

# Continuity and Change in China's “Local State Developmentalism”

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*Since the early reform days and particularly during the Hu-Wen era, the local state has seen remarkable changes triggered by the central government's new focus on rural development and rural-urban integration. The “peasant burden” was reduced by the tax-for-fee reforms in 2002 and the abolition of the agricultural tax in 2006. Fiscal transfers were increased to provide more funding for local governments in order to ensure reasonable public goods provision as well as investment in agricultural modernization and in situ urbanization. At the same time, the performance evaluation of local cadres and government units has been streamlined to enforce stricter compliance with upper level policy guidelines and local governments have been systematically encouraged to engage in policy experimentation and innovation by linking policy success to cadre promotion. However, the local state, at all levels, is still struggling with “un(der)-funded” mandates, rising public demand and, as often reported, social protest. Against this background, this article argues that the concept of local developmentalism can still serve as a useful analytical*

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*tool to explain state-business relations at county level and below. The local state has maintained its control over private sector development and entrepreneurial agency by becoming an “interested facilitator” and “enabler” by withdrawing from its position as bureaucratic patron, cadre entrepreneur and corporate agent.*

**KEYWORDS: local state developmentalism; state-business relations; private sector development; private entrepreneurs.**

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It can no longer be assumed that governments have the upper hand in negotiating the rules in a game of constrained cooperation, where firms rely on the threat of exit and a shared interest in economic growth to keep the predatory tendencies of local officials at bay.

—Smith, 2013, p. 1041



Since the early reform days and particularly since the early Hu-Wen era, the local state has seen remarkable changes that have mainly been triggered by the government’s new focus on solving the “three problems of agriculture” (*sannong wenti* 三農問題) and driving forward rural-urban integration. The central government has reduced the “peasant burden” by abolishing all kinds of levies and fees (many of which were illegal), and has also expanded the fiscal transfer system to provide more funding for local governments in order to ensure reasonable public goods provision (for example, by setting up a new system of cooperative medical care in the countryside), and to intensify investment in agricultural modernization and urbanization (Ahlers, 2014; Göbel, 2010; Hou, 2011; Sato, 2008; J. X. Yang, 2009). Moreover, the performance evaluation of local cadres and government units has been tightened to enforce stricter compliance with upper level policy guidelines, underlining the central government’s interest in New Public Management and modern governance techniques (X. L. Chen & Yang, 2009; Heberer & Senz, 2011; Wong, 2012). Local governments have also been strongly encouraged to engage in policy experimentation and innovation (Ahlers & Schubert, 2013; Teets & Hurst, 2015). However, local cadres at county level and below still have to deal with “unfunded” or only partly-funded mandates (J. J. Kennedy, 2013; Wong, 2010), rising public demand and social

protest, mostly related to "land grabs" by local governments in need of money. As in the 1990s, local governments operate under tight institutional and fiscal constraints while having to satisfy both upper levels and the populace. At the same time, local bureaucracies, nowadays, are condemned to trying to ensure effective policy implementation and service-oriented government "under the shadow of hierarchy," which forces them into both compliance and internal coherence (Heberer & Schubert, 2012).

This article argues that the local state in contemporary China is, in *grosso modo*, developmentalist in nature. Today's developmentalism differs from its predecessor in the early decades of "reform and opening." Since the beginning of the Hu-Wen era, local governments have been increasingly exposed to central state demands for sound policy implementation, public goods provision, and performance control. In addition, the local state today faces a more mature and complex private sector economy and, as is suggested in this article, more self-confident and powerful private entrepreneurs than twenty or even ten years ago. Local state developmentalism in present-day China arguably displays a creative mixture that combines the administrative streamlining of local bureaucracies, policy experimentation and innovation, cadre management and, most notably, the economic guidance (*yindao* 引導) of the private sector. Even if a great deal of bureaucratic collusion and clientelism, "creative budgeting" and "goal displacement" (Hillman, 2010; Smith, 2009; Zhou, 2010) is going on, the local state still seems to be capable of responding effectively to the challenges of both private sector development and public goods provision, and thus contributing substantially to overall system stability in contemporary China.

The article is structured as follows: first of all, we provide a brief summary of the debate on the local state that took place in the 1990s. This is followed by a description of the important central state policy initiatives in the 2000s, which have changed the institutional environment of local governments and impacted strongly on their strategies (and on their ability) to implement upper level policies and to promote private sector development. In the ensuing section, there is a special focus on local state-business relations, in order to explain "local state developmentalism

2.0,” a concept which is intended to encapsulate the role of the local state in the development of the private sector and the observation of evolving state-business relations.

### Local State Developmentalism 1.0

Looking back at two decades of “reform and opening” in the late 1990s, Baum and Shevchenko observed “a growing trend toward the fusion of political and economic power at basic levels” (1999, p. 339). As they reported in their review of the corresponding literature at the time, “local state agents have ‘taken the plunge’ (*xiahai* [下海]) and have become directly involved in profit-making activities, for example, by setting up or spinning off their own enterprises or becoming joint venture partners” (1999, p. 344), hence becoming “entrepreneurial.” Elaborating on this, they further noted that local authorities at village, township, county and municipal levels have most often

formed clientelist ties with local entrepreneurs, using bureaucratic connections to negotiate favorable start-up loans, secure business licenses, procure inputs, appoint enterprise managers, and otherwise preferentially assist their local clients. In still other cases, local governments have played a more indirect economic role, helping to plan finance, and coordinate local projects, investing in local infrastructure, and promoting cooperative economic relations with external agencies. Through such intervention, local governments develop a friendly economic environment while remaining bureaucratically neutral and avoiding the formation of particularistic ties to “preferred” enterprises and clients. In a corporatist variant of this pattern, local government agencies play a major role in licensing and regulating (that is, “incorporating”) secondary associations in the private sector, including commercial, industrial, and occupational groups. (1999, p. 344)

Entrepreneurialism, (bureaucratic) clientelism, and developmentalism (including local state corporatism)—next to predation, “defined as the use of the state apparatus to extract and distribute unproductive rents” (1999, p. 344)—were identified in this literature as the major types of local state involvement in local economic activity (Figure 1). Leaving out predation as a “deviant case,” for the purpose of this article, the first three types, which

LSD I: Entrepreneurialist	LSD III: Developmentalist/ Corporatist <sup>1</sup>
LSD II: Clientelist	Predatory

Figure 1. Typology of state agency involvement in local economic activity (based on Baum & Shevchenko, 1999, p. 345).

show a considerable overlap in the real world, are captured by the concept of local state developmentalism (LSD). As a matter of fact, they all highlight the "developmental spirit" (or orientation) of local governments and only differ in strategy to achieve one common objective: development.<sup>2</sup>

Local state intervention in the economy differed in scope and intensity all over China, but no matter whether these interventions were clientelist, entrepreneurial or corporatist, the local state was the dominant force that steered private sector development and controlled all the resources critical for private entrepreneurs.<sup>3</sup> It could be argued that local

<sup>1</sup>"Developmentalism" as a sub-type of local state developmentalism may sound a little bit odd in systematical terms but makes sense analytically. It may be called the "orthodox" variant of the "developmentalist paradigm" in the local state, meaning that local governments do not directly engage in business for profit and do not maintain clientelist relations to specific enterprises (see also Blecher & Shue, 2001, p. 368). As both clientelism and entrepreneurialism strive for local development as well, the distinction is, as we argue, rather in strategy than in categorical terms.

