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## The political economy of rural development in China: reflections on current rural policy

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# The Political Economy of Rural Development in China: Reflections on Current Rural Policy





Title:

**The Political Economy of Rural Development in China: Reflections on Current Rural Policy**

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**Abstract:**

The paper examines some of the main political economy dynamics of the policy initiatives on rural development that have been taken since 2003, and provides an overview of the main issues that they are addressing. The paper first outlines the major agrarian problems that have emerged over the recent decade and more, indicating their main political-economy causations, and then systematically analyses the prospects of the new policy initiatives to deal with them. Among the new policies the initiatives to reorganise the finance system through a reform of the roles of the county and a development of town and township governments to become points of delivery of public goods and social services are highlighted as particularly potent. Further importance is associated with reforms that strengthen the role of rural residents as citizens. The impact of the Chinese government's economic stimulus package in response to the ongoing global financial crisis is yet to become visible, but it is clear that the changes must be backed up with very substantial political and financial commitments.

**Keywords:**

Rural policy, political economy, rural-urban relations

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## 1 Introduction

Despite the initial successes of the post-1978 rural reforms, China's agriculture by the end of the 20th century faced seriously challenges and rural areas were in crisis. This was manifest, for example, in constantly re-emerging rural poverty, widening urban-rural inequalities, as well as development gaps between China's coastal and inland regions, and between sectors. The predicament was exacerbated by a trend of sharply rising land requisitioning for urbanisation and industrialisation, as well as increasing environmental and ecological degradation. The insufficiency of rural social welfare, the contentious relations between ordinary villagers and officials, the lack of institutional capacity of rural governance and local public finances, the ubiquitous cases of corruption and transgressions against vulnerable groups, as well as accumulated and imminent problems of rural migrant workers in urban China combined to an intractable plight. Similar to the pre-reform years and like in many other parts of the developing world, resources in rural China continued to be directed towards much advantaged Chinese cities and agriculture continued to subsidise industry, while the interests of farmers continued to be sacrificed for the industrialisation of the country. As a result, China's countryside was lagging ever further behind its cities and towns, and social solidarity and harmony, essential to Chinese political culture, were seriously eroded.

This article reviews the Chinese government's recent responses to this crisis, in particular those made since 2003 when President Hu Jintao and Premier Wen Jiabao assumed office. It adopts a political economy perspective by way of introducing core themes that have shaped up over the most recent decade or so and been typically articulated in a substantial statement announced in October 2008 at the Third Plenum of 17th National Congress of the Chinese Communist Party (CCP) Central Committee. The programmatic *Decision* of the Third Plenum (for a detailed discussion of the *Decision* and the related debates, see Ye 2009) focuses attention on a new round of rural reforms based on a systematic review of the overall experiences and lessons of the market reforms during the previous three decades. China's rural policy since this *Decision* (CCP Central Committee, 2008) follows a range of measures and programmes that have been in the making since the late 1990s and particularly the early 2000s. The main change after October 2008, perhaps, lies in the fact that the previously *responsive* and *fragmented* approach is now being reshaped and replaced with a more strategically coherent, ideologically justified and practically coordinated approach, which has brought together cognate elements and emphases under an overall ideological framework of the so-called "scientific development outlook". The *Decision* attaches paramount importance to collective ownership of land while proposing establishment of appropriate mechanisms for land transfers, to the development of rural welfare, such as health care and education, to the protection of rural livelihoods and farmers' interests, to the realisation of the goals of urban-rural integration and reforms of the *hukou* system, and to the transformation of an 'extractive' local state into a 'service state'. It further emphasises more transparent, democratic and participatory modes of rural governance. The central leadership in the *Decision* thus expresses a determination to substantially alter the direction of resource flows, to provide strong support for Chinese agriculture, to balance urban and rural development, and to improve rights, income and the quality of life for the rural population.

In the following, we first analyse the context which prompted the policy responses in the late 20th century, and the objectives of the recent policy package. We then outline, in section three, some key components of the policies and issues, using the intractability of reforming the basic structures of financing, and the division of labour in public policy that underlie the wider policy processes and constitute a particular challenge to them. We conclude in section four with some tentative evaluations and prognoses.

