation to the new SMLR. Yet, implementation is lagging and only recently have trade unions begun to admit rural migrants.

Collective contracts have been created in 1995 in order to respond to the need for more worker security. Joint consultations between the representatives of the enterprise management and its employees, i.e. the trade unions, provide a framework for individual work contracts. They are an instrument to monitor the enforcement of the Labour Law (Clarke et al. 2004).

Until now, the recently enacted and implemented laws remain a modification of the socialist system of industrial relations. Unions are called to stabilize production and national development. In view of their specific role, the unions find little solid ground in the expanding sector of non-state enterprises. This may lead to their future marginalization.

10.4.4 The welfare regime

Transition in China, economic reforms and growth caused pressure on the Chinese welfare system: (1) The earlier conditions of a young working population and full employment eroded. China is currently witnessing the ageing of
its population, along with labour redundancy and unemployment. (2) Increases in the urban working population outside of the public sector have challenged the exclusive and politically legitimized distribution of welfare to only a small part of China’s working population. (3) The strong attachment of social security to work units and the administration of the system by local trade unions became obsolete with the restructuring of SOE and rising inter-enterprise mobility. (4) The withdrawal of the state in welfare funding required new ways of funding. (5) Migration and the expansion of the private sector in urban areas spawned the need for a new welfare concept to include the workforce at large. (6) Demands for a unified national labour market, as well as growing concerns about social stability, request new welfare solutions for rural areas. (7) The new welfare regime must meet the challenges of the changing production regime, migration and new educational demands and it has to respond to changes in the family, kinship and gender order.

Notable changes of the welfare system have already taken place. The welfare responsibilities of work units, employees and the government have been redefined. The financing of most benefits has been shifted away from work units to general taxes paid by individuals. In order to respond to a more mobile workforce, a wider risk-pooling scheme across firms has been adopted and individual worker accounts have been established. Employees have assumed a much greater responsibility in financing social welfare, both directly and indirectly. Especially local governments have taken a larger role in welfare provisions. To avoid social unrest, a safety net for the urban poor has been established via public assistance programmes.

Empirical research has shown a transition in the urban social welfare system towards a residual role with regard to its provisions. Pensions, health insurance, and education programmes are increasingly based on individual contributions (Gao 2006). The government states that ‘under the influence of China’s traditional culture, there is a time-honoured tradition of provision by the family, security coming from self-reliance and help from the clan’ (White Paper 2004a).

Due to the government’s retreat from welfare funding, the unemployment, pension and health insurances are now facing serious financial problems due to the deteriorating ratio between labourers and beneficiaries. Although, the reform of pensions, health and unemployment insurance aimed to free workers from danwei dependency and to open up social mobility between enterprises and jobs, it follows the lines of the planning system and demonstrates continuity with the danwei and pre-reform urban–rural segmentation. Coverage is restricted to urban residence and to formal employment. Rural welfare institutions are still in their embryonic phases. Consequently, coverage continues to be limited and locally divergent social welfare provisions have become an additional hurdle to cross-regional mobility.

10.4.5 Family, kinship and gender order

At first glance, family, kinship and gender order, might not seem closely connected to the new SMLR. Family and gender concepts were crucial elements in
the socialist ideology, and they continue to interact with other institutions. During the recent transition, considerable changes in family and gender concepts took place. With the retreat in state labour allocation, restructuring of the public sector and private job procurement, new gender values have been increasingly emphasized.

Hanser (2005) describes in her research on retail shops how the social value of middle-aged experienced working class women decreased in the state productive sector and service-related work. Modern service industries and trades favour the ‘rice bowl of youth’ (qingchunfan), i.e. young women embody modernity through their specific performance of contemporary femininity. On the other hand, rural and migrant women employed in assembly work or textile production are faced with a devaluation of their manual labour, thus making them an easy object of exploitation.

The dual earner model is still in place and officially promoted. Nevertheless, the economic transition brought about a number of de facto changes in concepts of family and kinship. The one child population policy had a deep impact on the family structure, leading to fewer horizontal kinship relations and increased vertical relatives. In rural areas with almost no social security system, with an aging population and privatized services, families are the only source of support in periods of hardship. The need for care and support emphasizes strong family ties and co-residence. Yet, out-migration counteracts this trend. In the long run, strong ties may be dissolved due to distances (Cai 2003).

Residence in the cities changed with the intensified construction of new housing areas and apartments. The more mobile younger population does not need to share a residence with its parents upon marriage. But, increased unemployment fosters co-residence with relatives and enhances traditional family values. In younger dual earner households, childcare is a key problem that is often solved with the help of grandparents. In many cases, the low level of pensions of the aged is compensated by the financial and practical support of the children.

Recent changes in the family, kinship and gender order must also be looked at from the perspective of their relationship to different social strata. In practice, the family order, intergenerational relations, co-residence of parents and married children and the role of women vary with the social position of families (Zhang 2004; Logan et al. 1999).

10.4.6 The educational system

Faced with the changes in the production regime, the educational system proved to be insufficient in relation to the quantitative and qualitative demands for an adequate labour force. The need for human capital pertains to all educational levels: besides higher qualifications, there is a considerable demand for a technically trained mid-level workforce.

During the last decade, the changes of the production regime induced a shift towards a modern educational system. China is currently striving for an
expanded and highly competitive national system with international connections. Quality control is stipulated and certificates are to be officially accredited. In line with these aims, the main focus has been placed on the tertiary sector; university admission rates have expanded significantly since the end of the 1990s. Despite progressing reforms, the educational system has not been able to overcome its quantitative imbalances. Higher level education still constitutes a bottleneck on the way to a knowledge society.

The ‘mismatch’ between the educational system and the production regime became especially obvious as urgently needed qualified high school graduates experienced difficulties finding jobs in large numbers. The explanation of this phenomenon is sought in the prevalence of theory-biased curricula over practical knowledge, the reluctance of graduates to leave the bigger cities for jobs, and insufficient job placement information. Despite considerable efforts, vocational training is still regarded as inferior to general education. This view is enforced by systemic problems that make secondary vocational training a dead-end without chances of higher education.

While heavily financing high quality education and research, the central government has withdrawn from financing public education. Financial decentralization rendered public education more expensive and opened up a private market for professional and technical training. Decentralization also increased educational inequality, already identified as one of the key problems facing the Chinese educational system following twenty years of reform. Rural areas in particular have suffered from this policy (Willmann and Schucher 2005).

Summarizing, we record a substantial and impressive restructuring of the SLR in line with the transition towards a socialist market economy. Table 10.1 gives an overview of the main regime changes.

The above-mentioned institutions do neither correspond to the old regime nor do they embody a coherent new regime. Recently the party-state has declared itself in favour of a unified labour market (White Paper 2004b) but institutional heterogeneity is still prevalent:

- Socio-political control of the Chinese population has been slackened, at least with respect to the dismantling of the *hukou* and *danwei* systems. The ‘invisible Great Wall’ between countryside and cities has become more permeable. Rural migrants to the cities, however, remain second-class citizens and face discriminatory treatment in a number of ways. Authoritarian dependency of the population has been ruled out as an integrating mechanism. A new basis for societal cohesion has yet to be developed.

- The production regime has changed in various respects. Not only did the abolishment of central planning reverse the conditions of economic activities, but rural industrialization, an emerging service sector, SOE restructuring, privatization etc., all generated new types of gainful labour, new work relations and management styles. Production is now based on a wide range of different technology levels with a different demand on labour. Work control, incentives and payment have become crucial elements in labour organization.
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<th>(Pre-reform) SLR</th>
<th>(Present) SMLR</th>
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<tr>
<td><strong>Political control regime</strong></td>
<td>Hukou-based residence control and danwei-based social controls</td>
<td>Diminishing importance of hukou and danwei</td>
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<td></td>
<td>Rural collective commune system</td>
<td>Abolishment of the rural collective organizations</td>
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<td><strong>Production regime</strong></td>
<td>State-led industrialization and monopoly of the public sector</td>
<td>Market-led industrialization and de-monopolization of state labour</td>
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<td>Labour-intensive production processes</td>
<td>Productivity-oriented production</td>
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<td></td>
<td>Central industrial and labour planning and planned wage setting</td>
<td>Demand-driven job placement, market exchange on wages and the price of labour and labour mobility</td>
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<td>Labour-consuming enterprise policies</td>
<td>Efficiency in labour use: quantity and quality of recruited employees and workers</td>
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<td>(enlargement of the workforce)</td>
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<td>Permanent and full-time employment</td>
<td>Contracted labour, atypical employment and unemployment</td>
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<td>Rigid rural–urban divide</td>
<td>Migration</td>
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<td><strong>Industrial relations</strong></td>
<td>Trade unions as political transmission belt and social institutions</td>
<td>Trade unions with traditional functions (political and social) lose in importance</td>
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<td>Embryonic features of (politically independent) workplace representation</td>
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<td><strong>Welfare regime</strong></td>
<td>Work unit-related welfare system</td>
<td>New (national) welfare system, detached from the enterprise administration, with individual accounts; private insurances</td>
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<td>Collective rural support</td>
<td>Monetarization of fringe benefits</td>
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<td>Family as a (fallback) security net</td>
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<td><strong>Family order</strong></td>
<td>Dual earner family model</td>
<td>Dual earner family model</td>
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<td>Female work participation</td>
<td>Female work participation</td>
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<td><strong>Education system</strong></td>
<td>Enterprise-specific and job preparatory training</td>
<td>Qualification as a personal property for market exchange</td>
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<td>National system of professional training (accreditation of certificates and quality control)</td>
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<td>Expansion of education system (knowledge-based economy)</td>
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• The decrease of the state’s role in labour allocation and employment gave way to a new type of dependent and contracted work. Despite the Chinese legislation, only embryonic attempts of worker representation are currently being undertaken. The admittance of free trade unions is not on the reform agenda.

• The renewal of the welfare system takes place under conditions of an aging population. Urban state-owned and collectively-owned enterprises have ‘socialized’ their welfare functions. Flexibility of labour has been increased at the expense of social security. The rural–urban gap remains to be bridged.

• The Chinese family remains a backbone institution. A considerable part of the Chinese population is left alone with the risks and shocks during life course. They need to fall back on their family and kinship networks. The nuclear family, dual wage earning and a renewed gender order conflict with the new type of dependent work. There is no clear tendency marking a transition from traditional to so-called modern values.

• The educational system and professional training have become more sophisticated and better adapted to general labour market demands. Nevertheless, a low return on higher educational investments can be observed as well as a mismatch between the offer and demand of qualifications.

The new labour regime is no longer a socialist one; nor is it already based on a true labour market. The socialist institutions of danwei, SNWP, labour planning and allocation have eroded and gave way to changes in the set of institutions as a whole. Processes of institution building, however, lag behind market developments.

10.5 Conclusion: insights from the transition of a labour regime

In our conclusion on the characteristics of the former SLR and the present SMLR we may hypothesize that the SMLR differs from all other varieties of transformation labour regimes in Central and Eastern Europe and that it bears little resemblance to labour regimes in Western market economies. The six above-mentioned institutions provide a picture of co-relatedness in the formative process of regime change.

The pre-reform SLR regime was marked by a relative consistency, disregarding the urban–rural divide. This relative consistency did, however, have its price. The proclaimed socialist equality remained a chimera and the established SNWP was only possible at the expense of the rural population. Consumption levels had been extremely low, although basic needs of the urban population were met. Rural labour has been tethered to agriculture and the countryside. Poverty persisted in many rural counties of the socialist country. And, what is more, the SLR relied heavily on the old family and kinship order that the socialist system had intended to alter.

During the reform era, the fundamental restructuring and the policy of
opening up the county paved the way to economic productivity and higher living standards. Within the context of liberalization, industrialization, technical modernization and, last but not least, WTO membership and globalization, the former institutions maintaining the SLR gradually eroded, albeit in a path-dependent way.

The present Chinese SMLR is still characterized by its socialist past, having inherited a considerable inequality between different segments of labour: rural and urban areas, south-eastern coastal and inner provinces, public/core sector of the economy and private/petty informal economy, as well as between cadres and workers, young and old and male and female workers. Nowadays, rural labourers experience greater economic freedom as strong limitations on non-farm activities and mobility are loosened, but they continue to be discriminated as second-class citizens. A lack of implementation of the labour law and failing compliance with existing rules on the one hand and economic growth prospects creating new jobs on the other hand work to stabilize the terrible conditions of formal and informal work. The absence of labour protection, rights of political association and the prohibition of free unions is still sustained by the continued prevalence of socialist ideology on the workers’ position in society.

The SMLR relies heavily on the institution of family and kinship. For the overwhelming majority of the Chinese work force in rural and urban areas, reciprocal support in families has to substitute for insufficient social welfare. In addition, the privatization of education causes a heavy financial burden on families and influences career chances and status attainment. Nevertheless, changes in work careers, local residence and more individualist biographies may alter the value of family reciprocity.

Our exposition allows for further analytical conclusions on the regime framework. As has been exemplified in the Chinese case, feedbacks and bi-directional causalities between different institutions are at work, e.g. the institution of family compensates for insufficient welfare institutions in the society. No general blueprint exists on how these two institutions have to interact to serve the well-being of the population. Based on pre-communist cultural traditions, the family persisted despite political headwind. Family and kin compensate for a lacking welfare system, reduce labour costs and enable a high international competitiveness of Chinese products. Current contexts and past experience are influential factors defining individual behaviour. Related institutions shape and control ideas, beliefs and behaviour. They influence institutional choices in a two-way causality. During the Chinese transition, the SNWP has been dismantled and trust in public welfare and the legitimacy of the political institutions were undermined. As institution building in the welfare sector was slow, a negative political and economic outcome loomed up and the family proved to be a reliable fall back institution.

Although our perspective has been focussed on the labour regime as an ensemble of institutions at the macro level, the micro perspective has to be included systematically in further research. In general, a normal regime trajectory consists of permanent minor institutional changes and requires the
necessary adaptations of the population to new challenges. In contrast to such a ‘normal’ development, periods of transition cause breakdowns in well-established institutions. This happened, for example, in the former German Democratic Republic and is taking place currently in China. The simultaneous events of the breakdown of the SLR and the SNWP, as well as the emergence of a market-dominated economy and labour market, uprooted almost all the behavioural routines of the population. Work took on a new meaning; people were forced to respond to new challenges and to reorganize their future life careers. The relationship between an established labour regime and actors that form and reshape the institutions through their choices shaped by largely unquestioned ideas, norms and rules needs further research.