<sup>2</sup>For local state developmentalism (LSD) called "(bureaucratic or symbiotic) clientelism," see Wank (1995); for LSD called "entrepreneurialism," see Duckett (2001); for LSD called developmentalism see Blecher (1991), Blecher and Shue (1996), and for local state corporatism, most notably, Oi (1992, 1995, 1999), Oi and Walder (1999), Walder (1995), but also Pearson (1994) and Unger and Chan (1996). Recently, C. Wang, Ye, and Franco have introduced *neo-guanxilism* as an alternative concept to characterize the local state in contemporary China. Neo-guanxilism captures their observation of "an unbalanced allocation of resources and increased gaps between the political/economic elites and the population at large" (2014, p. 514), which comes quite close, however, to what Wank and others have described earlier.

<sup>3</sup>See Baum and Shevchenko (1999, pp. 348-351) for a descriptive differentiation between the three subtypes of local state developmentalism. Whereas *bureaucratic (symbiotic) clientelism* refers to the informal relations of cadre patrons and entrepreneurial clients which undermine regulatory supervision by state institutions, *entrepreneurialism* highlights the setting up of economic empires administered by (potentially, although not always corrupt) local cadres who, as entrepreneurs with a profit motive, act in the interests of the benefit of their respective bureaus and agencies. Jean Oi's concept of local state *corporatism*, on the other hand, accentuates the role of county and township governments as planners, coordinators, lobbyists and regulators within a public-private cooperation that "brings

state corporatism offers the most convincing explanation for the success of China's early market transformation in coastal China, which was based on a collective economy of township and village enterprises (TVEs) and flourished in the 1980s and early 1990s. In her seminal study on the rise and practice of local state corporatism in those days, Jean Oi noted pointedly that,

Relying heavily on the existence of a collectively owned economic base and administrative power, local governments treated enterprises within their administrative purview as components of a larger corporate whole. Local officials acted as the equivalent of a board of directors, with the locality's top officials as the chief executive officer. At the helm of this quasi-corporate organization stood the local Communist Party secretary. Control was exercised through the monopoly of property rights that local government retained. (1999, p. 97)

The local corporate state is akin to a large multilevel corporation. The county is at the top of the corporate hierarchy, corresponding to the corporate headquarters; the townships are the regional headquarters; and the villages are the companies with the larger corporation. Each level is the appropriate equivalent of what is termed a "profit center" in decentralized management schemes used in business firms. . . . Like a profitable company or division within a large corporation, those townships and villages that succeed in becoming highly industrialized will command positive attention, will be listened to at corporate headquarters, and will have more leverage to be "innovative" in their implementation of rules and regulations. Their leaders will be promoted up the corporate hierarchy. In this sense, China is coming closer to the ideal of the NIC model of development, where subsidies are given to firms judged to have the best potential or are already the best in a particular field. (1999, p. 102)

In other words, county governments made "guidance plans" (*zhidaoxing jihua* 指導性計畫) that differed from mandatory plans (*zhilingxing jihua* 指令性計畫) by giving their subordinates a choice to follow, withdrawing support if their eventual choice was not "opportune." "Guidance" was linked to preferential treatment by giving subordinate governments or TVEs privileged access to scarce resources (fuel oil, electricity) and

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China closer to the successful developmental state model of the East Asian NICs" (1995, p. 1148). In all cases, the local state was instrumental in bringing about remarkable economic development in the 1980s and 1990s.

raw materials (lumber, steel), credit<sup>4</sup> and subsidies, market information, technical assistance, study tours for identifying new market opportunities, import and export licenses and, not least, to direct "communication links" with government bureaus. The local state also promoted and enforced the special interest representation of private entrepreneurs in a number of different business organizations that were state-led and clearly corporatist,<sup>5</sup> creating a symbiotic relationship between the local state and the private sector:

Local governments have used a combination of inducements and constraints to fashion a local corporatist system that melds the entrepreneurial and governmental roles of local governments, keeping intact the fusion of economic and political power characteristic of Leninist systems. (1999, p. 138)

It is argued here that many features of the corporatist variant of local state developmentalism, as briefly described above, still figure in state-business relations in contemporary rural and peri-urban China (see below).<sup>6</sup>

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<sup>4</sup>Although local bank officials were appointed by upper levels rather than at the level at which they worked, local governments at the respective levels remained powerful enough to influence decisions on granting loans, and to "persuade" banks to exempt debtors from penalty interest payments, etc. As Oi reported, "the close relationships between banks, finance and tax offices, and local officials facilitated rapid growth in the 1980s, but . . . they are also the cause of the problems that have come to haunt banks in the 1990s as bad debt has mounted" (1999, p. 120). Today, this assessment still holds, although local banks seem to have gained more autonomy from local governments since then (see below) (see also Tsai, 2002).

<sup>5</sup>Private entrepreneurs had to join the local branch of the Association of Individual Businesses (*getihu xiehui* 個體戶協會) or the Association of Private Businesses (*siying qiye xiehui* 私營企業協會), depending on the size of their workforce. Both organizations were supervised by the County Bureau of Industry and Commerce (*gongshangju* 工商局) and their cadres were paid by the county government. Larger private enterprises, in particular, concurrently became members of industrial branch associations within the All-China Federation of Industry and Commerce (*Zhonghua quanguo gongshang lianhehui* 中華全國工商聯合會), which is supervised by the CP United Front Department and figures as a corporatist organization *par excellence* (see Pearson, 1994; K. Yang, 2013).

<sup>6</sup>This view has recently been contested by Wang Lei, who argues that the concept of local state corporatism disregards the local governments' "exclusive focus on short-term achievements as exemplified by the extraordinary weight of manufacturing and real estate in the local economy, as well as their irrational public investments in promoting mega-projects that have not considered the factors of demand and financial capacity" (2013, p. 83). This is a familiar assessment of local state behavior which is questioned, however, by other scholars, who have found that local state policy implementation is surprisingly effective and that image-building has decreased considerably during the last decade (Ahlers &

However, a series of central state policy reforms initiated in the early 2000s changed the political and institutional environment of local governments significantly, forcing them to adjust their governance mode vis-à-vis private entrepreneurs and the local populace. Consequently, the local state has largely withdrawn from assuming a role as “corporate head” of the local economy, restricting itself to acting as an “interested regulator” instead. Consequently, it does not dominate the private sector economy as it did in the early days of “reform and opening,” although, as we argue, government-business relations still tend to be pretty much corporatist in nature, to the benefit of both the local state and private entrepreneurs.

### **New Challenges and Constraints for Local State Developmentalism in the Hu-Wen Era**

Interestingly enough, the Hu-Wen era (2002-2012), like the 1990s, has been characterized as another “lost decade” in Chinese politics by many observers who have pointed at the lack of progress made in the realm of political reform and the meager results in the fight against corruption and bureaucratic inefficiency.<sup>7</sup> However, this assessment does not take into account the far-reaching initiatives that have been launched since the early 2000s with the aim of strengthening public goods provision, ensuring more cadre accountability, and providing for more effective policy implementation in the local state. In retrospect, local governments seem to have had a certain degree of freedom throughout the 1980s and 1990s to create the institutions and incentives for economic development in their respective jurisdictions. This autonomy was backed up by a fiscal system that made the central state dependent on taxes levied on the provinces. Annual contracts were signed that obliged the provinces to remit

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Schubert, 2014).