## 2 The Rural Issues

Policy makers and academics concerned with Chinese agriculture and the countryside are familiar with the shorthand term, the *three rural issues* (or *sannong wenti* in Chinese; this term refers to *nongcun*, *nongmin* and *nongye*, namely problems with agriculture, rural areas and farmers – the problems which have become increasingly recognised since the early 2000s) for what is wrong in China's recent rural

development. It is a typical political narrative of how in Spring 2000 the Party Secretary of Qipan Township in Hubei Province, Li Changping, faced with the desperate reality of rural life and realising that the message of hardship remained unheard by higher levels of authority, picked up the courage to report farmers' predicament directly to the then Premier Zhu Rongji. Li Changping's three-legged maxim *the countryside is grim, farmers poor, and farming risky* (*nongcun zhen ku, nongmin zhen qiong, nongye zhen weixian*) made the message stick. It "touched the Premier's heart, who was moved to endorse the letter with the words: 'although this is not the whole story, the problem is that we often regard good conditions in some parts as representative for everywhere ... ignoring the severity of the problems'" (Chen and Chun 2004, 3). Around the same time when the township Party Secretary Li Changping wrote to Zhu Rongji, two renowned writers and journalists from Anhui Province, Chen Guidi and Wu Chuntao, started their 3-year investigation into the rural issues resulting in their groundbreaking reportage published at the end of 2003 *Survey of the Chinese Peasants* (Chen and Chun 2004; Chen and Wu 2006). Their reportage exposed the enormous inequality and injustice experienced by millions of Chinese farmers in the post-reform countryside, causing a public stir and so much political unease that it was banned for a while.

Rural poverty is a current issue, for although China (through the highly efficient State Council *Office of Poverty Alleviation and Development*) has made significant progress in fighting poverty since the early 1980s, it continues to draw a blank in the struggle against continuing processes of new impoverishment (Li, Tang and Zhang 2006). The increasing concentration of wealth on a small elite is a major cause of this. Figures recently cited by Cai Jiming (2009), a leading academic at Tsinghua University as well as an influential political commentator, suggest that 0.4 per cent of China's population control 70 per cent of the country's wealth, and the official Gini co-efficient of 0.47 is a further indicator of widening inequalities in the country. Poverty is also a function of the sharp divide between rural incomes: in 2007 the average annual per capita income was 2,278 RMB in poor counties and 4,298 RMB in all counties, while average per capita urban incomes of 13,786 RMB were significantly larger (State Council 2008). The official number of 15 million rural poor in 2007 was based on an absolute poverty line of 1,067 RMB per year, which arguably is set too low; Li Xiaoyun (2009) at China Agricultural University notes that the World Bank's estimate of 254 million poor is strikingly higher. Furthermore, poverty goes beyond material deprivation alone and is manifest in multiple dimensions of human conditions and well-being. The *UNDP Human Development Report* for China (2005; 2008) shows stark and worrying gaps between indicators, such as maternal and infant mortality, malnourishment, education expenditure and achievement, etc. between urban and rural areas and between coastal and interior regions. For example, there is a large gap between life expectancy in rural (69.6 years) and urban (72.2 years) areas; maternal mortality per 100,000 was 33.1 in urban areas but 61.9 in rural areas. The UNDP, summarising its indicators in separate rural (0.685) and urban (0.816) *Human Development Indexes* (the national HDI being 0.755), remarked that the urban-rural discrepancy had widened between 1990 and 2002 (UNDP 2005, 18). National statistics underpin the UNDP findings of regional inequalities. One specific example is that in 2007, the number of persons in inland Gansu Province who had never gone to school exceeded the number in coastal Zhejiang Province by 7.5 percentage points, while, conversely, the number of university degree holders in Zhejiang was double that in Gansu (National Bureau of Statistics of China, 2008). Existing poverty alleviation measures, focusing on the officially designated poor counties, have failed to capture the new forms, dynamics and severity of inequality and poverty during the past decade or so, and thus require rethinking in order to address the problems more effectively.