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Emerging ‘socialist’ market labour regime

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11 Institutional change in China’s anti-poverty policy
The contested role of NGOs

Bettina Gransow

11.1 Introduction
Since the 1990s, the Chinese government has promoted a strategy of ‘small government, big society’ (xiaozhengfu, da shehui). With increasingly inadequate ways and means of providing public funding, the government is dependent to an ever greater degree on cooperation with social organizations and NGOs. This means that the state only attends to matters that society cannot or does not want to take on, such as the administration of justice, the police and civil services. Society is left to assume responsibility for all other matters and the population must find its own solutions for social problems. The core of this strategy involves an expansion of the third sector (NGOs) if societal resources are to be mobilized to solve social problems.

At the same time, the Chinese government fears that rapid development on the part of NGOs will unleash social forces that can no longer be controlled. In order to counteract this potential development and retain its control, the government has instituted restrictive legislative measures regarding NGOs. Within these forms of deliberate and controlled decentralization, the room for manoeuvre between the state and society is being renegotiated. The dependence of these organizations on the government raises the question of whether Chinese NGOs can be seen as an integral part of a crystallizing civil society in China, or whether they should rather be placed within a model of state corporatism.

The aim of this contribution is to examine the emergence of NGOs and the third sector based on the example of anti-poverty policy in China. The focus is not restricted to relations and constellations among the third sector, the state and the market, but also extends to the specific quality of international interdependencies that emerge in the process. I raise the question of whether institutional change in the field of anti-poverty policy might be viewed as the advent of new constellations of global and local forces in the course of worldwide integration processes, in the sense of global governance, and what this ultimately means for the future of anti-poverty policy in China.

Is the Chinese state unable to provide the necessary funds and therefore seeking to delegate responsibility to other financial sponsors? Are we observing a neoliberal development in which the social costs of economic growth are
borne by society – and how great is the loss of control that the Chinese state must accept as the price for this? Or does the emergence of the third sector reflect precisely the contrary, namely a strengthening of the Chinese state? What role does the emerging third sector play in Chinese anti-poverty policy with respect to the activities of civil society, and what is the relation between Chinese and international agents in this area? Are these the first signs of a globalizing welfare society that is based on a complex interplay of local, national and supranational agents?

The example of China’s anti-poverty policy is used to show how more complex control mechanisms become active in place of the state, incorporating multilateral development organizations as well as Chinese and international NGOs on the institutional level. New types of international involvement, thereby, become evident outside the realm of the state. New types of cooperation and competitive constellations are created between the emerging third sector and the state, as well as between the third sector and the market.

11.2 China’s anti-poverty policy: the main stages

The history of anti-poverty policy in China is considered a success story. The decline in mass poverty achieved as a result of agrarian reforms in the first half of the 1980s meant not only a reduction by half of the number of Chinese living in poverty, but also a significant drop in poverty worldwide. Economic liberalization policies, however, were not sufficient in, and of themselves, to eliminate rural poverty in areas facing unfavourable geographic or environmental conditions. Since the mid-1980s, therefore, the Chinese government has undertaken targeted structural measures to combat rural poverty. These measures have been coupled with the creation of general institutional conditions at various local levels that enable the implementation of anti-poverty programmes. The development of such programmes can be traced through the following four stages thus far:

11.2.1 Phase 1979–1985 (structural reforms)

The introduction of the household responsibility system unleashed the productive capacity of rural households. Chinese governmental policies centred on the provision of basic relief and financial subsidies. According to the poverty standard defined by the Chinese government, the poverty-stricken population numbered 250 million in 1978, or 30.7 per cent of the total rural population. By 1985, the number had decreased to 125 million or 14.8 per cent of the total rural population.

11.2.2 Phase 1986–1993 (regional development approach)

The second phase was marked by development-oriented poverty reduction policies aimed at regions, not at impoverished households. Poverty alleviation
funds were offered as loans rather than grants in order to encourage local governments to use funds more efficiently. The Chinese government adopted a series of measures and policies, such as establishing special aid-to-the-poor units, allocating special funds, and promoting development-oriented poverty reduction policies. The number of rural poor dropped from 125 to 80 million and the proportion of poverty-stricken persons among the total rural population declined from 14.8 to 8.7 per cent.

11.2.3 Phase 1994–2000 (8/7 plan)

The distribution of the rural poor demonstrated distinct geographic characteristics such as a concentration in central and western China, the mountainous areas of southwest China, and other areas marked by adverse natural conditions. The aim of the 8/7 plan was to lift 80 million people out of absolute poverty within seven years (1994–2000). Food and clothing shortages for the rural needy were to be essentially eliminated by the year 2000. And in fact, the number of poverty-stricken rural inhabitants dropped to around 30 million, or 3 per cent of the total rural population by 2000.

11.2.4 Phase 2001–2010 (ten-year programme)

At the start of the twenty-first century, the Chinese government continued its efforts to combat rural poverty by concentrating its focus on areas containing ethnic minorities, former revolutionary bases, border regions, and destitute parts of the central and western regions. Since the 1990s, the Chinese government has promoted exchange and cooperation with the international community by carrying out its aid-the-poor programme. The Chinese government has studied international efforts to combat poverty and strengthened its cooperation with international organizations active in the field. The World Bank was the first international body to cooperate with the Chinese government and to make substantial investments in these areas (White Paper 2001).

Embodying a top-down approach, state anti-poverty policy in China reached a number of limits in the course of this development. The interests of government officials in seeking to implement anti-poverty programmes, which focussed primarily on promoting local growth under the increasing influence of a market economy, differed from those of the poor people themselves. The state representatives concentrated predominantly on large-scale projects, improved market conditions and medium- to long-term business development, which made it easy to overlook the conditions and immediate concerns of the poor. Government officials showed little sensitivity in relation to including impoverished populations in development plans, tending to view the latter as exerting very little power over land, capital and other means of production, and as largely lacking in information and education. As a result, the affected populations were generally excluded from decision-making processes. A tendency to centralize and concentrate power in state poverty reduction programmes restricted the scope
for initiatives and actions on the part of government representatives, while concurrently paving the way for bureaucracy. All of this has limited the effectiveness of government programmes (Zhao 2001: 884ff.).

As the government adopted its new ten-year poverty strategy in 2001, the number of people living in poverty in China was 32.1 million, as defined by the national poverty line adjusted for inflation (625 yuan per capita net rural income with 2000 prices). Under this strategy 592 key counties were selected. Together with poor villages in non-key counties, these areas are eligible for national poverty funding. Priority was given to remote and mountainous areas, minority areas and areas exhibiting severe poverty. The selection of these key counties was not only based on income, but also on social, geographical and environmental conditions. Unlike the previous national poverty designations, the selection of key counties is only a first step in determining the poverty villages and households within the key counties. As a result, the definition of poverty villages and poverty households has become especially important. As a framework for identifying and classifying these two categories, indicators of poverty should be developed with the aid of a participatory process that engages different stakeholders. The latter should include the poor as well as their definitions of that which constitutes poverty. On the basis of village poverty indicators, an Integrated Village Poverty Index (IVPI) can be calculated (ADB 2004: 22).

The methodology underlying this new strategy is referred to as county poverty alleviation planning, which has its basis in the village, using the local knowledge of village communities to identify sustainable income and employment generation activities for the inclusion of these indicators in a village poverty reduction plan. Participatory methods such as problem analysis, needs identification, activity designs, budgeting, progress monitoring and impact assessment lie at the heart of this approach. In contrast to the centrally controlled bureaucratic process of the past, the emphasis on participatory, bottom-up procedures does imply some important changes in the definition of poverty as well as in governance at both national and local levels. Instead of focussing on income poverty alone, three types of poverty are discussed: (1) livelihood poverty, including cash flow poverty, food insecurity and poverty in factors of daily comfort; (2) infrastructure poverty, including potable drinking water, the isolation factor as measured by access to roads and energy poverty; (3) human resource poverty, including women’s health and the capacity to invest in children’s education (Li and Remenyi 2004: 275ff.).

Throughout the 1990s, the support given by multilateral and international organizations to anti-poverty efforts in China acquired an ever greater significance. Major roles were played in this aspect by various sub-organizations of the United Nations and the World Bank. At the same time, Chinese and international NGOs increased their contributions to anti-poverty efforts at a constant rate. A ‘third sector’ emerged, consisting of Chinese and international NGOs, NPOs, welfare institutions and other groups of civil society. Thus, a complex network of agents and institutions arose, assuming diverse functions as donors, recipients, designers and implementers of poverty reduction programmes and projects.
11.3 The emerging third sector in China

The term ‘third sector’ describes an area of society consisting of institutions beyond the market and the state. Typical examples include non-profit associations, foundations and welfare organizations. Non-governmental organizations play a special role here. With respect both to decision-making and to implementing state and inter-state decisions (e.g. in organizing international aid operations), they actually fulfil governmental functions, although they are not part of the governmental operations of the constitutional state. Typical examples include international environmental organizations such as Greenpeace, aid organizations such as the International Committee of the Red Cross, and humanitarian organizations such as Médecins sans Frontières. The third sector represents an alternative precisely because the shift of responsibilities from the public sphere to an intermediary realm relieves the state of financial burdens as well as of a legitimization-based pressure to fulfill public obligations. The third sector benefits from a growing middle class with the desire and material means to engage in the processes of civil society (Seibel 2003: 516). In China, the emergence of a third sector alongside the state and the market is a new development that has accelerated markedly as of the second half of the 1990s.

Figure 11.1 shows the position of the emerging third sector in China vis-à-vis the state and private enterprise. It also indicates the existence of a traditional sector in which the separation of governmental and commercial functions has not yet been completed.3

NGOs and the third sector are characterized by a certain ambivalence. On the one hand, they expand the potential of what the state and market can offer in terms of goods and services. They increase the potential for political integration by the state and thus create more possibilities for participation in public affairs. On the other hand, they require power in order to attain their objectives. Not being part of a constitutional structure, however, these organizations are subject to far less transparency and formal checks on their power. Thus, while the third

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<td>(governmental and commercial not separated)</td>
<td>(companies, for-profit organizations)</td>
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Figure 11.1 The third sector in China (source: Qin 2002).
sector exerts a number of stabilizing effects, it is also associated with potential problems, in particular, regarding external and internal monitoring of its organizations. With respect to NPOs, their specific form of dependence on resources necessarily leads to a mobilization of personal networks. Informal exchange relations arise here as a matter of course.

Whereas NGOs are defined by virtue of their separation from the state sector, the non-profit criterion for NPOs is what distinguishes them from the market. These two groups overlap with the overall category of organizations of civil society, which for its part highlights involvement on the part of citizens (Seibel 2003: 490ff., 508ff.). The ‘third sector’, therefore, represents a repository of different groups and agents. Despite attempts to tighten up the definition, the field remains heterogeneous. What the different groups share, however, is the fact that they cannot base their participatory claims on a formal mandate, but instead must try to achieve their aims by means outside conventional decision-making processes, and as such, must advance specific reasons for legitimization, most often those of technical or moral authority (Wolf 2003: 421).

11.4 General legal framework: NGO registration

In 1998, the State Council passed the ‘Regulations on the Registration and Management of Social Organizations’. These were more precisely formulated regarding institutional ties and NGO registration conditions than were the provisional regulations of 1989. The term for social organizations (shehui tuanti) is broader than that for NGOs (fei zhengfu zuzhi), comprising both relatively autonomous organizations as well as those launched by state institutions with the specific objective of fulfilling social welfare functions.

Non-profit entities can be divided into (1) social organizations and (2) privately owned non-commercial entities. There are different registration systems for non-profit and profit-based entities. Non-profit NGOs must be registered at the Ministry of Civil Affairs (minzhengbu) or its designated agencies. ‘For-profit NGOs’ (registering as corporations) must be registered at the State Administration for Industry and Commerce or its branches.4

Social organizations generally include associations, federations, chambers of commerce, foundations, academies, research societies, friendship groups and so on (Liu 2002: 3). In order for a social organization to be founded and ratified, it must find an official organization to serve as a sponsor. Having obtained confirmation from the sponsor, the aspirant organization must then embark upon the second step of being registered at the ‘Administrative Office for Social Organizations’ (minjian zuzhi guanliju) at the Ministry of Civil Affairs (Saich 2000: 124, 129; Sausmikat 2003: 8). A further limiting factor is that only one organization may be active in a given field in a particular administrative region (Liu 2002: 5). Private non-commercial organizations (minban fei qiye danwei) are the other form of legally defined organizations. As another type of organization analogous to NGOs, they include private schools, hospitals, welfare facilities and community service centres.
China’s anti-poverty policy

Work on drafting registration guidelines for foreign NGOs has been underway since 1996. Thus far, most foreign NGOs have been registered as affiliates of Chinese government departments or institutions, because they may not be registered as independent organizations. An initial draft of regulations for foreign NGOs was submitted to the State Council in 2000. It lists four kinds of organizations: (1) social organizations founded by foreigners living in China such as clubs, chambers of commerce and associations, but not churches; (2) privately owned non-commercial organizations set up by foreigners in China such as schools, hospitals, kindergartens and research institutes; (3) Chinese representative offices opened by foreign foundations; and (4) international organizations.5

This legal basis has effectively prevented NGOs from developing independently in China, and thus, there is often talk of so-called GONGOs (Government Organized Non-Governmental Organizations) and QUANGOs (Quasi Non-Governmental Organizations). GONGOs are large-scale, national-level organizations that receive most of their funding from the government. QUANGOs are organizations established to facilitate cooperation with foreign NGOs (Liu 2002: 4). This development, however, has created the basic legal premises for lawful activities by NGOs in China. And the number of these organizations has increased rapidly. In 1997, there were around 180,000 social organizations (from the county level on up), with 21,404 of these at the provincial and 1,848 at the national level (Wang et al. 2001: 4).6 According to the Ministry of Civil Affairs, in 2005 the number of NGOs that have been officially registered is 283,000 (Zong He 2005).

Due to existing legal regulations, most NGOs in the PR China have some type of connection to government bodies. The following questions are often posed in this context: Can the existence of NGOs in China be verified in the true sense of the term? What differences are there between actual NGOs and their Chinese counterparts? What problems do the Chinese NGOs face? And what contributions do the NGOs make to the struggle against poverty? He Daofeng, the General Secretary of the Chinese Anti-Poverty Foundation, argues that NGOs must meet six criteria, originally formulated by Lester M. Salamon (Johns Hopkins Center for Civil Society Studies):

• legality, i.e. they must be legally recognized in accordance with the national laws of the respective country;
• independence, i.e. they must operate independently of government institutions and officials;
• non-profit-status, i.e. their objective may not be based on profit;
• self-administration, i.e. they must feature an internal administration without external control;
• voluntarism, i.e. members must participate voluntarily in practical activities and the administrative structure;
• public interest, i.e. they must pursue public goals and serve the public.

He Daofeng considers four of these six criteria to be fulfilled, and would also reorder the relative significance of the individual criteria. In his account, the first
criterion should be legality, the second public interest, the third non-profit status and the fourth voluntarism. As for ‘self-administration’ and ‘independence’, he argues that current Chinese NGOs do not (yet) meet these criteria, basing his explanation on the transformations currently taking place in Chinese society (He 2001: 8).