<sup>7</sup>For an overview of the recent Chinese debate on rural governance, quoting from the work of “liberal” and “left-leaning” scholars, see Day (2013).



fixed amounts of taxes to the center and allowed them to keep the rest—a system which encouraged lower level governments to hide most of their revenues from the center in order to use them to finance their development policies and public goods provision (Guo, 2008; Wong, 2009; Wong & Bird, 2008). This design resulted in a relative decline in central state revenues, although it helped to build the economic powerhouse that China became during the first two decades of reform. After the eventual introduction of a new tax assignment system (*fenshuizhi* 分税制) in 1994 (A. Chen, 2008; Zhan, 2009), as a measure to strengthen the central state's redistributive capacity, things quickly turned sour in the local state. Forced to shoulder the major portion of the expenses for basic education, social welfare, infrastructural development and cadre salaries, county and township governments faced harsh fiscal deficits, with upper level transfers and subsidies that were too limited for them to be able to make ends meet. Consequently, they invented a whole array of budgetary and non-budgetary taxes and fees which increased the "peasant burden" (*nongmin fudan* 農民負擔) disproportionately, and resulted in strained cadre-peasant relations and rural protest on an increasing scale throughout the 1990s and early 2000s.

To counter these developments, at the beginning of the Hu-Wen era in 2002, important reforms were introduced nation-wide which resulted in the eventual abolition of all taxes and fees in the countryside, including the notorious agricultural tax in 2006 which had been highly symbolic of the "peasant burden" since the early days of the Chinese empire (J. J. Kennedy, 2013; Li, 2006; Yep, 2004).<sup>8</sup> The fact that local governments were freed from squeezing money out of villagers had a considerable im-

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<sup>8</sup>The total burdens of villagers resulting from regular budget and extra-budgetary collections could amount to over 40 percent of a household's annual income (Bernstein & Lü, 2003). The reform of the fiscal system included the requirement to integrate all extra-budgetary income in the regular budget of a county or township, a measure that aimed to make local finance more transparent and law-abiding. This was met with considerable "hesitation" on the part of local governments. As a matter of fact, off-budgetary income has remained an important source of finance for local governments all over China, although its most problematic forms seem to have been substantially contained.

pact on cadre-peasant relations, which became less antagonistic.<sup>9</sup> At the same time, the central state increased its transfers and subsidies to subordinate governments to make up for the fiscal deficits resulting from the tax-and-fee reforms and the continuing obligation of local governments to finance the greater part of public goods provision in their jurisdictions. However, many county and township governments still had to cope with “financial stress” and un(der)funded mandates, which had been the reason for their charging villagers excessive taxes and fees after 1994 in the first place.<sup>10</sup> Against this background, the central government embarked on a new and concentrated effort to spur rural development by announcing the “Constructing a New Socialist Countryside” (CNCS) policy in the mid-2000s (Ahlers, 2014; Ahlers & Schubert, 2009; Day, 2008; Su, 2009; Thøgersen, 2011). All subordinate governments were obliged to come up with comprehensive plans for modernizing agriculture, constructing and paving roads, building schools and hiring teachers, establishing and expanding social welfare systems (most notably, rural cooperative medical care), refurbishing villages by installing flush toilets, street lights and broadband cables for internet communication, constructing small biogas stations, promoting vocational training for labor migrants, and relocating

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<sup>9</sup>This point has been mentioned to us by many local cadres during our fieldwork in China in recent years. However, when collective land became the most important source of local revenue generation for counties and townships as a consequence of the tax-and-fee reforms, cadre-peasant relations again deteriorated quickly, which often resulted in serious clashes and social unrest (Sargeson, 2013).

<sup>10</sup>More well-off localities in coastal China could rely on tax income generated by their industries, although the further streamlining of the tax system after 2002 meant that they were progressively charged with tax remittances to upper levels. Less well-off local governments, for their part, had either to “invent” new fees and levies, a coping strategy that was politically risky, or to commercialize collective land and refinance themselves by means of the profits this strategy entailed. “Land grabs,” in fact, became the greatest liability in the Hu-Wen approach to rural development and rural-urban integration and this, arguably, triggered a new way of thinking about land use rights and land rental markets which has gained momentum in recent years (see below). Another consequence of the tax-for-fee reforms was the financial “hollowing out” of townships which became *de facto* line offices of county government, a development that has met with criticism from some China scholars (Smith, 2010; Zhao, 2007). From a different perspective, however, the elimination of townships as power brokers and additional layers in the local policy process may help policy implementation, since there is, arguably, more effective top-down control over the use of public money.

impoverished rural dwellers to newly-built villages or neighborhoods at nearby township or county seats. The central state sent “fresh money” to the countryside to help local governments to finance these projects, either in the form of ordinary fiscal transfers (*zhuan yi zhifu* 轉移支付) or, most often, as earmarked funds (*zhuangxiang buzhu* 專項補助) for specific programs to be implemented at the grassroots level. Concurrently, local governments were encouraged to engage in policy experimentation and modeling to find best practice-solutions which could become showcases to be emulated elsewhere, boosting cadre careers in those localities where creativity helped to bring about economic and social development, administrative efficiency and enhanced public goods provision.

The CNSC initiative soon merged with the government’s objective of promoting urban-rural integration (*chengxiang yitihua* 城鄉一體化), i.e., making a systematic effort to transform the countryside by inducing peasants to move to “new villages,” “central townships” or new quarters (*shequ* 社區) on the periphery of county seats (*in situ* urbanization) (Han, 2009; see also Lu, 2012; Yew, 2012). Local governments were also encouraged to reform the system of land use rights, not only in order to facilitate urban migration and the commercialization of agriculture, but also to guarantee those who were leaving their villages a fairer share of the rising land prices (Lin & Yi, 2011; W. Wang, 2005; Yep, 2013; for a critical view on land use rights reform and the privatization of land see Zhang & Donaldson, 2013).<sup>11</sup> As a matter of fact, the ongoing reform of land use rights has been crucial to buffering the process of urban transformation, as has the increase in central state fiscal transfers for rural development and local policy implementation in the aftermath of the tax-for-fee reforms.<sup>12</sup>

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<sup>11</sup>The reform of land use rights has been driven from below; local governments started, at an early stage, to experiment with different mechanisms to redistribute idle land for the purpose of attaining economies of scale by commercializing agriculture and securing a rental income for migrants when they left their villages for the cities. The central state tolerated these experiments and only indicated periodically to local governments that the full-scale privatization of the land was not on the agenda. For an overview of China’s land use rights reforms during the Hu-Wen era, see Vendryes (2010).