The many dimensions of widening inequalities in Chinese society include the urban-rural divide, and between coastal eastern and inland western regions, increasing occupational and social stratification, which gained new impetus particularly with intensifying globalisation witnessed in China since the mid-late 1990s. Although the institutional change during the early reform period gave a boost to farmers' incomes, they began to stagnate after the mid-1980s and into the 1990s. A number of factors contributed to this, including for example, increasing farmers' burdens and regressive taxation (Li 2003; Sanders, Chen and Cao 2007); decline in incomes from agricultural production; decline in rural industries after the late 1990s, fiscal reforms in the 1990s which significantly decreased the ability of the central government to allocate resources through fiscal transfers (Shue and Wong 2007), and so forth. Labour migra-

tion, involving up to 200 million rural people working in Chinese towns and cities, contributed to rural incomes through remittances (Secondi 1997; Shi, Heerink and Qu 2006; Taylor, Rozelle and de Brauw 2003), but as migrant workers were excluded from large parts of the urban labour market and were kept on comparatively low wages, it had the effect of widening rather than narrowing the overall urban-rural income gap. The lack of social protection and social security coverage for migrant workers, and the many constraints faced by rural enterprises in terms of the environmental impact, technological and product upgrade, scale, finance and credit and external competitions, inadequate support from the state, and so forth, tended to concentrate a range of *risks* on rural households not only facing the potential of crop failure, but also losses due to contingencies, e.g. ill health, as well as underwriting the social safety and health of their migrant members. These factors have significantly shaped the livelihood trajectories and outcomes of rural households (Christiansen 2009), leading to the emergence of new forms of vulnerability and social disadvantage, both among farmers and rural migrants in cities and towns (Zhang 2007).

The private *use* of collectively owned land has caused many disputes to arise; as contracts in many cases involve too limited land resources for efficient agriculture, as family structures change over time, as labour mobility often requires some flexibility of transfer of use rights, and as rural enterprises often require land resources for expansion, village heads and township governments have been burdened with intractable land allocation challenges that on many occasions have ended up in localised conflicts (Sargeson 2004; Yep and Fong 2009; Liu and Murphy 2006). Likewise, the requisitioning of rural land by city governments and other powerful state-owned institutional players, which Hsing (2006) termed “socialist land masters”, as well as corporate developers for rapid urban development has during the 1990s gained momentum. Although procedures for state requisitioning of rural land had existed since the 1950s and firm practices been developed in the 1970s, the dramatic change of the economic and social environment had, by the 1990s, rendered the rules and practices inadequate and obsolete, leading to confusion about authorisation, lack of transparency, and unfair compensations. The use of land requisitioning for development projects to obtain development loans is premised on the confiscation by the city authorities and “socialist land masters” of the difference between agricultural and urban or industrial land values, and the use of the future value and revenues from the land as collateral for loans or bond issues (Hsing 2006, 578–579). The financial incentives for city governments to carry out large-scale land development are substantial, and still today continue to lead to eviction of whole villages (one case of 9 villages in Qixia District of Nanjing being totally disbanded to give place to an export processing zone and to Xianlin University Park between 2002 and 2006 may indicate the scale such projects may assume) at short notice and against compensations substantially below the market value.

The process in many cases lacks transparency and proper central government’s regulation and monitoring, and as a result has often been riddled with corruption leading to serious social injustice with enormous financial gains for developers and local authorities on the one hand, but immense distress and substantial loss for large numbers of the rural population or ex-farmers on the other, throwing them into unemployment, insecurity and poverty. It was estimated that by 2009 nationwide there were between 40 and 50 million ex-farmers who had lost their land and livelihoods mainly due to urban expansion, of these, about 10 million were left without any work. Disputes over land and land requisitioning have hence become one of the major issues causing rural protests and even violence. The compensation rules for land requisition, originally devised by the state to be used on a smaller scale in the 1950s and gradually revised and expanded during the 1970s–1990s, were not designed to solve the problems of “short, sharp shock” land requisitioning, where whole local communities were brought into turmoil. By the 1990s already the practice of granting farmers urban *hukou* status in exchange for their land, for example, had little meaning for livelihoods as it was not accompanied by a guaranteed urban job (also the ex-farmers often did not have the needed skills for urban jobs, were not provided trainings or disadvantaged for grasping such skills particularly for older persons); even the seemingly “large” amounts paid out did not last long for most farmers as they could not compensate for the loss of their livelihoods. According to some sources, 19,700 of the around 30,000 rural mass incidents in 2005 sprang from land disputes and evictions (Yu 2007, 115–116).