The type of interaction between NGOs and the government institutions responsible for them can differ greatly. The association can be relatively close, if e.g. certain functions are delegated to a social group and the necessary funding is made available. However, NGOs can also be relatively autonomous and thus obligated to generate their own funding. In many cases there are personnel links, such as when cadres from government departments become NGO managers. If we recall that the 1998 regulations on founding social organizations were instituted at the same time as a comprehensive administrative reform, this type of interaction among personnel becomes all the more evident. As Wang (1998: 134) notes,

The social organizations usually invite veteran cadres who have retired from government departments to hold the posts of the group leaders so as to establish good relations with the government and other organizations and to do better in the groups’ work by taking advantage of the veteran cadres’ influence.

But active government officials are not allowed to serve as leaders of foundations (Liu 2002: 6). Domestic Chinese NGOs have inherent connections to government bodies. While this institutional connection provides a certain security for the Chinese NGOs, it also binds them to a specific system of resource mobilization and administrative hierarchy.

Most active NGOs are connected with development processes. Besides poverty reduction, their main fields are environmental protection, birth control, protection for the disabled, old-age welfare, protection of the rights of women and children, social relief and community development (Liu 2002). NGOs generally also support educational programmes, including those in impoverished areas (Non-Governmental and International Support to Poverty Reduction 2001: 2).

Although Chinese NGOs are playing a growing role in the struggle against poverty, they are still in their infancy. Responsibilities and rights have not been clearly delineated between the government and the GONGOs, which often employ former government personnel and tend to reproduce similar weaknesses in terms of working style and deficient initiative, creativity and efficiency. The internal organizational structures of individual NGOs leave something to be desired. There is little incentive to work at NGOs, as they offer few benefits and salaries are low. The overall legal framework remains inadequate; registration procedures are complicated and rigorous, serving governmental control rather than the practical requirements of management. A number of NGOs therefore either do not register or do so under false pretences (e.g. as businesses). An
additional problem is that of locating sources of funding. The Chinese government is increasingly withdrawing financial support, leaving an ever greater number of NGOs to fund themselves. There are essentially three sources for donations. First, employees of government offices and large enterprises are called upon to make donations. This is a voluntary act in only a limited sense. Second, a portion of the revenue from official state lotteries goes to support social welfare causes. And finally, it is possible to donate on a purely voluntary basis, but this constitutes only a small part of total funding. Although a law on donations was passed in 1999, there are no conditions to execute it and the tax system offers no appreciable advantages to companies or individuals for their contributions. Public awareness of philanthropic activities, however, has increased in recent years. Nevertheless, the major share of donations to GONGOs and individual NGOs comes from international donors (Liu 2002: 13f.).

11.5 NGOs in Chinese anti-poverty policy

Despite the fact that NGOs in China are subject to restrictive general conditions, they have assumed ever more significant roles, not least of all in efforts to combat poverty. The Chinese government itself promotes a stronger role of NGOs in anti-poverty efforts. Its current ten-year programme to reduce rural poverty (2001–2010) expressly acknowledges the contribution of NGOs and explicitly welcomes an even greater level of participation on their part. In the White Paper on Poverty Reduction, the following formulation underscores this position:

It is . . . necessary to give play to the important role of all social sectors in the development-oriented poverty reduction efforts and actively create conditions for non-governmental organizations to take part in or implement the government development projects in the poor areas.

(White Paper 2001)

The above formulation makes it clear that the ten-year programme will continue to focus on Chinese government policies. Nevertheless, it calls for the creation of conditions that enable NGOs to play a greater role based on the aims and measures proposed by the government. However, this requires more comprehensive legal conditions than are currently in effect.

In contrast to state programmes, NGOs in the field of poverty reduction enjoy a number of comparative advantages. Generally active in rural areas, their projects operate on a smaller scale than those of the state; they are less bureaucratic, and they are able to focus more directly on impoverished households and cooperate with local organizations. The NGOs display a greater flexibility, and are more able to adapt to local conditions and apply their strategies and methods. NGOs can allocate resources and services more effectively, and are more successful in actually reaching the impoverished population. As government power has become decentralized, more resources have come under the administrative
power of Chinese society. Resources allocated to combat poverty (such as capital, training, etc.) can only be used effectively if those affected are actually involved in the process. And it is precisely here that the NGOs can accomplish important work. In particular, they can strengthen the role of the poor and support them in negotiations or conflicts with representatives of the financial and commercial world (Zhao 2001: 884ff.).

The emerging market economy has led to the accumulation of new resources placed directly at the disposal of the NGOs. Without a doubt, the market economy has influenced the tendency of NGOs to become more independent of state control. Economic growth resulting from market mechanisms can be viewed in itself as a significant precondition for poverty reduction measures. Nevertheless, market mechanisms have not only promoted economic growth and more favourable conditions for reducing poverty in China, they have also led to forms of social polarization and negatively impacted the poor as the weakest members of society (Zhao 2001: 883).

According to estimates by the NGO Research Center at the Qinghua University in Beijing, more than 18 per cent of Chinese NGOs are active in poverty reduction (Non-Governmental and International Support to Poverty Reduction 2001: 2). Viewpoints differ on the classification of NGOs in China. Kang Xiaogong, who produced an extensive study of the role of NGOs in Chinese anti-poverty policy, suggests three types of NGOs with respect to their behaviour in poverty reduction: those that respond mainly to the government, receive their resources mainly from the government and are characterized by a lack of independence and ambiguous visions are classified as type 1 NGOs. Examples are the China Foundation for Poverty Alleviation, the Chinese Association for NGO Cooperation or the China Youth Development Foundation. Type 2 NGOs receive their resources primarily from overseas and are characterized by an organizational vision, a top-down approach and cooperation with local governments and international NGOs. Examples are the Rural Women Knowing All magazine or the Yixian County Poverty Reduction and Economic Cooperative of Hebei Province. Type 3 NGOs promote a participatory and inclusive approach to poverty reduction, are funded mainly by foreign sources and cooperate with the government and local NGOs. Kang’s sample (of 20 Chinese and international NGOs lumped together) is very small and his system of criteria is relatively complicated (government dimension, social dimension, NGO dimension, NGO’s behaviour in poverty reduction). While not explicitly stated, there is an implied progression from type 1 to type 3, which currently is largely the domain of international NGOs (Kang 2001; ADB 2004: 72).

The Ministry of Civil Affairs has classified NGOs into four categories: academic societies, mass organizations, professional organizations and united mass organizations. Others prefer a dual classification of NGOs: semi-NGOs (or GONGOgs) and so-called ‘true’ NGOs on the basis of their proximity to the government. Wang Ming, from the NGO Research Center at Qinghua University, suggests that NGOs be classified in relation to the transitional character of China’s economy and that two kinds of NGOs be distinguished: top-down
NGOs and bottom-up NGOs. The former designation refers to organizations of this type that are fostered, set up, partially financed, controlled and dominated by the government at all levels. The latter group is characterized by their relatively autonomous establishment, self-initiative and activities conducted with less control by the government (Wang 2002: 5f.)

The most important organizations in the field of poverty reduction include the China Women’s Development Foundation of the All-Chinese Women’s Federation, the China Youth Development Foundation of the Communist Youth Federation, the China Population Welfare Foundation, provincial poverty reduction foundations, the China Society for the Promotion of the Guangcai Program (a programme by Chinese private entrepreneurs), the China Charity Foundation, the China Association for NGO cooperation (CANGO), the Song Qingling Foundation, the China Legal Aid Foundation, the magazine *Rural Women Knowing All*, the Amity Foundation, and research institutes with a focus on poverty reduction, to list only a few.

The effects of international development cooperation and the development debate in general have helped to promote a greater role of NGOs in China. In response to the Chinese policy of openness, the UN proposed back in 1984 to include the support of NGOs in its international support for China. The 1980s saw the launch of work by international organizations such as the Ford Foundation, the Heifer Project, Care International and other organizations from Germany, Great Britain and the Netherlands. International NGOs came to China especially in the field of development cooperation. By the year 2000, the China Association for NGO Cooperation (CANGO) (*Zhongguo guoji minjian zuzhi hezuo cujinhui/Zhongguo mincuhui*) had established relations with 130 NGOs. Fifty-six NGOs from 19 countries invested 250 million yuan. This money financed 260 projects in 74 impoverished communities in 20 provinces. The greater level of commitment by international NGOs towards China has also accelerated the process of clarifying general legal conditions for the Chinese NGOs (Huang 2001: 1, 5).

International NGOs (*guoji de minjian zuzhi*) transfer the resources mobilized abroad to impoverished areas in China. Their focuses differ, including such fields as rural education or agricultural facilities. Their strategies for implementing projects also vary. Some base their work on local governments; others establish their own institutions for the purpose. There is also a large range in the magnitude of these organizations and their finances (Wang 2001).

Precise figures on the number of NGOs in China are difficult to come by due to the insufficient clarity of the registration procedures, and a number of organizations, therefore, hesitate to make their formal status public. They fear that authorization for their activities in China will be denied or revoked. International organizations that bring resources into the country and do not undertake any obviously illegal activities are threatened less by official agencies than by competing organizations that have their eyes on precisely these resources. Another problem consists of the fact that many international organizations do not place a high priority on self-presentation, either for reasons of time or because they would have to reconcile a prohibitively broad spectrum of perspectives.
Estimates suggest that China received at least US$100 million of project money directly from international NGOs or their representatives for each year of the 1990s (Fong 1999: i). This amounted to more than most bilateral development programmes’ budgets for China. A summary for the year 1999 lists 120 organizations, but the real number is likely to be much higher. These include:

• grant-giving foundations, especially from Hong Kong, Japan and the West (estimated number: 70);
• groups whose primary function is advocacy (such as environment and human rights) (estimated number: 70);
• NGOs that not only merely fund projects, but also play a major role in their execution, often in close working partnerships with Chinese organizations (perhaps as many as 200);
• church-based charitable groups (predominantly Western, but also Korean, Japanese and Singaporean) (at least 150) (Fong 1999: ii).

Some examples of international NGOs in China are the Ford Foundation,9 the Asia Foundation,10 the Worldwide Fund for Nature,11 the Phelex Foundation,12 the Zigen Foundation13 and the Heifer Project/China Program.14

Local organizations of poor farmers (pinkunzhe de zuzhi, bendi zuzhi) are usually founded in the course of implementing development projects, and their members are often beneficiaries of these projects. The intention of these organizations is to promote the sustainability of project measures, both during implementation and following the conclusion of the project. In contrast to international NGOs, these organizations are founded at the local level, i.e. at the township or below. Their areas of activity are defined, as are their members. Most of them do not act independently, but instead are supported by the international projects from which they derive their existence. Although most donor institutions desire sustainability for local NGOs, generally speaking these organizations cannot survive without external support. These types of local organizations are usually far removed from an independent existence. This is primarily due to their links to local governments. Key personnel in local NGOs often come from the local government, and the organizations are often subordinated to specific government departments. Relations between the staff and members of these organizations tend to be similar to those between officials and farmers. Long-term support on the part of international organizations would present an alternative to present relations (Wang 2001).

11.6 NGO contributions to poverty reduction funds

What share of the finances for anti-poverty programmes in China has been contributed by NGOs? First, it should be noted that precise figures on the level of investment in poverty reduction programmes are difficult to obtain, because the database is inadequate. Although official anti-poverty measures were instituted
in 1986, they did not become widespread until 1994, with the implementation of the 8/7 plan.

While the central government invested a total of 41.6 billion yuan in anti-poverty measures from 1986 to 1993, it virtually tripled this sum in the period from 1994 to 2000 with investments totalling 116 billion yuan. In addition to investments by the central government, funding on the part of counties and other local entities contributed 20.27 billion yuan between 1994 and 2000 to constitute the second largest source of anti-poverty investment. Foreign capital was the third largest source, contributing 19.3 billion yuan during this period. Fifty-five per cent of the latter sum took the form of loans from international organizations, especially the World Bank, and 45 per cent were grants from international NGOs as well as from multilateral and bilateral organizations. The fourth largest source was social donations from NGOs, accounting for 16.7 billion yuan between 1994 and 2000. Lastly, social mobilizations, i.e. funding from government agencies, large companies, and Eastern regional governments that contribute to impoverished Western regions, formed the fifth largest source of poverty reduction funding at 16.66 billion yuan (He 2001; see Table 11.1).

The central government contributed by far the largest share of poverty reduction financing. NGO investment in poverty reduction programmes between 1994 and 2000 averaged 28 per cent of the total.

Note that in Table 11.2, the figures for NGO investment include the contributions of multilateral organizations (i.e. the figures for entries 3, 4 and 5 of the previous table are combined). If loans from foreign multilateral organizations (entry 3a) are omitted, NGO investment amounts to 42.06 billion yuan and thus 22 per cent for the period in question. In any event, the percentage of NGO investment is rather modest. As mentioned above, the significance of NGOs for poverty reduction is not necessarily or primarily a matter of their quantitative financial contribution, but rather far more their facilitation of innovative approaches and new ways to attain sustainability.

11.7 State poverty reduction – NGOs – multilateral development organizations: from government to governance?

How have relations developed between state, social and international segments in Chinese poverty reduction? Kang Xiaoguang concludes that governments and NGOs offer different respective advantages (Kang 2001). He views the government’s advantages in its ability to mobilize resources and popularize new approaches and systems, while locating the comparative advantages of NGOs in their efficiency, high degree of sensitivity and innovative approaches. Conversely, Kang considers the disadvantages of government institutions to lie in their lower level of efficiency in utilizing resources, as well as in deficient sensitivity and only a weak tendency towards innovation, whereas the primary weaknesses of NGOs lie in their relative inability to mobilize resources.