<sup>12</sup>Critics of the transfer system often note that these funds hardly match the requirements of local public goods provision and that it would be necessary to decentralize the fiscal

At the same time, during the Hu-Wen era, local governments faced increasing pressure in the form of annual evaluations to assess the performance of leading local cadres and entire government bureaus at each administrative level. This was certainly not a new institution, but it has gained in importance since the early 2000s, first and foremost, as an *incentive* for enforcing policy compliance across all administrative tiers and “reasonable” policy implementation in the local state. Many China scholars have expressed doubt or even outright pessimism concerning the nexus between regular performance evaluation (*kaohē* 考核) and effective policy implementation. Performance evaluation relies on the internal control of cadre bureaucracies and quantifiable assessment indicators which can easily be manipulated (Edin, 2003; Kipnis, 2008; O’Brien & Li, 1999; Zhou, Lian, Ortolano, & Ye, 2013).<sup>13</sup> This nexus is, indeed, difficult to grasp. However, as Heberer and Trappel (2013) and Heberer (2014) have convincingly shown, the evaluation mechanism is more than just a technical incentive aimed at rational subordinates who are focused on future promotion and financial rewards. Evaluations are primarily intended to “unify the thinking” of local cadres and, most importantly, the leading personnel, in terms of policy *and* hierarchy: individual success is connected with the creative and effective implementation of upper level guidelines<sup>14</sup>

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system again in order to give local governments more revenue to dispose of. This does not, however, seem to be the immediate goal of the central government, although there is good reason to assume that it will gradually go down this route, depending on the reduction in China’s huge development disparities and the effectiveness of institutional control over local cadre bureaucracies (Li, 2010). The *Decision of the Central Committee of the Chinese Communist Party on Some Major Issues Concerning Comprehensively Deepening the Reform*, taken by the 3rd Plenum of the Central Committee in November 2013, announced the fine-tuning of the current fiscal system by scaling back earmarked (or special) transfer funds and increasing non-specified (general) transfers, thus giving local governments more leeway to allocate public money. At the same time, local matching fund requirements are to be relaxed. This means both more centralization of the fiscal system as a whole and more flexibility for local policy implementation.

<sup>13</sup>Others, however, view performance evaluation as a powerful institution that introduces competition among subordinates who are effectively held responsible for implementing upper level policies and providing for economic development (see, e.g., Burns & Wang, 2010; Landry, 2008).

<sup>14</sup>As Heberer and Trappel (2013) emphasize, there is a connection between performance evaluation and policy experimentation, since local cadres who come up with innovative

and the internalization of a mode of communication that links each administrative level by means of competitive "impression management." This helps in the identification of capable cadres and renders this hierarchical bureaucratic system a coherent whole.<sup>15</sup> Collusion among cadres and between government bureaus to deceive upper levels by forging statistical data or manipulating field visits (Zhou, 2010; Zhou, Ai, & Lian, 2012) does occur. However, these efforts are factored in by the evaluation system as an inevitable response on the part of local governments facing stern pressure from above and below; it does not change the fact that, at the end of the day, each political actor is fully aware that evaluation sheets and on-the-spot inspections by upper levels must be accommodated, to some extent, by tangible policy outcomes and cannot be shirked repeatedly, if negative repercussions on cadre careers and upper level transfers are to be avoided.<sup>16</sup>

All in all, the operating mode of local governance has changed considerably since the early days of the Hu-Wen administration. The policy

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policies and models which find upper level support and entail trans-local emulation will score high in the assessment rankings.

<sup>15</sup>Quoting from their interview data, Heberer and Trappel noted that for many directors of county-level CP Organization Departments, "the primary objective of evaluations was not to punish officials but to bring them in line with the policy and developmental requirements and to identify their problem-solving capacity" (2013, p. 1160).

<sup>16</sup>Most recently, Zhou et al. have given a very negative account on the effectiveness of the evaluation system which is consistent with Zhou's earlier writings, noting that "the logic of meeting targets often induces coping behaviors (both legitimate and illicit) such as selective implementation, distortion or fabrication of records which would induce a decoupling of symbolic compliance from substantive compliance, and the pursuit of short-run gains at the expense of long-term profits" (2013, p. 125). He and his co-authors describe the technique employed by local governments to steer the evaluation system in such a way that lower levels' diverging performance results are gradually balanced and that bureaucratic coherence is ensured: "What appears as steady improvement in performance evaluations may turn out to be, as in our case, outcomes manipulated in a process of muddling through that responds to tensions from the competing goals of meeting targets, maintaining coalitions and rewarding good performance" (2013, p. 146). The authors do not make a specific assessment of policy outcomes resulting from this muddling-through approach but implicitly underline the point being made above, that performance evaluations are more than mere incentives or control systems for ensuring strict policy implementation. They are primarily a mechanism for maintaining bureaucratic coherence (or systemic stability), although they entail tangible policy outcomes by having to prove that a required policy has been implemented "reasonably." See, also, Smith (2013, pp. 1033-1036).

process has been re-centralized by more fiscal reforms, new central state initiatives have been launched to spur rural development and rural-urban integration, efforts are being undertaken to fine-tune the cadre and performance evaluation procedures, a widely propagated focus has been set on service-oriented government, forcing local authorities to re-invent themselves in the wake of the tax-for-fee reforms, and more pressure is being placed on local governments to find the right balance between economic development and reasonable public goods provision (including environmental sustainability) to ensure “social stability” (*shehui wending* 社會穩定). Today, local governments have to compete for upper level funding for development projects in their jurisdictions, and they have to come up with matching funds as well as a good performance record to ensure that their applications go through (Schubert & Ahlers, 2012). Cadre promotion is still very much linked to economic growth, but successful policy experimentation and innovation in different policy areas—including environmental protection, public participation and administrative transparency—have become crucial to identifying the most highly qualified leading personnel, enforcing compliance and creating coherence within the cadre bureaucracies (Heberer & Schubert, 2012).

In fact, the Hu-Wen era was surprisingly successful in bringing about effective policy implementation<sup>17</sup> “under the shadow of hierarchy”: local governments were given more upper level financial support to push for economic development and public goods provision than before, they were both forced and encouraged to become more service-oriented and responsive to public demands by regular performance evaluation and fierce competition for a limited number of promotion opportunities, and they were left with enough autonomy to set up their own development blueprints and manage fiscal shortfalls to prove that they were up to their tasks. Arguably, central-local relations were re-defined during the Hu-Wen era, creating a new equilibrium between the central state’s inhibited

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<sup>17</sup>For a definition of *effective*, rather than *efficient*, policy implementation, see Ahlers & Schubert (2014).

capacity to monitor local governments, and the latter's obligation, and autonomy, to steer the political process in China's counties, townships and villages. This equilibrium was based on a mix of central state fiscal centralization and institutional fine-tuning on the one hand, and policy innovation and political guidance by local governments on the other, the latter being rational actors and powerful principals at the lower levels of China's political system.

### **Local State Developmentalism in the "Post-Taxation Era"**

Whereas the previous section has looked at important changes in the institutional environment of local governments during the Hu-Wen era, we shall now turn to the evolution of local state-business relations. Drawing on fieldwork data stemming from an ongoing research project on the dynamics of contemporary local state-business relations in the context of local policy implementation, this section summarizes a number of observations from six counties in Jiangsu, Zhejiang, Hubei, Fujian, Jilin and Guangdong provinces, respectively,<sup>18</sup> with a particular focus on the strategies and resources employed by local governments to steer private

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<sup>18</sup>Fieldwork for this project was conducted in 2012, 2013 and 2014 in the county-level cities of Jiangyin (Jiangsu province), Jinjiang (Fujian Province), Enshi (Enshi autonomous prefecture), in Yongji county (Jilin province), and in Wenzhou municipality (Zhejiang province) and Zhongshan municipality (Guangdong province). The field sites were chosen according to the specific historical trajectory of "capitalist transformation" in each locality: Jiangyin city is part of the so-called "Sunan model" of private sector development that was shaped by the earlier privatization of collectively-owned township and village enterprises (TVEs); the local economies of Jinjiang city and Zhongshan municipality, for their part, are strongly influenced by overseas (Southeast Asian, Taiwanese) private investment; Yongji city is situated in the Northeastern "rust belt" with an industrial structure formerly dominated by big state enterprises; Wenzhou municipality is famous for its private sector economy of small and medium enterprises concentrated in the export sector which grew up "behind the back" of the local state; and Enshi city is a poor place where the private sector is still underdeveloped and very much guided by the local government. We conducted semi-structured interviews of 1-2 hours each with numerous local officials, first and foremost at county, township and village levels, and some 70 private entrepreneurs. We are going to continue fieldwork in 2015.

sector development and the interaction between local governments and private entrepreneurs.<sup>19</sup>

### Local Governments and Private Sector Development

Not surprisingly, the interaction and cooperation between local governments and private entrepreneurs has become crucial for economic progress and policy implementation all over China. Private investment is urgently needed for local development: state-owned enterprises have been reduced to only a few, although they still have exclusive access to important sectors such as energy, transport, communication, crude oil, and tobacco. Quantitative economic development is still the most important indicator in the annual performance evaluation procedure for leading cadres and is decisive for their future careers. In recent years, most notably in the aftermath of the 2008/2009 global financial crisis which strongly impacted on the Chinese export economy, local governments have tightened up their policies to bring about structural change in the private sector within their respective jurisdictions, recognizing this as a precondition for economic growth, more taxes and, *eo ipso*, better public goods provision. It is these policies which point towards continuity and change in local state developmentalism.

To begin with, city and county governments today are constantly trying to identify promising industries and businesses in their respective jurisdictions. As a general rule, private sector development strategies, in a first step, aim at creating “dragonhead enterprises” (*longtou qiye* 龍頭企業) that are big enough and strong enough to attract suppliers to establish their factories in the same locality. In a second step, larger scale enterprises (*guimo qiye* 規模企業) with an output value of some RMB 20

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<sup>19</sup>State-business relations, including those at the local state level, have been researched quite extensively during recent years (see, e.g., Dickson, 2003, 2008; Heberer, 2003; Kosika, 2012; McNally, 2011; Ong, 2012; Tsai, 2007). However, little attention has as yet been paid to analyzing the changes that have taken place.



million<sup>20</sup> are to be developed into *longtou qiye*, and in a third step, promising small and medium-sized enterprises will gradually be transformed into *guimo qiye*. The steady upgrading of production technologies plays a salient role in this approach to local economic development. Enterprises in specific industries are often concentrated in development parks (*yuanqu* 園區) offering advantageous tax treatment and other financial and service incentives.<sup>21</sup> In Wenzhou, for instance, almost every sub-district (*jiedao* 街道)<sup>22</sup> has at least one development zone of its own. Companies that want to operate in such parks are required to set up specific business plans which must meet the development priorities of local governments. The latter offer and sponsor training programs for private enterprises, support and maintain service centers for small and medium-sized companies and help to establish links to universities and research institutes to promote R&D research and product marketing. Local governments also try hard to attract external skilled labor to make up for local undersupply, “encourage” the merging of enterprises and identify (and attract) outside investors who might become partners in local businesses.

Local governments strongly impact private entrepreneurship with a whole set of additional policies: they grant subsidies and earmarked funds obtained from upper levels, allocate land and land use rights, act as intermediaries in negotiating bank loans for private enterprises, provide the infrastructure needed for sound private sector development (access to major highways and railway lines, well-equipped development zones, etc.), and go out of their way to attract private investment (*zhaoshang*

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<sup>20</sup>This figure was given by an official working at the local office of the Enshi Federation of Industry and Commerce in Enshi City and it certainly does vary throughout China (Interview, September 10, 2013).

<sup>21</sup>These industrial parks have become widespread all over China and are criticized by Chinese economists as being responsible for the rapid sale of collective land at the expense of the protection of the holders of land use rights, labor rights and the environment. As a matter of fact, the central government enforced a reduction in the number of officially registered industrial development zones (*kaifaqu* 開發區) from 6,866 to 1,568 in 2006. However, county and township governments have continued to operate their parks simply by renaming them (Tao & Su, 2013).

<sup>22</sup>Sub-districts, or “street offices,” are the smallest government units in urban China, and are directly subordinate to urban districts.

*yinzi* 招商引資) to help local enterprises grow or set up new undertakings.<sup>23</sup> They shape the local economy by setting priorities for the conversion of land—a scarce commodity—to commercial use, promoting and supporting the development of new product brands and trademarks, providing access to market information and knowledge about new business models, setting up and monitoring communication channels between private enterprises and government bureaus and pushing for the implementation of environmental standards to exclude businesses which do not match local development priorities.

Moreover, local governments provide financial support for companies in economic difficulty, most notably by reducing their tax burden or handing out special subsidies.<sup>24</sup> This helps to prevent the collapse or out-movement of companies, especially in times of crisis. Concurrently, promising industries (in sectors such as logistics, biotechnology, chemical engineering, packaging, etc.) are directly sponsored by public procurement orders or, again, by subsidies and project grants. In addition, local governments pay close attention to the restructuring of existing industries to enable them to respond appropriately to the needs of a changing domestic market. They also dispatch experts and specialized cadres to enterprises in order to tackle technical and other problems and establish close relationships with government bureau personnel.<sup>25</sup> Local govern-

<sup>23</sup>“Invite outside investment and investment promotion” (*zhaoshang yinzi* 招商引資) is almost a magic formula for local governments and stands for their main activities in addition to implementing upper level policy guidelines. Many county governments have centralized all initiatives related to *zhaoshang yinzi* in specific divisions within, for instance, the Bureau of Industry and Commerce (*gongshangju* 工商局) or the Bureau of Economics and Information (*jingxinju* 經信局).

<sup>24</sup>Although local governments are not permitted to reduce local taxes, we found that they still do so indirectly by, for instance, handing out financial rewards for the introduction of “innovative techniques or products” or for “good performance.” The most important local tax categories are the business tax (*yingye shui* 營業稅), the enterprise income tax (*qiye suode shui* 企業所得稅) and the personal income tax (*geren suode shui* 個人所得稅), although the latter two have to be shared with the central government.

<sup>25</sup>In Wenzhou, we learned about a program to send “10,000 cadres” to local enterprises, either as technical advisors or as intermediaries to smooth out and strengthen relations between private enterprises and government units. This was widely reported in the local media as a new government policy to strengthen private sector development.

ments, as we were told, even make contact with private entrepreneurs who have moved their companies out of a county, municipality or province and have started operating in other localities to try to talk them into investing in their home areas.

It is hard to measure the immediate effect of these initiatives on private sector development, and there is much reason to believe that impact is increasingly limited given the fact that local economies are growing out of local jurisdictions, at least in China's more developed regions. On the other hand, as we have seen, the local state still holds a gatekeeper position in terms of granting or facilitating access to land, capital, human labor and information. In fact, local governments and private entrepreneurs have become mutually dependent and maintain a symbiotic relationship that is arguably different from early local state developmentalism. For one thing, as throughout the early years of "reform and opening," this symbiosis is asymmetric: Local governments, with their exclusive access to resources that are urgently needed by entrepreneurs who are fighting to survive in highly competitive domestic and global markets, are still able to steer the private sector economy. Small and medium-sized enterprises, in particular, are dependent on the strategic resources of local governments to become "big and strong" (*zuo da zuo qiang* 做大做强). Large enterprises that have developed into regional, national or even global players are much less concerned with the steering capacity of local governments, but even they cannot fully ignore a county government in order to secure access to land and personnel for their local operations.<sup>26</sup> Nevertheless, certain changes have taken place in local government-business relations, pointing at a gradual evolution of local state developmentalism 1.0 (see below).