What Kang does not discuss is the role of multilateral and bilateral development
### Table 11.1 Financing for the Chinese ‘8/7’ poverty reduction plan 1994–2000 (billions of yuan)

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<td>4.00</td>
<td>4.00</td>
<td>5.00</td>
<td>6.50</td>
<td>6.90</td>
<td>34.40</td>
</tr>
<tr>
<td><strong>Additional funds from provinces and other local levels</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.11</td>
<td>1.70</td>
<td>0.74</td>
<td>4.46</td>
<td>4.02</td>
<td>3.75</td>
<td>4.49</td>
<td>20.27</td>
</tr>
<tr>
<td><strong>Foreign investment used</strong></td>
<td>(2.32)</td>
<td>(3.14)</td>
<td>(4.13)</td>
<td>(2.29)</td>
<td>(2.29)</td>
<td>(2.48)</td>
<td>(2.61)</td>
<td>(19.28)</td>
</tr>
<tr>
<td>a Foreign loans</td>
<td>1.276</td>
<td>1.730</td>
<td>2.270</td>
<td>1.260</td>
<td>1.260</td>
<td>1.360</td>
<td>1.440</td>
<td>10.58</td>
</tr>
<tr>
<td>b Multilateral, bilateral, NGO</td>
<td>1.044</td>
<td>1.410</td>
<td>1.860</td>
<td>1.031</td>
<td>1.031</td>
<td>1.120</td>
<td>1.170</td>
<td>8.70</td>
</tr>
<tr>
<td><strong>Social donations (NGO)</strong></td>
<td>0.250</td>
<td>0.300</td>
<td>0.351</td>
<td>3.340</td>
<td>5.400</td>
<td>3.350</td>
<td>3.690</td>
<td>16.70</td>
</tr>
<tr>
<td>a Central government departments and enterprises</td>
<td>0.296</td>
<td>2.220</td>
<td>2.000</td>
<td>3.490</td>
<td>2.700</td>
<td>3.540</td>
<td>2.410</td>
<td>16.66</td>
</tr>
<tr>
<td>b Provincial and local government departments and enterprises</td>
<td>0.296</td>
<td>0.950</td>
<td>0.920</td>
<td>0.560</td>
<td>0.590</td>
<td>1.150</td>
<td>1.000</td>
<td>6.61</td>
</tr>
<tr>
<td>c Support from Eastern regions for Western regions</td>
<td>–</td>
<td>1.270</td>
<td>1.080</td>
<td>2.230</td>
<td>1.770</td>
<td>1.800</td>
<td>1.800</td>
<td>6.10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13.74</td>
<td>17.20</td>
<td>18.00</td>
<td>28.87</td>
<td>32.70</td>
<td>38.90</td>
<td>39.70</td>
<td>189.11</td>
</tr>
</tbody>
</table>

Source: He 2001: 6 (* author’s calculations given in brackets; certain sums do not add up but are reproduced as given by the source).
organizations within the overall structure of Chinese poverty reduction. Although they also play only a subordinate role in financing poverty reduction in the strict sense, multilateral development banks, such as the World Bank and the Asian Development Bank, are important sources of credit for Chinese infrastructure programmes and projects, as well as carrying a different economic and political weight than NGOs. In recent years, they have also promoted greater cooperation with NGOs in their programmes and projects, and created a number of institutional preconditions for such work (ADB 2001).

What would a comparison of advantages between multilateral development organizations and NGOs in China look like? To a certain extent, it would yield results similar to those described by Kang for the relations between government organizations and NGOs. While multilateral organizations command a greater potential to mobilize resources and implement large-scale measures, NGOs can react in a more targeted manner to local needs and mobilize local resources and participatory potential. Here, too, in relations between multilateral development organizations and NGOs, the aim is to combine the respective advantages and to promote synergy. As is also true of other countries, this interplay does not always proceed smoothly in China. Yet at the same time, the spectrum of perspectives represented by the various organizations is doubtlessly encouraging and enriching Chinese debate on different approaches to poverty analysis such as the poverty line approach, capability approach and participatory poverty assessment approach.

In addition to state government institutions, therefore, the most important agents in Chinese poverty reduction efforts are the NGOs on the one hand and the multilateral and bilateral development organizations on the other. This constellation contrasts with the early stages (1980s/1990s), in which the sole focus was on government institutions (see Figure 11.2).

As China continues to open and decentralize, while at the same time being influenced by globalization processes, the number of agents is not only increasing, but relations among them are also becoming more varied and complex. It may be assumed that China’s entry into the WTO will lead to increased collaboration between Chinese and international NGOs. This might result in strengthening the independence and self-administration of Chinese NGOs as well as their

---

Table 11.2 NGO share of Chinese poverty reduction funding (billions of yuan)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>%</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total investment</td>
<td>13.74</td>
<td>17.2</td>
<td>18.0</td>
<td>28.87</td>
<td>32.7</td>
<td>38.9</td>
<td>39.7</td>
<td>189.11</td>
</tr>
<tr>
<td>% share</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Government investment</td>
<td>10.89</td>
<td>11.55</td>
<td>11.54</td>
<td>19.76</td>
<td>22.3</td>
<td>29.55</td>
<td>30.29</td>
<td>135.70</td>
</tr>
<tr>
<td>% share</td>
<td>79.2</td>
<td>67.1</td>
<td>64.1</td>
<td>68.4</td>
<td>68.2</td>
<td>75.9</td>
<td>77.6</td>
<td>72.0</td>
</tr>
<tr>
<td>NGO investment (social poverty reduction)</td>
<td>2.85</td>
<td>5.65</td>
<td>6.46</td>
<td>9.11</td>
<td>10.4</td>
<td>9.35</td>
<td>8.71</td>
<td>52.70</td>
</tr>
<tr>
<td>% share</td>
<td>20.8</td>
<td>32.9</td>
<td>35.9</td>
<td>31.6</td>
<td>31.8</td>
<td>24.1</td>
<td>22.4</td>
<td>28.0</td>
</tr>
</tbody>
</table>

Source: He 2001: 9 (certain sums do not add up but are reproduced as given by the source).
professional behaviour (Li 2003: 439ff.). New types of cooperative forms and partnerships are emerging, and networks are being formed in which very different global, national, and local dynamics can be unleashed. Entirely new dynamic interrelations between global, national and local levels are arising, which can generate positive synergy but can also assume negative dynamic forms (see Figure 11.3).15

As a result of social organizations being founded on a mass scale in the 1990s, a bipartite organizational structure has arisen, with an administrative hierarchy at its centre and a network of social organizations on a horizontal level. The vertical structure is dominant, while the horizontal structure exerts an integrative effect that decentralizes and restructures the organizational system. Thus, social organizations promote communication between government departments at the same level. Previously, they could only interact with each other via the higher levels of their respective hierarchies (tiao tiao kuai kuai). In this way, social organizations stabilize the horizontal connections between government departments. As such, government cadres are increasingly recognizing the flexibility, relations to interest groups and administrative effectiveness of social organizations (Wang 1998: 136, 141). New normative principles of good governance such as accountability, participation, predictability, transparency and effectiveness are thus emphasized to enhance the legitimacy of government (Burns 2002: 207, 230).

True, measures undertaken by the government continue to constitute the focus of anti-poverty policy in China, but direct cooperation with local levels and affected populations has increased, as well as their respective participation. Major tasks of the NGOs are thus seen as falling into the following categories:
on the macro-level, NGOs can contribute to improving the funding systems for basic social services, etc. On the meso-level, NGOs can carry out targeted training programmes for government officials active in poverty reduction programmes. Officials need to develop a greater awareness of issues such as participatory approaches, gender-specific aspects, social dimensions, integrated rural development, and sustained development. Because of the coordinated character of the UN system, NGOs can act as a bridge for generating partnerships between governments and foreign and international development institutions. They can also form a bridge between governments and target communities. One of the key factors in successful poverty reduction consists of improving management by local officials. Decentralization measures, however, require that more tasks and responsibilities be assumed on the lower levels, such as drafting action plans to reduce poverty at the county level. Training, education, and funding for the administrative personnel are required, especially in the western provinces, in order to better prepare them for their poverty reduction tasks. Here, too, contributions of NGO are needed (Zuo 2001: 3–9).

11.8 Discussion: future scenarios

Whether Chinese NGOs can be seen as an integral part of a crystallizing civil society in China, or whether they should rather be placed within a model of state corporatism depends on the weight that is given to the relative role of top-down NGO development or bottom-up NGO development in China’s anti-poverty
policy. From the perspective of top-down development, the Party/state is attempting to regulate society through a corporatist framework, but decentralization processes have left government and governance processes fragmented and localized. From the perspective of bottom-up development, there are multiple civil societies in the process of emerging that lack sufficient strength and cohesion to constitute a self-aware civil society (Howell 2004: 162f.). It seems that global as well as local forces are at work driving development in a direction of growing participation and inclusion in poverty-reduction strategies. Institutional change in the field of anti-poverty policy does not point in one clear direction, but is shaped by the emergence of a third sector vis à vis the state and the market. Accordingly, the development trajectories that NGOs display in the field of anti-poverty policy can be interpreted along the lines of three ideal-typical future scenarios, namely:

1. A neo-liberal market scenario, in which the state abdicates its social responsibility in favour of (national and international) society;
2. A state-centred scenario, in which new (participatory and internationalized) forms of governance primarily serve to strengthen the Chinese state;
3. A scenario of globalizing welfare society, in which the third sector, in cooperation with the state and the market, acts to promote socially and environmentally compatible globalization processes.

11.8.1 A neo-liberal market scenario, in which the state abdicates its social responsibility in favour of (national and international) society

We might start by describing a state that is overtaxed financially and organizationally, and that is increasingly unable to counteract and cushion the social hardship resulting from increased rationalization and the mass expansion of market economy conditions in China. Education and healthcare costs are being passed on to the citizens.

The globalization notions of neoliberalism have as their core narrative element the weakening of the nation-state or the minimization of the state, along with demands that the state abandons its policies of intervention and systems of social insurance, and that market rules replace social development, while relations based on capital take possession of the social sphere.

(Wang Hui 2003: 127)

Described as forms of controlled decentralization, the state is transforming an ever greater number of social services into matters of social, individual and private responsibility. One response may be a strengthening of family ties and communal living strategies, yet another may be the dissolution of family and neighbourhood ties as a result of rapidly increasing mobility in Chinese society, lower population growth, and a rising number of de-collectivized settlements.
and living situations. Yet it is precisely here, where its social welfare obligations would be more urgently needed, that the state is failing, and those who will lose out anyway in the Chinese economic upswing will have to bear the consequences in the form of increased social hardship.

11.8.2 A state-centered scenario, in which new (participatory and internationalized) forms of governance primarily serve to strengthen the Chinese state

China’s public sector reforms emphasized the importance of efficiency and effectiveness while addressing governance concerns of accountability, participation and transparency within the context of maintaining CCP rule. In the words of John Burns,

To reduce the financial burden on government of providing social services required by China’s aging population and growing unemployment, authorities have turned to quasi-government organizations or NGOs. They have emphasized competition within publicly-owned entities to improve efficiency, increased participation to reduce public opposition to official development plans, and improved the capacity of state law-making and adjudicating functions. Increasing transparency, an initiative of the central state aimed at local government, is designed to ensure that local officials implement state policy. Although the government has encouraged the development of quasi- or non-government organizations, it has embedded them within a scheme of control that reinforces the position of the state.

(Burns 2002: 230f.)

11.8.3 A scenario of globalizing welfare society, in which the third sector, in cooperation with the state and the market, acts to promote socially and environmentally compatible globalization processes

The pluralization process among welfare institutions, which we are currently observing in the course of anti-poverty efforts in China, can ultimately also be interpreted as an expression of the new forms and challenges of globalized welfare society. The Chinese state is losing its capacities for economic and social control and is relinquishing centralized responsibility while, at the same time, international organizations and local levels are playing greater roles in the struggle against poverty. This is leading to new types of cooperative ventures and partnerships, but also to competition for resources and new competitive constellations. With its divergent states of development and standards of living, its problems regarding resources and the environment, its trend towards rapid social polarization, urbanization and mobility, Chinese society has to solve problems that to a large degree are facing world society as well. Agreement on a model of sustained development that assigns equal weight to economic efficiency, social justice and environmental protection represents a crystallization of globalized
social policy, with respect to both the theories and practices of poverty reduction as well as to the coordination and interplay of very different institutions and levels engaged in the struggle against poverty.

11.9 Notes

2 In addition to those defined as the absolute poor, 88.2 million (or 9.2 per cent) of the rural population with a per capita income below 869 yuan (in 2002) were assigned to the category of the low income rural population. The 869 yuan benchmark approximates the World Bank calculation of one US$ per day in PPP values with prices from 2002. The rural poverty line differs between and within provinces. The PRC does not have an official standard urban poverty line. The urban poverty line is estimated at three times the official rural poverty line. Under the Minimum Living Standard Scheme, each city sets its own poverty line. The floating population is not included in the MLSS scheme (ADB 2004: 4).
3 This sector will, however, not receive further attention in the following.
5 See note 3.
6 Wang Ming (2002: 2) lists 165,000 legally registered social organizations of all kinds and at all levels, and 700,000 civilian non-enterprise institutions.
7 Other sources mention 126,000 NGOs in poverty reduction (ADB 2004: 71). It may be assumed that this number includes civilian non-enterprise institutions.
8 Research Center on the State of the Nation at the Chinese Academy of Sciences (Zhongguo kexueyuan guoqing yanjiu zhongxin).
9 The Ford Foundation (Fute jijinhui) supports research and activities in the following areas: economic reform and its social consequences, reproductive health, natural resource management and community development and law, rights and governance. Major activities have included the funding of pilot microfinance schemes and research and intervention projects to better the understanding of the dynamics of rural migration and improving the access of rural migrants to legal information and social services. The Ford Foundation aims to encourage participatory approaches to community development, poverty alleviation and conservation programmes.
10 The Asia Foundation (Yazhou jijinhui) supports the development of institutions, leaders and policies needed for effective governance and legal systems. It professes the promotion of an actively engaged and responsible civil society, successful economic reform and sustainable development as its key goals. The Foundation works to advance the mutual interests of the United States and the Asia Pacific region. Initially, the Asia Foundation worked with the Chinese Ministry of Foreign Affairs to enable young diplomats to receive graduate training in the US.
11 The Worldwide Fund for Nature (Shijie ziran jijinhui) began its work in China in 1980 on Giant Panda research and conservation. Since then, WWF has expanded into the following five major programme areas: environmental education programmes in poor areas of China focussing on formal education, community education and developing educational resources; sustainable resources management; climate and energy programmes; species and protected areas; the Yangtze programme to restore wetlands and improve wetland conservation.
12 The Phlex Foundation promotes basic education for the financially, socially and physically disadvantaged, especially in poverty stricken areas.
13 The Zigen Fund for Rural Education and Development (Zhongguo sigen xiangcun jiaoyu yu fazhan jijinhui) promotes educational, social and economic development in
the impoverished areas of China. Zigen depends largely on volunteers to implement and oversee their main projects in education and health. Financial assistance is provided to teachers and female children in primary and secondary schools.

14 The Heifer Project International/China Program (Guoji xiao muni xiangmu zuzhi Zhongguo xiangmu) grew from the experiences of an American farmer and Church of the Brethren youth worker during the Spanish Civil War who sought an alternative to traditional short-term relief. Founded in 1944, Heifer specializes in training and technical assistance in animal husbandry and animal health. By 2001, Heifer had implemented 40 projects in 11 provinces. A total of 27,587 families have been provided with 2.42 million animals. Most of the recipient families doubled or even tripled their income within five years. Heifer funds projects for a limited time. The project groups must plan to eventually support themselves and become sustainable in the future (Fong 1999; Zhongguo NGO 2001).