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<sup>26</sup>Large enterprises, such as the sportswear producer, Anta, in Jinjiang, Fujian province, or the Huxi conglomerate in Jiangyin, Jiangsu province, maintain their headquarters and a part of their service and production facilities within the counties (or even villages) they originally come from, and cultivate good working relations with their local governments.

## Local Governments' Interaction with Private Entrepreneurs

As already pointed out, the primary goal of local governments is to improve the capacity of private enterprises to compete in domestic and global markets and to help them set up more effective business models. At the same time, entrepreneurs (whether party members or not) align themselves closely to the party-state, from which they expect economic assistance and political protection in return. This symbiosis is an inherent component of local state developmentalism which can be observed almost everywhere in China today; it holds true, in particular, for localities such as Jiangyin, in Southern Jiangsu province, where market transformation has taken place mainly as a result of the privatization of former collectively-owned enterprises (TVEs) and where the interrelationship between the local party-state and the private sector has been corporatist in nature from the very beginning of the market transformation process.<sup>27</sup> The same applies, however, for regions without a noteworthy TVE background. In Jinjiang (Fujian province), for instance, where private entrepreneurship only really started to gain momentum in the early 1990s, the city government is clearly steering private sector development. As in Jiangyin, many private companies initially operated under the “red hat” of collectively-owned enterprises and were hence closely connected to local governments.<sup>28</sup> In Wenzhou and many other places in the Yangzi delta, private entrepreneurship had already started in the 1980s. Arguably, this made Wenzhou entrepreneurs more self-confident and more autonomous in the early period of *gaige yu kaifang* (Yu, Zhou, & Jiang, 2012), but as in other places, they can hardly do without the support and “guidance” of

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<sup>27</sup>The “Sunan model” was one of the most typical manifestations of local state corporatism 1.0 (see above).

<sup>28</sup>Interestingly enough, Kellee Tsai refers to the developmental literature on China’s reform-era political economy. In this literature, a “Jinjiang model” is identified which, in her opinion, forms part of a larger “South China model” of development, primarily reliant on foreign direct investment (2007, p. 159). With respect to the nature of local government-business relations, however, Jinjiang is much closer to Jiangsu’s Jiangyin county—or the so-called Sunan model, for that matter.

local governments due to the latter's control of access to land, finance, and information.

Furthermore, the county and township authorities in all the places that we investigated clearly dominated the local business associations.<sup>29</sup> As a rule, these associations are members of the local office of the Federation of Industry and Commerce (FIC) (*gongshanglian* 工商聯), a "people's organization" subordinated to the local United Front Department of the CCP. Concurrently, each private enterprise registering with the local Bureau of Industry and Commerce (*gongshangju* 工商局) automatically becomes a member of either the Association of Individual Laborers (*getilaodongzhe xiehui* 個體勞動者協會) or the Association of Private Enterprises (*siying qiye xiehui* 私營企業協會), both of which are organized nationwide.<sup>30</sup> The director or deputy director of the United Front's local chapter also heads the local branch of the FIC. The personnel costs are funded by the local government at the county or city level, but beyond any kind of service the FIC offers to its members, its main task is to ensure corporatist control of private entrepreneurs in the respective jurisdiction. None of the business associations, therefore, can be called genuinely autonomous: they have to be seen as a transmission belt that helps the party state maintain its political supremacy over the private sector.<sup>31</sup> Their

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<sup>29</sup>Following Scott Kennedy (2009, p. 199), we use the term "business association" to denote either a "chamber of commerce" (*shangye xiehui* 商業協會) or an "industrial (branch) association" (*hangye xiehui* 行業協會). At the national top of the former structure stand the Association of Individual Laborers (*geti laodongzhe xiehui* 個體勞動者協會), the Association of Private Enterprises (*siying qiye xiehui* 私營企業協會) and the All-China Federation of Industries and Commerce (*Zhonghua quanguo gongshang lianhehui* 中華全國工商聯合會) all of which have branch offices at each administrative tier down to the county and township levels. Industry Associations can also be found at national and local levels, although there is no strict vertical organization. As a general rule, "China's association system has a flat structure" (S. Kennedy, 2009, p. 201). For the relationship between business associations and private enterprises also see Deng and Kennedy (2010).

<sup>30</sup>Business associations may also have registered with other government bureaus at the local level, e.g., the Bureau of Economy and Information (*jingxinju* 經信局) or the Bureau of Economy and Trade (*jingmaoju* 經貿局). As Kellee Tsai (2007, p. 133) has noted, there are also business associations registered as "social organizations" (*shehui tuanti* 社會團體) with (a local office of) the Ministry of Civil Affairs. However, this alternative strategy does not enhance their political autonomy.

<sup>31</sup>There seems to be more autonomy on the part of the famous Wenzhou *shanghui* structure

principal task is to provide for a steady flow of communication between local governments and private entrepreneurs to expand and strengthen the private sector economy.

Strikingly enough, entrepreneurs often state quite bluntly that the practical significance of these organizations for enterprise development is negligible. The owners or CEOs of larger companies usually solve problems by activating their private networks and directly approaching the local authorities without asking for organizational support. Smaller entrepreneurs, who often find that local governments are not interested in solving their problems at all, also prefer to communicate informally with relevant government bureaus or local officials whom they have come to know personally. They rarely contact a business association to help them, but acknowledge that these bodies are useful, to some extent, in terms of policy information, training (*peixun* 培訓), social networking and the organization of business trips to gather information on domestic and foreign markets.<sup>32</sup> As a matter of fact, formally autonomous business associations would still be severely hampered in their efficiency by the simple fact that the local state maintains, as mentioned above, a gatekeeper position concerning the most important resources that an enterprise needs to develop and prosper in a locality: land, credit, human capital and, depending on the development of the private sector, government funding. Close cooperation with government bureaus and officials is hence indispensable, which has made autonomy of any sort a moot point for most of our respondents.

However, this is only one side of the story. As we have found in our field sites, business associations indeed have a role to play in the local

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which covers the whole of China. According to the information obtained during our interviews, local entrepreneurs in Wenzhou have established more than 200 associations outside Wenzhou that figure as traditional hometown associations (*tongxianghui* 同鄉會), assisting private entrepreneurs from Wenzhou in the specific places where they “cluster.”

<sup>32</sup>Naturally, the perspective of those entrepreneurs who assumed a function within a business association was different, since they emphasized the meaningful support that such an organization could offer to its members in terms of information and access to government agencies. But this was only a tiny minority.

process of economic policy making—especially in those places like Wenzhou and Zhongshan municipality and the county-level cities of Jiangyin and Jinjiang where the private sector has matured substantially over the last 25 years. As Yu, Yashima, and Shen (2014; see also S. Kennedy, 2008; Yu & Zhou, 2013) have suggested, it is rather “privileged access” than formal autonomy which today distinguishes strong from weak associations and can often secure meaningful negotiation space for private entrepreneurs vis-à-vis local governments. In times of global economic crisis, competition for private investment across administrative boundaries and a rising significance of the private sector economy for the finance of local public goods provision, business associations become a useful means for private entrepreneurs to communicate their demands more self-consciously to local governments than in the past. After three decades of market reform and transformation, business associations in China have widely remained subjected to a corporatist arrangement in which the state is still the dominating part. However, they have arguably become more outspoken within this arrangement, pointing to a horizontalization of power relations not easily visible from the outside.