15 In Henan province, for example, a private local initiative to care for orphans of AIDS victims caught the attention of international donors and received donations on a relatively large scale. This in turn aroused the interest of the local government, which proceeded to build an orphanage for the children, claim the donations and declare the private initiative illegal (Frankfurter Allgemeine Zeitung, 4 March 2004).

11.10 Bibliography


Kang, Xiaoguang (2001), *NGO fupin xingwei yanjiu* [Research on the Behaviour of NGOs in Poverty Reduction], Beijing: Zhongguo jingji.


12 Environmental policy reform in China

Andreas Oberheitmann

12.1 Introduction

In terms of GDP per capita and disposable income, China’s economic development since the late 1970s brought about considerable welfare gains for the Chinese population. This did not, however, come without the price of widespread environmental degradation. Though starting from a relatively low level, the Chinese government has taken environmental policy more and more seriously since the 1970s and is currently adapting itself to changes in the environmental consciousness domestically, as well as to respond to increasing calls for a consistent policy from abroad.

One of the most important objectives of economic policy in China is fuelling economic growth as the motor of development and increasing its wealth as the most populous country on earth, with more than 1.3 billion people. This welfare goal has held top priority for the Chinese government. The successful balance of the past 20 years shows almost a seven-fold increase in real GDP from 1.8 trillion RMB in 1980 to 13.2 trillion RMB in 2004 (see Table 12.1).

In the same period of time, an annual 1.2 per cent demographic growth rate and an annual 7.4 per cent increase in per capita income led to rising demands of private households in every category of consumption, including energy, e.g. for transportation purposes. This remarkable economic and welfare related growth in China was accompanied by a 3.7 per cent p.a. improvement of energy efficiency, leading to a moderate annual increase in primary energy consumption of 4.4 per cent p.a. and a 4.4 per cent p.a. rise in energy-related greenhouse gas emissions of carbon dioxide (CO₂) in China. Due to end-of-pipe technologies (filters for desulphurization), the substitution of high-sulphur coal for low-sulphur coal and a slight surge in coal washing, regional sulphur dioxide (SO₂) emissions decreased by 2.7 per cent p.a. (see Table 12.1). Economic growth also induced a considerable augmentation of other pollutants of water and soil, as well as a burgeoning amount of waste.

Though the Chinese government has already taken measures to reduce specific emissions (e.g. per ton of steel or kWh electricity), the absolute amount of energy consumption, energy-related emissions and other pollutants in China will continue to rise in the future, as production and income levels in China will
Table 12.1  Development of selected macro-economic variables in China (1980–2004)

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</tr>
</thead>
<tbody>
<tr>
<td>Primary Energy Supply (Mt. SCE)</td>
<td>621</td>
<td>783</td>
<td>970</td>
<td>1,270</td>
<td>1,156</td>
<td>1,274</td>
<td>1,452</td>
<td>1,685</td>
<td>n.a.</td>
<td>4.4a</td>
</tr>
<tr>
<td>Real GDP (billion RMB)</td>
<td>1,809</td>
<td>2,999</td>
<td>3,756</td>
<td>6,458</td>
<td>9,038</td>
<td>9,791</td>
<td>10,667</td>
<td>11,765</td>
<td>13,203</td>
<td>8.6</td>
</tr>
<tr>
<td>Population (millions)</td>
<td>987</td>
<td>1,045</td>
<td>1,143</td>
<td>1,211</td>
<td>1,267</td>
<td>1,276</td>
<td>1,285</td>
<td>1,292</td>
<td>1,300</td>
<td>1.2</td>
</tr>
<tr>
<td>Per Capita Income (RMB)</td>
<td>1,833</td>
<td>2,869</td>
<td>3,286</td>
<td>5,332</td>
<td>7,128</td>
<td>7,564</td>
<td>8,274</td>
<td>9,104</td>
<td>10,157</td>
<td>7.4</td>
</tr>
<tr>
<td>PES/Capita (t SCE)</td>
<td>0.629</td>
<td>0.749</td>
<td>0.848</td>
<td>1.049</td>
<td>0.912</td>
<td>0.998</td>
<td>1.130</td>
<td>1.304</td>
<td>n.a.</td>
<td>3.2a</td>
</tr>
<tr>
<td>PES/GDP (t SCE/1000 RMB)</td>
<td>0.343</td>
<td>0.261</td>
<td>0.258</td>
<td>0.197</td>
<td>0.128</td>
<td>0.132</td>
<td>0.137</td>
<td>0.143</td>
<td>n.a.</td>
<td>–3.7a</td>
</tr>
<tr>
<td>CO₂ Emissions (mill. t)</td>
<td>1,538</td>
<td>1,939</td>
<td>2,391</td>
<td>3,100</td>
<td>2,771</td>
<td>3,036</td>
<td>3,503</td>
<td>4,150</td>
<td>n.a.</td>
<td>4.4a</td>
</tr>
<tr>
<td>SO₂ Emissions (mill. t)</td>
<td>12</td>
<td>16</td>
<td>19</td>
<td>25</td>
<td>20</td>
<td>20</td>
<td>19</td>
<td>22</td>
<td>23</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Lawrence Berkeley National Laboratory (2004); State Statistical Bureau (various issues), Own calculations.

Note

increase. Environmental degradation has negative repercussions on macro-economic welfare, as its growing external costs (costs of growing health care expenditures, environmental damages, etc.) lead to an unfavourable allocation of resources. Hence, environmental policy is closely connected to economic policy and economic policy decisions.

However, the current role of environmental policy within the concert of other policy fields in China, especially regarding international or global issues, still remains a minor one. For China as a developing country, economic development and gains in social welfare continue to be the more important policy goals. This chapter analyses the changes and reform of China’s environmental policy from an empirical point of view in terms of its success and present shortcomings. Section 12.2 provides a qualitative and quantitative description of the current situation with regard to atmospheric environmental conditions (urban air quality, emissions of global greenhouse gases), along with water, soil and solid wastes as the main fields of Chinese environmental policy. At the end of the section an outlook containing perspective forecasts for the emissions of CO₂ and SO₂ is given. Section 12.3 analyses the reform of Chinese environmental policy in relation to changing patterns over time. These consist of extension, institutionalization, economization and internationalization. The chapter is concluded with a summary.

12.2 Qualitative and quantitative description of the environmental situation

12.2.1 Atmospheric environment

12.2.1.1 Urban air quality

The air quality in cities in China has maintained an overall trend of improvement; but in two or three of the cities, the air quality still did not meet the air quality standard for Grade II. Particulate was the main pollutant affecting urban air quality. In 2002, of the 343 cities and counties monitored, 132 cities recorded urban air quality at or above the National Air Quality Standard for Grade II, accounting for 38.6 per cent of the cities evaluated. Among these, 11 cities, including Haikou, etc., had an air quality in accordance with the Grade I standard. The air quality of 141 cities (41.2 per cent) sufficed for the requirements of the Grade III standard. And 69 cities had an air quality worse than Grade III, accounting for 20.2 per cent.

As compared to the previous year, the number of cities with an air quality reaching Grade I or II standard underwent a slight decrease, while the number of cities with a Grade III air quality increased by 10 per cent. Only the number of cities in which the worst environmental situations were recorded (>III) decreased by 6.6 per cent from 2003 (see Figure 12.1).

The population in cities with an air quality meeting one of these standards accounted for only 33.1 per cent of the total urban population in the cities moni-
stored. The urban population exposed to sub-standard air quality totalled nearly two thirds.

Particulate concentration, already identified as the most influential urban air pollutant, met or exceeded the Grade II standard in 53.2 per cent of the cities. The particulate concentration in 53.2 per cent of the cities exceeded the national Grade II standard. This is a considerable improvement from 2002 (63.2 per cent). In general, the particulate pollution in northern cities was more aggravated than in the southern cities. The cities which showed relatively severe particulate pollution were located mainly in Shanxi, Inner Mongolia, Liaoning, Henan, Hunan, Sichuan and other provinces or autonomous regions in northwestern China.

Among the 113 cities approved by the State Council as key cities for air pollution prevention and control, 40.6 per cent met the Grade II standard in terms of annual average SO₂ concentration, a 1.5 per cent increase over the previous year. 59.4 per cent of them could not comply with the terms of the Grade II standard, among which 19 cities failed to meet standards for Grade III, accounting for 29.7 per cent of the total, a 6.2 per cent drop for this group from 2003.

On the basis of the calculated Integrated Pollution Index for 47 of the key environmental protection cities, in 2004, Chongqing was the most polluted city in China, followed by Ulumuqi, Taiyuan and Lanzhou. In the highly polluted cities on the left side of the figure below, the environmental situation had improved from 2003, yet especially on the right hand side for the less polluted cities, the situation worsened. Looking at the overall picture, in 22 of the 47 cities, the pollution index increased; in five cities the index remained on the 2003 level and in 20 cities, including Beijing, the index decreased (see Figure 12.2).

![Figure 12.1 Urban air quality in 343 main cities and counties in China (2003–2004, in %) (source: SEPA 2005).](image-url)
Chinese government declared the 47 most polluted cities as key environmental areas. In 2002, in these 47 cities, the SO$_2$ emissions and particulate emissions failed to comply with standards:

- SO$_2$ concentration in the 11 cities of Shijiazhuang, Taiyuan, Urumqi, Changsha, Guiyang, Lanzhou, Chongqing, Tianjin, Beijing, Shenyang and Nanchang exceeded standards.
- The particulate concentration in 29 cities including Lanzhou, Shijiazhuang, Taiyuan, Shenyang, Xi’an, Beijing, Urumqi, Chongqing, Changsha, Tianjin and Hohehot, among others, exceeded standards (SEPA 2003).

In total, the share of cities with an air quality reaching standard values improved...
in 2003 to 51.5 per cent (see Table 12.2); in 2004, however, it dropped again to 42.6 per cent.

In 2004 the total emissions of SO$_2$ in waste gases in China reached 22.4 million tons, of which 18.9 million tons were from industrial and 3.6 million tons were from domestic sources. The emission of soot totalled 11.0 million tons, 8.9 million produced industrially and 2.1 million domestically. Accumulated industrial dust emissions for the same year amounted to 9.0 million tons. In 2004 total SO$_2$ emissions increased by 7.7% over 1998; soot and dust emissions decreased by 24.7 per cent from 31.9 per cent (see Table 12.3).

Acid rain in China occurred mainly to the south of the Yangtse River, east of the Qinghai–Tibet plateau and in the Sichuan basin. The acidity of precipitation was relatively high only in certain northern areas (see Figure 12.3).

**Table 12.2** Status of air pollution in 47 key environmental protection cities in China (1995–2004, in mg/m$^3$ and %)

<table>
<thead>
<tr>
<th>Year</th>
<th>1995</th>
<th>1998</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO$_2$ average, mg/m$^3$</td>
<td>0.076</td>
<td>0.06</td>
<td>0.047</td>
<td>0.049</td>
<td>0.049</td>
</tr>
<tr>
<td>TSP/PM$_{10}$ average, mg/m$^3$</td>
<td>0.287</td>
<td>0.252</td>
<td>0.110$^a$</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>NO$_x$/NO$_2$ average, mg/m$^3$</td>
<td>0.051</td>
<td>0.051</td>
<td>0.037$^b$</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Cities with SO$_2$ exceeding standards, %</td>
<td>48.9</td>
<td>36.2</td>
<td>23.4</td>
<td>25.6</td>
<td>25.7</td>
</tr>
<tr>
<td>Cities with particulate failing to comply with standard, %</td>
<td>72.3</td>
<td>63.8</td>
<td>61.7</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Cities with air quality failing to comply with standard, %</td>
<td>21.3</td>
<td>27.7</td>
<td>38.3</td>
<td>51.1</td>
<td>42.6</td>
</tr>
</tbody>
</table>


Notes

- $^a$ Average PM$_{10}$ in 2002.
- $^b$ Average NO$_2$ in 2002.

**Table 12.3** Emission of major pollutants in waste gases in China in recent years (1998–2004, in million tons and %)

<table>
<thead>
<tr>
<th>Year</th>
<th>SO$_2$ emission</th>
<th>Soot emission</th>
<th>Industrial dust emission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Industrial</td>
<td>Domestic</td>
<td>Total Industrial</td>
</tr>
<tr>
<td>1998</td>
<td>20.9 15.9 5.0</td>
<td>14.6 11.8 2.8</td>
<td>13.2</td>
</tr>
<tr>
<td>1999</td>
<td>18.6 14.6 4.0</td>
<td>11.6 9.5 2.1</td>
<td>11.8</td>
</tr>
<tr>
<td>2000</td>
<td>20.0 16.1 3.8</td>
<td>11.7 9.5 2.1</td>
<td>10.9</td>
</tr>
<tr>
<td>2001</td>
<td>19.5 15.7 3.8</td>
<td>10.7 8.5 2.2</td>
<td>9.9</td>
</tr>
<tr>
<td>2002</td>
<td>19.3 15.6 3.6</td>
<td>10.1 8.0 2.1</td>
<td>9.4</td>
</tr>
<tr>
<td>2003</td>
<td>21.6 17.9 3.7</td>
<td>10.5 8.5 2.0</td>
<td>10.2</td>
</tr>
<tr>
<td>2004</td>
<td>22.5 18.9 3.6</td>
<td>11.0 8.9 2.1</td>
<td>9.0</td>
</tr>
<tr>
<td>Change (%)</td>
<td>7.7 18.9 −28.0</td>
<td>−24.7 −24.6 −25.0</td>
<td>−31.8</td>
</tr>
</tbody>
</table>

The regional distribution of acid rain remained relatively constant. The cities with an annual average pH value of precipitation less than 5.6 were located mainly in the same areas. In some parts of northern areas including Yanji, Tumen, Hunchun and Jiaohe in Jilin province; Fuxin and Gourd Island in Liaoning province; and Weinan in Shannxi province, the acidity of precipitation was relatively high. In eastern, southern and central China and in the southwest, concentrated areas of severe acid rain pollution with high frequencies of acid rain occurrence were recorded.

12.2.1.2 Emissions of global greenhouse gases

During the past 20 years, greenhouse gas emissions in China increased tremendously; most significantly, CO$_2$ emissions grew by 46.5 per cent from 2.4 billion tons in 1990 to 4.2 billion tons in 2003 (see Table 12.4). Coal combustion is still the most prevalent source of CO$_2$ emissions in China. However, oil and gas consumption plays an increasing role. The emissions of methane (CH$_4$) and nitrous oxide (N$_2$O) only contribute to approximately 10 per cent of the total greenhouse gas emissions in China. They have remained constant since the mid 1990s. A drop in methane emissions can probably be attributed to a decrease in agricultural activities in China.
The development of the absolute emission levels in China is based on four main factors: population, per capita income, total CO\textsubscript{2}/SO\textsubscript{2} concentrations in energy use and the energy intensity of GDP.