Another important aspect of contemporary local state developmentalism is party penetration of private enterprises which has become more institutionalized while at the same time less politicized. In most of the larger enterprises we visited party organizations were firmly established, most notably in Jiangsu's Jiangyin City, where many party members turned into private entrepreneurs as managers or technicians employed by former state-owned companies or collectively-owned TVEs; in some cases, they had held positions in local government bureaus at the early stage of “reform and opening.” When privatization began in the early 1990s, these people used their party connections to jump-start private businesses, and their relationship with the local party apparatus has been close ever since. However, in other parts of the country, private entrepreneurs' relations with the party were rather strained as they faced stiff cadre antagonism which needed much effort by the center to overcome, including the CP Charter and constitutional revision (Tsai, 2005). Today, things are very different in the local state: party chapters must be established in private enterprises by

legal requirement when there are more than 100 employees, but often enough they are welcomed by private entrepreneurs anyway because of a number of advantages. First of all, this is a matter of face and a precondition for those entrepreneurs who have political ambitions and welcome offers to serve in a People's Congress or People's Political Consultative Conference at some level. Second, a functioning party organization provides ideological protection for a private enterprise since it serves as proof that party policies and requirements are being honored. Third, a party committee within an enterprise can become crucial for resolving labor disputes and mediating in conflicts among workers and staff members. In such cases the party's authority obviously "helps" in negotiating compromises.

For local governments, establishing party structures in private enterprises has primarily three objectives: (a) recruiting new members for the local party apparatus, particularly since labor migration has impacted negatively on local recruitment figures; (b) identifying and targeting young and well-educated party members; and (c) establishing close links between local government bureaus and the management of a private enterprise. As far as we can see, the success of this policy has been ambivalent at best: where entrepreneurs became party members early in their professional careers (Jiangyin, Enshi), party chapters seem to function smoothly and new member recruitment is unproblematic. In Wenzhou and Jinjiang, however, "party construction" (*dangjian* 黨建) in private companies is more complex, with some local cadres describing it as "fake" (*xujiade* 虛假的). For example, in Jinjiang's larger companies, party organizations often seem to have been "highjacked" by the family of a private entrepreneur: the father may serve as the secretary of the party committee, the younger brother as chairman of the trade union chapter, and the boss himself may head the Communist Youth League chapter. Local officials have opposed such "clanization" of company party organizations, but have still considered it to be better than having no organization at all. Since the local CCP Organization Departments regularly evaluate the activities of enterprise party organizations and the performance of their secretaries, party state control of private enterprises is quite tight. Moreover, as we found in Enshi and Wenzhou, local party officials are



made responsible for and systematically dispatched to private enterprises (*guazhi* 掛職) in order to strengthen "communication links" between the company management and local governments.<sup>33</sup>

Viewed from the outside, party organizations in private enterprises may not seem to be very functional, and mainly appear to be engaged in cultural activities for company staff. However, it is obvious that they serve as an additional transmission belt for linking a private enterprise to the local party state. It is hard to discern precisely how these interaction processes work out, since, as so often is the case in the Chinese political system, they are highly informal and nontransparent. However, it is a reasonable assumption that party organizations within private enterprises serve as useful tools for local governments to control the of leading company staff and implementation of official policies related to private sector development—even if, as our respondents stated unanimously, party officials do not at any point become directly involved in business affairs. This is exactly what makes contemporary local state developmentalism distinct from its previous version: the party plays a role that is more guiding than leading; more encouraging than discriminating; and more "watching" than intervening!

### **Facing the Credit Crunch as a Recent Challenge for Local State Developmentalism**

Apart from the scarcity of land for commercial use in many parts of China, access to loans for small and medium-sized enterprises is the most serious problem facing contemporary private sector development. Since the 2008/2009 global financial meltdown and the ensuing crisis that hit China's export economy, the demands of private enterprises for credit to

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<sup>33</sup>As other authors have previously noted (e.g., S. Kennedy, 2009, p. 204), we rather frequently observed that former party and government officials were being hired by private entrepreneurs to serve as special "liaison officers," who make use of their professional experience and political networks to help enterprises move forward through the bureaucratic jungle of the local state.

make ends meet has become stronger than ever. Formally, state banks are not subordinate to local government at the same administrative level, and the influence of the latter on local bank branches arguably decreased during the Hu-Wen era.<sup>34</sup> Local bank branches are compelled to comply with the policies of their superiors in the “banking system” (*yinhang xitong* 銀行系統), although the local party committee still has an important say in how banks operate at, for instance, the county level, by simple party authority and personal relations between government cadres and bank managers.<sup>35</sup>

As a rule, banks do not accept land as collateral since it is not part of the companies’ property, and other company assets are hardly sufficient to meet the collateral requirements of banks for approving credit requests. Moreover, as we were told in Wenzhou, since the 2008/2009 global financial crisis, many banks have only agreed to grant loans on a one-year basis. This makes long-term company development almost impossible. Against this background, local governments have supported the setting up of so-called “guarantor companies” (*danbao gongsi* 擔保公司) or micro-credit firms (*xiaoe daikuan gongsi* 小額貸款公司) to ease the credit

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<sup>34</sup>This was at least the unanimous opinion of the local officials we interviewed. It is, however, difficult to ascertain how far the autonomy of a local branch of a state bank extends in everyday politics.

<sup>35</sup>The current relationship between the local branches of China’s state banks and local party state officials is a murky area. According to conventional wisdom, local state debts are mainly the result of the lack of autonomy on the part of local banks in the face of local governments eager to borrow for financing their development projects and “white elephants” (such as huge government buildings, five-star hotels, and luxurious residential quarters). However, local banks are held responsible by their superior line office for their credit decisions and must operate efficiently. As we were informed by our respondents, both local officials and private entrepreneurs, local banks have been highly reluctant to grant loans in the aftermath of the 2008/2009 global financial crisis, particularly to small and medium enterprises. Since local governments provide strong support for private entrepreneurs who are trying to gain access to bank loans, this may be seen as an indication that the autonomy of local banks has indeed been strengthened vis-à-vis local governments in the recent past. To what extent this also relates to the local governments’ own quest for credit is difficult to assess, although there are more legal restrictions in place today which place strict limits on local governments’ ability to “capture” local banks and extract loans.

crunch for private enterprises.<sup>36</sup> Local government units, such as the Bureau of Industry and Commerce (*gongshangju* 工商局), assist smaller private enterprises by organizing special "dialogue platforms" to bring together entrepreneurs and local financing institutions in order to facilitate credit negotiations.<sup>37</sup> Local governments may even, illegally, take over partial loan guarantees or pay bonuses to banks for providing credit to enterprises. They also may request that larger and healthier private firms, via relevant business associations, act as guarantors for smaller companies in need of credit. Local governments may also reduce taxes or make local companies the beneficiaries of government procurement contracts, although this is not necessarily related to special assistance for private enterprises under financial stress and, in any case, generally concerns larger enterprises and businesses which are economically important for local governments. Finally, party state officials may informally "lobby" local bank managers in favor of selected enterprises or the general relaxation of lending policies.

As these examples show, not only are local governments gatekeepers for entrepreneurial access to important resources for private sector development, but they are also critical for the survival of many private enterprises in times of crisis. Even in a well-developed place such as Wenzhou, with a long history of informal lending to ensure sufficient

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<sup>36</sup>Private enterprises may apply to a *danbao gongsi* to support their loan application at a bank. The *danbao gongsi* then screens the financial soundness of the company and acts as a guarantor vis-à-vis a local bank. The enterprise has to pay a fee to the *danbao gongsi* for its services. If the enterprise later defaults on the debt owed to the bank, the *danbao gongsi* has to step in and repay the loan. There may be local government money in the capital pool of the *danbao gongsi*, indicating to the local banks that a loan request is "safe." However, this is not always the case. In Enshi city, we talked to the president of a *danbao gongsi* that was obviously capitalized by the local government and very few private investors (Interview, September 11, 2013). In Jinjiang, there were 14 private *danbao gongsi* and four micro-credit companies in 2012. Local officials often distinguish between private *danbao gongsi* and institutions funded with public money. As already mentioned, this is a murky area, since local governments are prohibited by law to use public money for credit, no matter what kind of institutional scheme is employed.

<sup>37</sup>Respondents from larger enterprises made it clear that they negotiate directly with banks, are not reliant on guarantors and rarely face problems in gaining access to bank loans. This differs strongly from the situation of smaller companies.

investment capital for private entrepreneurs (Nee & Opper, 2012; Tsai, 2002), the local state is expected to do more for the private sector and actively help Wenzhou entrepreneurs to survive the rough-and-tumble of China's ever changing market economy. Local governments have lost some of their former power to mobilize and allocate bank credit to the benefit of the private sector, but they still are significant and indispensable facilitators for private entrepreneurs to get access to local banks and, eventually, urgently needed money.

### **By Way of a Conclusion: Towards Local State Developmentalism 2.0?**

As has been observed by many scholars, any attempt to characterize the Chinese local state and draw general conclusions from its multifaceted manifestations is fraught with difficulties. However, setting up typologies or explanatory concepts to make sense of diverging observations in the real world of empirical phenomena, and regularly assessing their plausibility, are important preconditions for identifying change and continuity over time. Local state developmentalism 1.0 has served as a plausible framework concept to explain the trajectory and success of early economic and private sector development in post-Mao China, most notably in the coastal provinces of Shandong, Jiangsu, Zhejiang, Fujian and Guangdong. Even if different historical approaches to market transformation have been identified—and neatly captured by formulas such as the “Wenzhou model,” the “Sunan model,” or the “Guangdong model” (see, e.g., Tsai, 2007; Unger, 2002)—and predation was often an integral element of these models, local state developmentalism has been decisive for the rise of Chinese capitalism in a variety of ways. It has pushed, steered, secured and managed private sector development, often stretching the limits of central state guidelines and ideology, with the result that, “local state developmentalism 1.0,” as it is called here, has seen local bureaucracies at county level and below seriously engaged in the evolving private sector economy, either as bureaucratic patrons, cadre entrepreneurs or corporate actors. This has partly been due to pragmatism, but has also resulted from the weakness of market institutions, political pressure from above to make

economic progress, and a “developmental spirit” on the part of many local cadres who have made use of new opportunities to buffer their careers and bank accounts.

When the central state embarked on a new comprehensive policy approach to rural development and rural-urban integration in the early 2000s, local state developmentalism faced important institutional changes that impacted strongly on its capacity and the strategies it employed to provide public goods and foster private sector development. The abolition of rural taxes and fees, the launch of the “Constructing a New Socialist Countryside” policy initiative for commercializing agriculture and speeding up *in situ* urbanization, the parallel expansion of fiscal transfers and earmarked funds passed down to less developed areas, and the strengthening of regulatory control and performance assessment at all administrative tiers resulted in increased pressure—and new opportunities—for local state bureaucracies. Policy change in the Hu-Wen era did not undermine the local state’s dominant role in policy implementation and private sector development. What we have seen in China over the last 10 to 15 years may rather be described as the rise of “local state developmentalism 2.0”: local governments, nowadays, increasingly act as “interested facilitators” and “enablers” of a maturing private economy and are less prone to assume far-reaching managerial, organizational or entrepreneurial roles themselves, which were predominant features of LSD 1.0. This is quite obvious in coastal China where the private sector is most developed and local governments are more exposed to the discovery of predatory behavior that would provoke political punishment and jeopardize cadre careers. The central state demands service-oriented and law-based government and this is written large in each and every locality. This has forced the local state to reduce the scale and intensity of its intervention in the private sector, besides the fact that a maturing private sector economy has made such intervention less effective in many places. Local state developmentalism 2.0 thus differs more in degree than in substance from its 1.0 predecessor, since private sector policies have been adjusted to the maturing market economy and strengthened regulatory supervision while at the same time reducing the local state’s leeway to impact private entrepreneurs’ strategic decisions.

Generally speaking, the local state has retained its position as the dominant actor in an enduring symbiotic relationship with private entrepreneurs.<sup>38</sup> It continues to steer private sector development by exploiting its position as gatekeeper to important resources for private entrepreneurs (land, credit, licenses, market information, and political connections). However, new regulatory mechanisms and institutional control at central and local levels, combined with increasing dependence on private sector development to make fiscal ends meet (and qualify for cadre promotion) have certainly inhibited local state developmentalism. For the time being, entrepreneurial agency does not seem to pose any sort of imminent threat to local governments. Private entrepreneurs still form a heterogeneous social constituency whose members prefer to interact with local governments primarily at individual and informal levels.<sup>39</sup> This is certainly, to a great extent, due to the absence of autonomous business associations, and private entrepreneurs have so far rarely expressed any desire to change this state of affairs. However, our research also suggests that some realignment in the symbiotic relationship between the local state and private entrepreneurs may be under way: being aware that they are critical for local development and sound public goods provision, private entrepreneurs articulate their demands quite outspokenly—via personal networks, in existing business associations or in local people’s congresses and political consultative conferences, where their numbers have increased significantly over the past decade. In addition, their former heterogeneity in terms of social background is gradually being transformed into a common social position as the second generation of private entrepreneurs takes over, suggesting the formation of a collective identity that may soon translate into collective political agency. Obviously, regional differences

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<sup>38</sup>Linda C. Li (2010) has suggested thinking in terms of co-agency between the center and local governments in contemporary policy implementation, a concept that might also be useful for understanding the relationship between local governments and private entrepreneurs.

<sup>39</sup>Most of our respondents, no matter whether they were representing small, medium or large companies, articulated a preference for informal contact and negotiations with their local governments.

and development trajectories produce different dynamics in state-business relations, and the more important the private sector is for a given locality, the greater the bargaining power of private entrepreneurs should be vis-à-vis local governments, both at individual and collective levels.<sup>40</sup> So far, however, and to the benefit of both sides, relations between local governments and private entrepreneurs have remained stable and should remain so for still some time to come.

To sum up, during 35 years of "reform and opening" there has been more continuity than change in China's local state, which is still at the helm, governing the counties, townships and villages. Private entrepreneurs, who could be a viable force to challenge local authorities, are bound to cooperate with them, and they do so willingly. Consequently, China's local state, in *grosso modo*, has not only been remarkably successful in adapting to new policy requirements and institutional constraints, but also in continuously coopting private entrepreneurs. Local state developmentalism has therefore contributed in significant ways to the stabilization of China's political system throughout the reform era. At the same time, it faces huge challenges arising from the country's ongoing market transformation and growing popular expectations concerning the delivery of job security, education, social welfare, environmental protection and cadre accountability. Whether local state developmentalism can accommodate these challenges in the long term is a thrilling question.

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<sup>40</sup>In Wenzhou, for instance, high-tech enterprises enjoy special tax reductions or tax remissions and easier access to land in order to prevent their out-migration. This suggests at least more bargaining power on the part of private entrepreneurs. In Enshi, on the contrary, where private sector development is still rather weak, local entrepreneurs are heavily dependent on county and township authorities, making it difficult for them to have a meaningful voice.

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