As both income (7.4 per cent p.a.) and population (1.2 per cent p.a.) levels grew between 1980 and 2001, the GDP also rose by 8.6 per cent p.a. Income growth has a positive impact on the demand for goods and services in China. According to the elasticity of incomes, the demand for goods and services increased, leading to a rise in energy consumption. As an example, between 1981 and 2004, the net urban per capita living space increased from 4.1 m\textsuperscript{3} to 25.0 m\textsuperscript{3}. In the same period of time, the average household living space increased by more than 200 per cent causing an increase in energy demands for heating purposes. The demand for electrical household appliances experienced an enormous growth, especially for goods such as refrigerators, air-conditioning systems and colour TVs.

Subsequently, primary energy consumption per capita in China increased by 3.2 per cent p.a. from 629 kg sce to 1,304 kg sce between 1980 and 2003. Compared to Germany (5,585 kg sce) or the US (10,991 kg sce), this is still a very low specific energy consumption. With an increase in income, the demand for transportation and motorization in China also mounted. China’s WTO entry and the subsequent lifting of import tariffs on passenger cars will bring about an expansion in car imports. As imported cars are, on average, larger than domestic vehicles, increasing imports may lead to an additional hike in the fuel demand in China.

\textit{Table 12.4} Development of selected greenhouse gases in China (1990–2003, in million tons and %)

\begin{table}[h]
\centering
\begin{tabular}{lcccccc}
\hline
\hline
TOTAL\textsuperscript{1} & 3,115 & 3,687 & 3,536 & 3,115 & 4,273 & NA \\
CO\textsubscript{2} & 2,391 & 3,100 & 2,771 & 3,036 & 3,503 & 4,150 \\
Coal & 1,989 & 2,597 & 2,019 & 2,259 & 2,665 & 3,234 \\
Gas & 33 & 39 & 57 & 63 & 71 & 91 \\
Oil & 369 & 464 & 696 & 713 & 766 & 825 \\
CH\textsubscript{4} & 612 & 370 & 369 & NA & 370 & NA \\
Rice fields & NA & 161 & 151 & NA & NA & NA \\
Enteric fermentation & NA & 179 & 180 & NA & NA & NA \\
Manure management & NA & 30 & 38 & NA & NA & NA \\
N\textsubscript{2}O & 112 & 217 & 396 & NA & 400 & NA \\
Agricultural soil & NA & 147 & 173 & NA & NA & NA \\
Indirect emission from agricultural soil & NA & NA & 150 & NA & NA & NA \\
Lifestock & NA & 70 & 73 & NA & NA & NA \\
\hline
\end{tabular}
\end{table}


Note
\textsuperscript{1} The total does not contain HFCs, PFCs and SF\textsubscript{6} or CO\textsubscript{2} removals by sinks and different sources of CH\textsubscript{4} and N\textsubscript{2}O.
The growth in energy demands in China has been counterbalanced by a decrease in energy intensity since the 1980s. Structural changes, investments in energy efficiency and environmental policy measures led to a decrease in the energy use per unit of GDP of 4.6 per cent p.a. over the past 20 years. The most important energy consumer is the industrial sector, with a high share of energy-intensive production (iron and steel, chemical industry, building materials etc.). Between 1980 and 1996, the total energy consumption of all steel producing enterprises decreased from 59.8 GJ/t to 40.8 GJ/t; the energy use in large plant aluminium production decreased from 336 GJ/t to 319 GJ/t (Lawrence Berkeley National Laboratory 2004).

Additionally, structural changes in a higher share of light industry and a tertiarization of the economy supported the increase in energy efficiency. However, despite investments, industrial energy efficiency is still very low, e.g. to produce one ton of steel, China uses four times more energy than the US, though energy efficiency increased by more than 30 per cent during the 1990s. A similar situation exists in the electric power sector, which is still dominated by coal-fired power plants. The current energy efficiency of Chinese power plants is at 30 per cent, compared to 38 per cent in Germany. There is still a huge potential for efficiency improvements in this area. For the economy as a whole, investments in energy efficiency and environmental policy measures induced a decrease in energy intensity levels in production in China by 3.7 per cent p.a., from 343 kg sce/1,000 RMB real GDP in 1980 to 143 kg sce/1,000 RMB real GDP or 1,183 kg sce/1,000 US$ real GDP in 2003. This, however, was still well above the US (309 kg sce/1,000 US$) or Germany (221 kg sce/1,000 US$).

CO₂ and SO₂ intensity levels in energy consumption reflect the emissions intensity of the fuel mix in an economy. Due to a reduction of coal as a primary energy input and the substitution with emission-free hydro and nuclear energy, as well as less CO₂ and SO₂ intensive natural gas, CO₂ and SO₂ intensity in China decreased by 0.02 per cent and 1.8 per cent per annum, respectively, between 1980 and 2004.

Using decomposition techniques, it can be shown that the growth of per capita income is the largest contributor to the growth in China of CO₂ emissions (Oberheitmann 2003).

In the future, China’s energy consumption and, subsequently, greenhouse gas emissions will increase. In 2030 the International Energy Agency (2004) expects CO₂ emissions of between 5.9 billion tons under the assumption of an implementation of alternative measures and solutions; up to 7.1 billion tons are foreseen for the business-as-usual case. In the latter case, if China holds its course, its share of world emissions will increase from 14 per cent in 2002 to 20 per cent in 2030.

12.2.2 Water

Water quality in China is a huge problem, as it affects human and animal health as well as vegetation. The SEPA 2004 environmental report (SEPA 2005) pro-
provides an overview of the current situation of Chinese rivers, lakes, underground water in the cities, industrial discharge of waste water and domestic sewage.

In 2002, in the seven main river basins, 41.8 per cent of the 741 key monitored sections met the water quality standards for Grades I–III; 30.3 per cent of the sections met the standards of Grades IV or V; and 27.9 per cent of the sections exhibited a water quality below Grade V standards (see Figure 12.4). This is a considerable improvement from 2002, where 29.1 per cent of the 741 key monitored sections met the water quality standard for Grades I–III; 30.0 per cent of the sections met the standards for Grades IV or V; and 40.9 per cent of the sections were below Grade V standards.

Of the 199 sections in the seven main river basins under national control, 41.8 per cent met Grades I to III standards; 30.3 per cent met Grades IV or V, and 27.9 per cent rated below Grade V. The water quality in the main streams of each river basin was better than that in the tributaries. Among the 121 trans-province boundary sections of the seven major rivers, 36.3 per cent enjoyed Grades I–III water quality, 33.9 per cent had Grades IV–V water quality and 29.8 per cent failed to meet Grade V. The sections which suffered most from heavy pollution were those trans-province boundary sections of the Haihe River and Huaihe River systems. Pollution was severe in the Hai River Basins, in which almost 60 per cent of water was rated below Grade V.

Major lakes were severely polluted by nitrogen and phosphorus, resulting in the prevalent problem of eutrophication. Caohai of Lake Dianchi was in a state of serious eutrophication, while the state of eutrophication in Lake Tai and Lake Chao was relatively light.

The ground water quality in most cities and regions across the country was generally good, while some parts were partially polluted by point or non-point pollution sources, with some indicators exceeding standard levels. The polluted areas were mainly distributed in the downtown areas of the cities in which the population density and industrialization level were relatively high. The main

![Figure 12.4 Water quality in seven main river basins in China (2004, in %) (source: SEPA 2005).](image-url)
indicators which exceeded the standards were mineral content, total hardness, nitrates, nitrites, ammonia nitrogen, iron, manganese, chlorides, sulphates, fluorides and pH. Pollution involving three different types of nitrogen was relatively prominent across the country. The problem of mineral content and hardness in excess of permitted standards was found mainly in northern China and in the country’s Northeast, Northwest and Southwest regions. Problems of above-standard levels of iron and manganese were reported mainly in Northeast and South China regions. As compared to the previous year, the ground water quality in most cities and regions was basically stable, or a slight alleviation in pollution levels. A declining trend for ground water quality in certain areas of some cities was, however, determined.

In 2004 the discharge of industrial wastewater and domestic sewage across the country totalled 48.2 billion tons, an increase of 22.0 per cent as compared to 1998. Among the constituents of the total discharge, the discharge of industrial wastewater was 22.1 billion tons, an increase of 10 per cent over 1998; the discharge of domestic sewage from cities was 26.1 billion tons, an increase of 33.8 per cent compared to 1998. The total COD discharge in wastewater was 13.3 million tons, representing a decrease of 11.3 per cent from 1998. The discharge of COD in industrial wastewater was 5.0 million tons (~37.5 per cent from 1998); the discharge of COD in domestic sewage from cities was 8.3 million tons, increasing by 18.6 per cent compared to 1998 (see Table 12.5).

In 2004, 90.7 per cent of the discharged industrial effluent complied with the discharge standard, 1.5 percentage points higher than in 2003. Among the industrial producers of wastewater, 91.9 per cent of major enterprises met the effluent discharge standard, 1.4 per cent more than in 2003. Approximately 80.6 per cent

Table 12.5 Development of wastewater discharge and COD discharge in China (1998–2004)

<table>
<thead>
<tr>
<th>Year/Item</th>
<th>Wastewater discharge (billion tons)</th>
<th>COD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Industry</td>
</tr>
<tr>
<td>1998</td>
<td>39.5</td>
<td>20.1</td>
</tr>
<tr>
<td>1999</td>
<td>40.1</td>
<td>19.7</td>
</tr>
<tr>
<td>2000</td>
<td>41.5</td>
<td>19.4</td>
</tr>
<tr>
<td>2001</td>
<td>43.3</td>
<td>20.3</td>
</tr>
<tr>
<td>2002</td>
<td>44.0</td>
<td>20.7</td>
</tr>
<tr>
<td>2003</td>
<td>46.0</td>
<td>21.2</td>
</tr>
<tr>
<td>2004</td>
<td>48.2</td>
<td>22.1</td>
</tr>
<tr>
<td>Growth rate (%)</td>
<td>22.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>


Note
COD (Chemical Oxygen Demand): COD is an index of water pollution that indicates the amount of oxidizing agent corresponding to oxygen that is consumed in the chemical oxidation of water. The greater the pollution, the higher the COD value.
of non-major enterprises met the industrial effluent discharge standard, up 2.9 percentage points from the previous year.

12.2.3 Soil

According to investigations on changes in land utilization, the total area of lands in China in 2002 could be broken down into the following categories: 122.4 million hectares (ha) of arable land; 11.3 million ha of land under cultivation, 235.0 million ha of forests; 262.7 million ha of grassland; 25.5 million ha of other farm land; 25.7 million ha of residential, factory and mining areas; 2.2 million ha for transportation; 3.6 million ha for water conservancy; all other lands remained unused. The net loss of arable land across the country was 800,300 ha, 145,100 ha of which were used for construction. There were 63,300 ha destroyed by disasters, 732,900 ha restored to their original landscape as a part of ecological conservation measures, 204,700 ha were lost due to agricultural restructuring and 345,600 ha were added resulting from land rehabilitation. In addition, an area of 147,700 ha was found occupied by construction projects without corresponding reports on the change in land use during the streamlining of land markets. Among the total area of ‘grain for green’, 695,400 ha of farmland were restored to forest, 37,200 ha to grassland and 300 ha to lakes. The ‘grain for green’ campaign is the primary reason for the net loss of arable land in China. The total area of farmland in mainland China decreased by 5.7 per cent from 1997 to 2004, with a net loss of 7,467 million ha during the same eight years.

According to the sixth National Survey on Forest Resources, the forest area in China reached 174.91 million ha with a coverage of 18.21 per cent. China’s forested areas accounted for 4.5 per cent of the world’s total, ranking fifth, and forest reserves occupied 3.2 per cent of world’s total, ranking sixth in the world. The geographical distribution of China’s forest resources was rather uneven, with only 5.86 per cent of forest coverage in the five northwest provinces (autonomous regions) accounting for 32.19 per cent of the national territory. In 2004, a total of 9.46 million ha of forests were subject to plant diseases and insect pests. Among them, 5.96 million ha had been treated with control measures, which accounted for 63 per cent of the total. There was an increase of 830,000 ha of forests subject to plant diseases and insect pests compared to 2003. According to SEPA (2005), in 2004 there were 13,466 forest fires, up by 28.7 per cent from the previous year. Among those outbreaks, 6,894 were fire alarms, up by 23.5 per cent; 6531 general fire disasters, an increase of 34.4 per cent; 38 major fire disasters, up by 171.4 per cent; and three extremely large fire disasters, down by 57.1 per cent as compared to 2003. Approximately 344,211 ha forests were subject to fire in 2004, a reduction of 69.4 per cent. The area of damaged forest covered 142,238 ha, down by 68.5 per cent from 2003.

The area of natural grassland of various kinds in the country was 393 million ha, covering about 41.7 per cent of the country’s land and making China second only to Australia in the extent of its grassland resources. At present, the trend of
overgrazing has not experienced any fundamental change. Cases of grassland deterioration, such as non-rational utilization and harvesting of grasslands occurred from time to time. 90 per cent of the usable natural grassland suffered from degradation of varying degrees with an annual growth of two million ha.

12.2.4 Solid waste

The total generation of industrial solid wastes in China was 950 million tons in 2002, an increase of 6.5 per cent over the previous year. The discharge amount of industrial solid wastes was 26,352 million tons, 8.9 per cent less than the previous year. The amount of industrial solid wastes for comprehensive utilization was 500 million tons at a comprehensive utilization rate of 52.0 per cent, which was equivalent to the previous year. The generation of hazardous wastes totalled ten million tons.

The cleared and transported domestic wastes in China amounted to 136.38 million tons, 1.2 per cent more than the previous year. Among these substances, 74.04 million tons were disposed in accordance with environmentally sound management practices, representing a 5.6 per cent decrease from the previous year. The treatment rate of domestic garbage was 54.3 per cent.

In 2004, 1.2 billion tons of industrial solid wastes were generated across the country, 20.0 per cent up from the previous year, while the discharge of industrial solid wastes was 17.92 million tons, down by 7.7 per cent compared to 2003. The amount of industrial solid wastes under integrated reuse totalled 680 million tons, resulting in an integrated utilization rate of 55.7 per cent, which was on par with rates from the previous year. The amount of hazardous wastes generated was 9.63 million tons.

12.3 Patterns of development and reform in China’s environmental policy

During the past 30 years, the development and reform of environmental policy in China has followed certain patterns; these are thematic extension, internationalization, institutionalization and economization. In the following, these patterns will be analysed.

12.3.1 Extension

Although modern environmental protection forms a relatively recent concern on the Chinese policy agenda, environmental actions on the part of Chinese rulers do have a long tradition. The mitigation of river floods and the building of channels were seen as enormous contributions to the conservation of the natural environment. During the late sixth century, the Chinese emperor Sui Wendi and his successor Yangdi mobilized an army of workers to join the two major West-East River systems in China by linking a chain of canals into the Grand or Imperial Canal, a North–South waterway that continues to support heavy barge traffic.
into the present. In 1012, an imperial edict mandated the transfer of early-ripening rice seed from Fujian to other regions south of the Yangzi and ordered state agricultural extension agents to promote its use. During the 1070s, imperial advisors debated the means and possible effects of a plan to shift the channel of the Yellow River and then implemented a programme designed to achieve this goal. In the mid-thirteenth century, Kubilai Khan reconstructed the northern portions of the Grand Canal and extended its length from its juncture with the Yellow River to a point east of modern Beijing (Hartwell 1994).

In the period between 1949 and 1970, environmental achievements included improvements in sanitation conditions and in health standards in urban areas. In addition, water conservation work began to be accorded a higher priority. The triumph of defeating the Guomindang government in mainland China and the successful recovery led the Chinese leaders and many Chinese to believe that humans could conquer and overcome nature through acts of sheer will. That change in the Chinese attitude towards nature contained the seeds of a series of large-scale ecologically unsound measures and drastic policy changes in later years that led to serious environmental degradation (Hartwell 1994).

In China, as in many other countries, the birth of modern environmental protection policy was marked by the 1972 United Nations Conference on Human Environment held in Stockholm. The main concerns of Chinese environmental policy in the 1970s were water and air pollution (see Table 12.6) as the most striking environmental damage to human health. In the 1980s, besides water pollution, smaller particulates (PM2.5 and PM1.0) became the central objective of urban pollution control and environmental policy. With the establishment of the National Environmental Protection Agency (NEPA) in 1988, environmental policy measures began to change (see section below). In 1992 the UN Conference on Environment and Development made ‘sustainable development’ into a watchword for a goal particularly accordant with China’s needs, and NEPA participated in the development of an action plan for sustainable development, China’s Agenda 21. Subsequently, regionalization of environmental policy shifted the focus from local (total suspended particulates = TSP) pollution to regional pollution (SO$_2$, nitrous oxides = NO$_x$, etc.) prevention and rural pollution control. Solid wastes and heavy metal pollution of soils as well as major afforestation constituted additional focuses of Chinese environmental policy. During this period, the NEPA undertook efforts to combat local governments’ attempts to keep unfavourable environmental protection reports confidential.

After upgrading the rank of NEPA to the ministerial level as SEPA (State Environmental Protection Administration), in the 2000s, new thematic focuses were developed in China’s environmental policy, the most important of which included the combat of desertification, nitrification of soils, preservation of ecosystems, biodiversity and nuclear safety (see Table 12.2). Although domestic environmental issues are by far the most important goal of environmental policy in China, global environmental policy has increasingly found a place on the political agenda during the past 10–15 years, leading to a certain degree of internationalization of environmental policy.
<table>
<thead>
<tr>
<th>Decade</th>
<th>Water</th>
<th>Air</th>
<th>Soil</th>
<th>Flora and fauna</th>
<th>Radioactive environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970s</td>
<td>Heavy metals (Cd, Cr, Hg, etc.)</td>
<td>TSP</td>
<td>Solid waste</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980s</td>
<td>Heavy metals (Cd, Cr, Hg, etc.) Urban pollution control</td>
<td>Small particulates (PM)</td>
<td></td>
<td>Afforestation</td>
<td>Nuclear safety</td>
</tr>
<tr>
<td>1990s</td>
<td>Water scarcity Heavy metals Ammonia nitrogen Permanganate Mercury Volatile phenols Inorganic nitrogen Inorganic phosphorous Oil</td>
<td>Regional pollution (SO₂, NOₓ, etc.) Rural pollution control</td>
<td>Solid waste Heavy metals Nitrification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000s</td>
<td>Manganese Chlorides Sulphates Heavy metals Water scarcities</td>
<td>Regional pollution (SO₂, NOₓ,) Global greenhouse gases (CO₂, CH₄, N₂O)</td>
<td>Desertification Nitrification Ecosystems (wetland preservation, etc.)</td>
<td>Biodiversity</td>
<td>Nuclear safety</td>
</tr>
</tbody>
</table>
12.3.2 Internationalization

Following closely on the tails of China’s economic policy reforms, which opened the country up to the outside world and international markets, environmental policy is also in the process of undergoing an increased internationalization as well. Two patterns may be highlighted:

- China’s steadily growing involvement in global environmental negotiations, and
- China’s environmental preparations for the 2008 Olympic Games in Beijing.

12.3.2.1 China’s role in global environmental negotiations

China began early on to sign multilateral environmental agreements. In 1981 it signed the CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora). Nevertheless, there is still some critique regarding violations to CITES, such as the hunting of the Tibetan Antelope (Care for the Wild 2004).

In recent times, China’s participation in multilateral environmental negotiations has been more successful. The country is a signatory to the Basel Convention governing the transport and disposal of hazardous wastes, the Montreal Protocol for the Protection of the Ozone Layer (1991), the United Nations Framework Convention on Climate Change (UNFCCC) (1993), the Stockholm Convention on Persistent Organic Pollutants (2001), as well as other major environmental agreements (see Table 12.7). In 2002 China ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change. China takes an active part in the annual conferences of the parties to the agreement and is on the verge of submitting its national report on climate change issues. As a developing country, China participates in the flexible mechanisms of the Kyoto protocol as a host of climate change mitigation projects under the CDM (Clean Development Mechanism, Article 12 of the Kyoto Protocol).

The aim of the mechanism is to assist industrialized countries (Annex I countries) in achieving their greenhouse gas reduction targets more economically through investments in low-cost emission reduction projects aimed at substituting expensive domestic actions. At the same time developing countries (Non-Annex I countries) should be aided in their development efforts by means of technology transfers at near-zero cost (Oberheitmann 1999). There are currently discussions about possible quantitative obligations for greenhouse gas emissions reductions. However, the outcome of these talks hinges to a large extent on the US American position towards their future obligations with regard to emissions reduction.

To facilitate its own increasing international involvement, the Chinese government provide a number of institutional arrangements. As for the policies governed by SEPA, its Department of International Cooperation is responsible for the coordination of the international activities in the environmental field, for
<table>
<thead>
<tr>
<th>Global treaties/Legislation/Action plans</th>
<th>Open for signature</th>
<th>Date of becoming effective</th>
<th>China’s status</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Kyoto Protocol to the UNFCCC (1997)</td>
<td>March 1998–March 1999</td>
<td>30/08/02 ratified</td>
<td></td>
</tr>
<tr>
<td>8 Montreal Protocol on Substances that Deplete the Ozone Layer (1987)</td>
<td>September 1987–September 1988</td>
<td>01/01/89</td>
<td>14/06/91 acceded</td>
</tr>
<tr>
<td>10 Agreement Relating to the Implementation of Part XI of the Convention</td>
<td></td>
<td>28/07/96</td>
<td>02/06/00 ratified</td>
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<tr>
<td>Annex I &amp; II</td>
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<td>04/06/87</td>
<td>13/09/94 signed</td>
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<td>Annex III</td>
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<td>Annex IV</td>
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<td>01/07/92</td>
<td>21/11/88 signed</td>
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<td>14</td>
<td>Convention on Wetlands of International Importance Especially as Waterfowl Habitat (RAMSAR) (1971)</td>
<td>February 1971–present</td>
<td>21/12/75 31/07/92</td>
</tr>
<tr>
<td>15</td>
<td>Convention Concerning the Protection of the World Cultural and Natural Heritage (1972)</td>
<td></td>
<td>17/12/75 12/12/85 ratified</td>
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its actions as a focal point for international environmental organization as well as for overtaking the routine work of the CCICED (China Council for International Cooperation on Environment and Development), a high-ranked think tank consisting of national and international experts.

With regard to climate change issues, in 1990 a Coordination Committee was established under the Environmental Protection Committee of the State Council at that time. In 1998, a National Coordination Committee on Climate Change was set up in conjunction with the streamlining of central government organizations. The National Coordination Committee on Climate Change is a cross-ministerial body responsible for the deliberation on and coordination of climate-related policy issues and activities, and negotiations with foreign parties. Major issues are submitted to the State Council for its review and guidance. In the past few years, the National Coordination Committee on Climate Change provided guidance to central government departments and local governments in addressing climate change issues. Currently, the division of work within the National Coordination Group is regulated as follows:

- the National Development and Reform Commission coordinates climate change policies and actions adopted by various departments;
- the Ministry of Foreign Affairs heads negotiations involving participation in international climate change partnerships;
- the State Meteorological Administration takes the lead in cooperation with the Intergovernmental Panel on Climate Change.

The Office of the National Coordination Committee on Climate Change is located within the Department of Regional Economy of the NDRC and is responsible for conducting the routine work of the Committee.

12.3.2.1 Green Olympics 2008

Chinese government has committed itself to conducting the Green Olympic Games in Beijing in 2008. According to the Beijing Olympic Action Plan (Beijing Organizing Committee for the Games of the XXIX Olympiad 2002), the special effect of preparing and holding a Green Olympics in Beijing lies in:

- creating a clean and beautiful environment for the 2008 Olympic Games and enhancing the sustainability of the city;
- avoiding any possible negative impact on the environment due to the Olympic activities, and making the Games play an exemplary role in environmental protection in Beijing and the country as a whole; and
- highlighting the principle of achieving harmony between man and nature, so as to improve the environmental and ecological awareness of the public.

To provide a standard for the Green Games, a set of major indicators was set up in relation to ambient air quality, water, ecological conservation and construc-
tion, industrial pollution, solid wastes, noise, electro-magnetic radiation and radioactivity. According to the Action Plan, the indicators are as follows:

**Ambient air quality:** By 2008, the main air pollutants should meet the national standards based on plans for notable improvements to regional ecosystems. During the Olympic period in 2008, the concentrations of SO$_2$, NO$_x$, and O$_3$ in the urban area of Beijing should be in accordance with the World Health Organization (WHO) guidelines and particle levels should be comparable to those in the major cities in developed countries.

**Water:** By 2008, the water quality of the Miyun and Huairou reservoirs should continue to comply with national standards; the Guanting reservoir should resume the function of a potable water source; tap water quality should continue to meet WHO guidelines. The sewage treatment rate (secondary treatment) in the urban area and satellite towns should be increased to 90 per cent, and the reclamation rate should lie at approximately 50 per cent.

**Ecological conservation and construction:** The structure of water consumption should be rationalized to make more water available for ecological purposes. Moreover, over 70 per cent of the soil erosion in the mountainous area and 100 per cent of sandy bare land should be controlled. By 2007 urban and main towns’ green coverage rate and city-wide green coverage rate should be raised to 45 per cent and 50 per cent, respectively, thus forming three green shelters for the city in the mountainous, plain and urban areas. Pollution in agricultural areas and the wind-borne dust in the bare farmlands should be harnessed. Natural reserves should comprise about 10 per cent of the city territory.

**Industrial pollution:** As compliance rates with the limits for industrial pollution sources steadily rise, the total discharge quantity of the pollutants should be further reduced and more efforts made to readjust the industrial structure and layout. Comprehensive renovations to heavily polluting industries located in the southeastern suburbs and Shijingshan are anticipated, particularly reductions in iron, steel and cement production. Moreover, the relocation of about 200 enterprises in the urban area is foreseen and efficient measures are planned to prevent and control pollution in the key industries, as well as the industrial pollution sources in suburban areas.

**Solid waste, noise, electro-magnetic radiation and radioactivity:** By 2005 all domestic refuse generated in the urban and the satellite towns should be subject to proper treatment and disposal, with targets set for the separate collection of 50 per cent and recycling of 30 per cent. Reuse and recycling should occur with 80 per cent of all industrial solid wastes and all hazardous wastes should be safely treated and disposed. Overall noise levels should reach the national standard in the constructed urban areas by 2008; electro-magnetic radiation and radioactivity levels should be maintained in compliance with national standards.
12.3.3 Institutionalization

Several circumstances worked to inhibit the institutionalization of China’s environmental policy for a long time:

- Environmental protection was a new governmental task in the early 1970s that had to compete with established bureaucracies for funding and government resources.
- The Chinese government had not decided how to prioritize environmental protection.
- It was common practice in China to combine opposing interests into one departmental bundle in the hope that conflicts would be contained and forced to work themselves out.

In 1973 former Premier Zhou Enlai pushed for the creation of the Leading Group for Environmental Protection under the State Council. This group later became the State Environmental Protection Bureau and soon lost its independence in 1982 with its incorporation into the new Ministry of Urban and Rural Construction and Environmental Protection, where conflicting goals became severe. In 1984 the government decided it needed a consulting and coordinating agency for environmental protection and instituted the State Environmental Protection Commission (SEPC). The following year, in 1985, NEPA was set up as the sorely needed implementing arm of the SEPC. In 1988 it was elevated to the status of an independent agency under the State Council, below the ministerial level. In March 1998, renamed to SEPA, it derived ministerial-level authority from its position directly beneath the State Council responsible for environmental protection (see Table 12.8).

SEPA currently consists of nine departments with a total of 220 employees. Its main functions include:

1. Formulating and enforcing guidelines, policies, laws and regulations for environmental management, pollution control and environmental impact assessments of development plans and technological policies.

Table 12.8 Institutional development of environmental policy in China (1973–present)

<table>
<thead>
<tr>
<th>Year</th>
<th>Institution in charge of environmental policy</th>
</tr>
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<tbody>
<tr>
<td>1973</td>
<td>Leading Group for Environmental Protection under the State Council (Guowuyuan huanjing baohu lingdao xiaozu)</td>
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<tr>
<td>Mid 1970s</td>
<td>State Environmental Protection Bureau (Guowuyuan huanjing baohu lingdao bangongshi)</td>
</tr>
<tr>
<td>1982</td>
<td>Department of Environmental Protection in the Ministry of Urban and Rural Construction and Environmental Protection</td>
</tr>
<tr>
<td>1985</td>
<td>State Environmental Protection Commission (SEPC)</td>
</tr>
<tr>
<td>1988</td>
<td>National Environmental Protection Agency (NEPA)</td>
</tr>
<tr>
<td>Since 1998</td>
<td>State Environmental Protection Administration (SEPA)</td>
</tr>
</tbody>
</table>
Formulating national standards for environmental quality and pollutant emissions; assisting to develop a national programme for sustainable development; promoting eco-agriculture; 

Protecting the marine environment, biodiversity, wetlands; preventing desertification.

Supervising the exploitation of natural resources; overseeing ecological environment construction, ecological conservation and recovery of ecological damage; establishing and managing national nature reserves; organizing environmental zoning.

Coordinating efforts to deal with major environmental problems involving different departments, localities, river basins and regions; resolving inter-provincial environmental disputes.

Promoting the development of environmental science and technology and important research projects; guiding the development of the environmental industry.

Overseeing environmental monitoring, statistics; overseeing environmental education and publicity; promoting the participation of government and non-governmental organizations in environmental protection.

Formulating national principles for addressing global environmental issues; managing international cooperation on environmental protection efforts; helping to negotiate multilateral environmental agreements and overseeing their domestic implementation; coordinating foreign-funded environmental projects; communicating with international environmental organizations.

Managing nuclear safety, radioactive wastes and nuclear materials.

However, SEPA is not the only ministry in China which is in charge of environmental policy, as political decisions in China are made in a circular bottom-up and top-down consensus-creating process. For example, the main ministries and administrations involved in decisions affecting global climate change issues are the Ministry of Science and Technology, Ministry of Finance, Ministry of Foreign Affairs, National Development and Reform Commission, Ministry of Commerce, Ministry of Agriculture, Ministry of Construction, Ministry of Communications, Ministry of Water Resources, State Forestry Administration, Chinese Academy of Science, State Ocean Administration, Civil Aviation Administration.

Environmental policy was also institutionalized outside SEPA, especially through environmental NGOs.

Before 1994, there were no environmental NGOs in China. When Beijing launched its first bid for the Olympic Games in 1993 and approached by officials from the International Olympic Committee (IOC), the Chinese delegation did not even know how to answer the question of whether or not environmental NGOs existed in China. The first environmental NGO in China was formally registered on 31 March 1994; China was connected to the Internet that same year. The NGO was called ‘Academy for Green Culture’ and was affiliated with the non-governmental organization Academy for Chinese Culture. It is now
commonly called Friends of Nature (FON). Liang Congjie, a descendant of Liang Qichao (a prominent reformer in the late Qing Dynasty) and a member of the Chinese People’s Political Consultative Conference (CPPCC), is the President of this organization.

Over the years, more environmental NGOs have been set up. These include ‘Global Village of Beijing’ (GVB) and ‘Green Home’, which were set up around 1996. Together with ‘Friends of Nature’, they have become China’s three main pioneering environmental NGOs. Currently, there are approximately 2000 registered environmental NGOs, although experts estimate that there are about 100,000 environmental groups operating in China (Siarnacki 2006). Many organizations call themselves non-profit enterprises or university student environmental groups to avoid the tedious NGO registration process. The Chinese government discourages NGOs and other activist organizations that focus on issues it deems sensitive, but ‘service’-oriented NGOs working on environmental issues have been encouraged and allowed to expand to supplement the official environmental agency’s limited reach.

GVB, the best-known Chinese environmental NGO, is a non-profit organization dedicated to environmental education and the strengthening of civil society. GVB’s environmental campaigns focus on the promotion of sustainable development and a green lifestyle. Its main functions include the production of environmental television programmes and other publications, the organization of journalist trainings, the development of green communities, the organization of public events and forums and several other projects in the field of sustainable development and consumption. In February 2003, GVB began editing and distributing the monthly newsletter ‘Voices of Grassroots’ in Chinese and English to offer other NGOs a platform to express themselves, as well as to facilitate the communication of environmental messages and to support networking and capacity building in partner organizations. The GVB’s office is located in Beijing and currently staffs 15 in-office personnel and over 1,000 officially registered volunteers in its grassroots network.

Chinese environmental NGOs have a kind of umbrella association, the China Association for NGO Cooperation (CANGO). CANGO is a non-profit, voluntary, membership organization operating nationwide. It was founded in 1992 and registered with the Ministry of Civil Affairs in 1993 with the registration number 3340. It is audited according to Chinese laws. Since 1986 CANGO has developed and continued to maintain good relations with 150 foreign NGOs, bilateral and multilateral organizations. CANGO has raised 280 million RMB (US$33.89 million) from 60 donor agencies for project implementation. The local matching fund has reached 200 million RMB (US$24.21 million) (CANGO 2006). The funds were used to support 272 development projects throughout China – in Heilongjiang, Hebei, Anhui, Jiangsu, Zhejiang, Jiangxi, Shandong, Henan, Hubei, Guangxi, Hainan, Sichuan, Guizhou, Yunnan, Shaanxi, Ningxia, Tibet, Hunan, Fujian, Inner Mongolia and Beijing. By implementing these projects, CANGO has made a great contribution to social and economic development, and the improvement of people’s living conditions in
these areas. Currently, CANGO has 100 member organizations across China, and maintains cooperative relationships with governmental agencies at various levels, as well as colleges and universities, research institutes, and domestic NGOs.

While bound by strict rules and close government monitoring, environmental NGOs have achieved some limited success and have demonstrated that they can affect government policy and induce a certain change in the political awareness in China. For instance, in 2003, the NGO ‘Green River’ was able to convince the Central Communist Party to allow all traffic to be stopped every day for one hour along the Qinghai road in Chengdu in order to allow Tibetan antelope to cross. In 2006, Chinese NGOs, coupled with local activists, were able to convince the government to put a temporary stop on dam work on the Nujiang River that would displace 50,000 people while the project was placed under review (Siarnacki 2006).

In addition to a restrictive political culture, environmental NGOs in China face substantial challenges in regard to funding and human capital. China has yet to develop a culture of philanthropic donation or a system of tax incentives that would encourage such donations, thus making even official NGOs dependent on foreign funding sources. The government views foreign donations to environmental NGOs in the same way as other foreign direct investment – as a positive contribution to the Chinese economy – but limitations in the amount of both domestic and foreign donations place serious constraints on the work of environmental NGOs in China (Siarnacki 2006).

In China, environmental websites have not only been created by green NGOs, but also by government agencies, research centres and individual activists. Personal homepages and weblogs on environmental topics – ranging from green lifestyles to the protection of endangered species – have mushroomed. With the rise in public environmental interest, even commercial portals such as Netease.com run ‘green forums’ online. Environmental websites have also begun to multiply among loosely organized groups of volunteers. Usually unregistered and with no full-time staff, these web-based environmental volunteer groups represent a new trend and potentially powerful new direction for China’s environmental movement. Assessing the number of such groups is challenging, for many are affiliated with green university groups, are outgrowths of existing NGOs or are simply the initiatives of some highly motivated individuals.

As long as environmental NGOs and individual activists focus their efforts on dealing with environmental problems without directly challenging the Communist Party or its policies, it appears that environmental NGOs will be allowed to flourish in China. However, if their activities become threatening to the government or begin to touch on more serious issues such as minority and human rights, it is likely that their freedom will be curbed (Siarnacki 2006). As long as this balance is kept, political stability will remain in this field.
12.3.4 Economization

As China is transforming to a market economy, environmental policy is undergoing a process of economization as well, which indicates a shift in politics away from command and control measures to the utilization of economic instruments. On the technological side, this economization is accompanied by a change from end-of-pipe technologies to source reduction.

With the establishment of NEPA in 1988, environmental policy measures to broaden pollution control and environmental management included: devising standards for environmental quality, establishing a discharge permit system in urban areas as well as an ambient monitoring system, and creating an enforcement policy. As China is moving away from a command economy, environmental policy tactics have shifted from a sole reliance on fining polluters, which was not always effective since paying fines was often cheaper than operating pollution control equipment, to using market incentives and economic instruments to encourage the use of such equipment. NEPA and later SEPA have been studying how to take advantage of current economic reforms to enhance environmental protection efforts through such measures as increasing the price of resources to reflect their true value, gaining greater access to foreign environmental technology and creating an environmental tax. The two institutions also worked to convince the government to increase its environmental investment from an average of 0.8 per cent of the GDP to 1.5 per cent in the late 1990s.

During the 1990s, China aimed to incorporate environmental protection measures into all new construction projects from the outset in order to prevent environmental pollution and control it in the earliest production stages rather than relying exclusively on less effective pipe tail solutions. The country also undertook efforts to incorporate environmental protection into national social and economic development plans. In the mid 1990s, NEPA also carried out environmental education to promote environmental awareness among the population, on which the success of environmental protection measures depended given the limited ability of NEPA to oversee the implementation of its measures. NEPA also conducted its own scientific research to determine a solid basis for regulations, standards and policies, primarily carried out through its own Chinese Research Academy of Environmental Sciences and began to promote technological solutions to environmental problems (including cleaner production technologies and development of clean energy) instead of relying on purely administrative measures.

With the establishment of SEPA, the broader use of economic instruments came into the environmental policy discussion. Economic instruments such as pollution charges, pricing policy, favourable terms of investment for environmental technology, market creation, as well as ecological compensation fees, are being introduced; and, within this first decade of the new century, China aims to incorporate natural resource and environment values into the accounting system for its national economy and to establish a pricing system that reflects environmental cost.
One of the central issues will be the role of user charges in the water sector, as water scarcities increasingly occur in the country. Chinese representatives have expressed concerns about the affordability and political acceptability of user charges. However, it is difficult to see how a realistic environmental finance strategy could be developed without raising user charges. Currently, charges for water are less than 0.5 per cent of household income, significantly lower than the widely used 4 per cent benchmark of affordability.

Most recently, new economic mechanisms have been introduced in the field of the management of climate change mitigation policies. On 30 June 2004, China issued the document Interim Measures for the Management of CDM Project Activities in China. With this regulation, China formalizes its intention to participate in the CDM to attract investments from Annex I countries. The regulation’s aim is to reduce the uncertainties pertaining to the legal framework conditions of the CDM and its application in China. The Interim Measures include admission requirements, details on the Chinese and UNFCCC CDM authorities, information about project development and implementation procedures, the designated national authority (DNA) for CDM in China (National Development and Reform Commission (NDRC)), etc.

It is the particular aim of the Interim Measures to advocate and advance only those projects that are in line with China’s technological priorities, i.e. the improvement of energy efficiency, the development and use of renewable energies and natural gas, and the utilization of methane and coal bed methane. A remarkable element of the Interim Measures is their stipulation that project developer and Chinese government would share the benefits from the transfer of the certificates, whereas distribution of the benefits is to be determined by the Chinese government. For now the Chinese government only allows fully Chinese enterprises and enterprises under Chinese control (meaning a Chinese ownership of more than 50 per cent) to be eligible for these types of projects.

After being recognized as a market economy by several developed and newly industrialized economies, China is taking further steps to apply methods which are more market-oriented through the use of economic instruments rather than pure command and control measures. However, this new policy may imply competitive disadvantages for both companies from Annex I states that are ready to invest in China and for the Chinese suppliers of CDM projects. This is due to the following reasons:

- First, the aim of the Chinese government is limited to a short range of projects. For instance, foreign investors will hardly have any access to cost-effective potentials for the reduction of HFC-23 (a by-product of the coolant HFC-22 having highly detrimental climate effects). HFC-23 is not among the priorities of the Chinese government. Hence, it is likely that such potential projects will be burdened with a prohibitively high revenue share for the Chinese government as the list of priorities is currently fixed.
- Second, the demand for Chinese ownership will limit the scope for foreign companies. The requirement that solely Chinese or Chinese-controlled
enterprises be authorized for project development represents another significant barrier for foreign investments in CDM projects in China. However, if the Chinese government’s hopes of increasing the interest of foreign investors in Chinese CDM projects are not fulfilled, it can be expected that this regulation will be relaxed or abolished in the medium term (Oberheitmann and Frondel 2004).

12.4 Summary

Since the start of economic reforms at the end of the 1970s, China experienced rapid economic growth: per capita income and production increased by 7 and 8 per cent per annum, respectively. The dark side of this economic growth, however, has been severe environmental degradation. Looking at the development of China’s environment in regard to the media atmosphere, water, soil and solid waste, the environmental situation is still very serious in many sectors. However, according to political measures and an increasing environmental awareness of the people, the situation is improving. The expected economic growth is a great challenge for China’s environmental policy, especially in relation to global greenhouse gas emissions. So far, China’s environmental policy finds itself in a dilemma of balancing economic growth with increasing ecological costs.

During the past 25 years, Chinese environmental policy developed thematically, instrumentally, institutionally and regionally:

• The political field of environmental policy broadened according to growing environmental problems in various sectors.
• The degree of institutionalization increased. This led to competition and conflicts with other policy fields, especially economic development policy. Environmental NGOs besides SEPA started to play a role.
• The instruments of environmental policy are economizing, i.e. they are turning away from command and control measures to economic instruments giving incentives to the economic entities to change their behaviour.
• Environmental policy internationalized. This has resulted from China’s increasing role in the world and the growing international responsibility attached to this role.

China’s environmental policy continues to look for its place in the concert of the other policy fields. However, following the Environmental Kuznets Curve hypothesis (Grossman and Krueger 1991, 1995; Kuznets 1955), against the background of a growing level of welfare, environmental awareness and China’s increasing role internationally, this may gradually become easier in the future.
12.5 Notes

1. GJ = giga joule.

2. The decomposition can be expressed by the equation:
\[ \Delta CO_2 = \Delta \gamma \cdot \eta_{1995} \cdot Ycap_{1995} \cdot P_{1995} = \gamma_{1995} \cdot \Delta \eta \cdot Ycap_{1995} \cdot P_{1995} + \gamma_{1995} \cdot \eta_{1995} \cdot \Delta Ycap \cdot P_{1995} + \gamma_{1995} \cdot \eta_{1995} \cdot Ycap_{1995} \cdot P_{1995} + \gamma_{1995} \cdot \eta_{1995} \cdot Ycap_{1995} \cdot P_{1995} \]

Between 1990 and 2001, China’s CO₂ emissions grew by 340 million tons. With the other factors remaining constant, the CO₂ emissions would have increased by 2.5 billion tons. China’s moderate population growth contributed in only a small degree (370 million tons) to the increase of CO₂ emissions. The impact of China’s economic development on the CO₂ emissions was counterbalanced by two factors: improvements in energy efficiency, and the reduction of the overall CO₂ intensity through a substitution of coal for lower (natural gas, mineral oil) or non-carbon primary energy sources (nuclear energy, hydro energy and other sources of renewable energy). The largest contribution to the moderate increase in CO₂ emissions in China between 1990 and 2001 occurred through the reduction of the macro-economic energy intensity by investments in energy efficiency (−2.4 billion tons). The impact of these investments was nearly ten times larger than that of fuel substitutions (−260 million tons).

3. Administrative Office; Department of Planning and Finance; Department of Policies, Laws and Regulations; Department of Human Resources and Institutional Affairs; Department of Science, Technology and Standards; Department of Pollution Control; Department of Nature and Ecology Conservation; Department of Nuclear Safety and Radioactive Management; Department of Supervision and Management; Department of International Cooperation.

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