The particular background to the widespread unrest is that rural local authorities in China are poorly equipped to face the changes that are taking place in the economy and society. Rural local governments have been chronically underfunded, in particular following the fiscal reforms of 1994, which on the one hand strengthened central capacity to redistribute funds in national schemes and opened up for burden sharing between the central state and provincial and large city governments, but on the other locked grass-roots level finances into an unsustainable fiscal system. This only allowed few regular tax incomes for the budgets at grassroots levels, while the counties often had little incentive to make up for budget shortfalls in townships and towns. The towns and townships, consequently, relied on direct levies from farmers and on extra-budgetary incomes from rural enterprises to pay for local services. The accelerating and widespread practice of imposing levies and fees on the rural population to pay for declining public services was the most frequent source of unrest. It was in particular the issue of *unfunded mandates*, where national laws and policies demand that rural authorities provide public services funded through local budgets led to the problems of the “peasant burden” (Li 2003; Lü 1997); this involved excessive and often arbitrary tax and fee levies on rural people, part of which were used for village and township finances including the salaries of local officials, and for maintaining collective infrastructure; however, where funds were short, public services like schools and rural health care systems were universally among the first to be cut, leading to delays or even discontinuing salary payments to teachers or withdrawal of health services (Zhong 2003).

Only when the agricultural tax was abolished and the practice of imposing arbitrary charges on rural households banned nationally in 2006, did the widespread rural protests and unrest due to such injustice start to ease. Under the *tax for fee reform* which was piloted in the late 1990s, but not implemented nationwide until 2005, the tax and fee raising authority has been taken away from village and township level authorities and their budgets are financed through transfers from county finance authorities and from the central government coffers (Tian 2009; Kennedy 2007; Yep 2004). The reform in itself has seen many dilemmas. For example, while attempting to solve the underlying problem of local funding, it has seen the unintended outcome of pushing greater authority up to the county level and has in many cases made it difficult for local cadres to carry out necessary investments and to meet targets in public provision, when the needed budgetary allocations are not forthcoming or are delayed, a problem that appears to be acute in some poor areas. Rural local elections, similarly, have had very diverse outcomes depending on locations and may in some cases have exacerbated the problems of local governance by giving rise to new conflicts of authority and interests (He 2007; Yang 2007; Yu 2008).

Environmental degradation has in many ways arisen from the rural policies of the reform era. The expanding rural industry has in many cases become a new source of pollution, sometimes with devastating effects on large parts of the countryside, where pollution of land, air and water has exposed the rural population to greater risk of crop failure, like in the case of the Huai River (Economy 2004), and to ill health. The expansion of agricultural production during the last 60 years or so, has, together with the rise of industry, significantly lowered the ground water level in large parts of the North China Plain. The current demands for industrial and drinking water consumption in large cities therefore compete directly with agricultural use of water, and extraction of water for irrigation becomes increasingly expensive and unreliable, affecting rural earning potential and forcing about changes of cropping patterns. Certain new agricultural practices, including the rise in use of chemical fertilisers and pesticides have had a negative effect on the composition of soils in fragile areas and on the quality of water in many rivers and lakes, thereby undermining agricultural sustainability and the viability of for example aquaculture. Cultivation of mountain slopes and other exposed surfaces has caused serious soil erosion, leading to destruction of land resources and silting of rivers (Edmonds 1994; 1999; Wang 2004). The adverse effects on farmers’ livelihood and even health are evident, but more importantly, the existing institutional frameworks induce behaviour that goes against the need for sustainability, undermining farmers livelihood choices. The competition between agriculture and industry for environmental resources, furthermore, was until 2008 never clearly and officially phrased as a matter of resource flows and compensation to be addressed through policy measures (see Ye 2009 for the view that urban areas need to pay the rural areas for the provision of “environmental dividends”, and the formulation in the *Decision* to institute an “incentive mechanism for protecting natural resources and agricultural species” (CCP Central Committee 2008, 11).

Almost all aspects of rural social welfare, such as education, health care, and pensions were in an eroded (education and healthcare) or underdeveloped (pension) state in most of the countryside, lacking funds, of poor quality, and often unaffordable for the majority of the rural population. For example in areas where average per capita income is 3,200 yuan, fees for 9-year compulsory education per child cost 800 yuan per year, rendering schooling unaffordable for many rural families (2.45% and 3.91% drop out rates at the primary and junior secondary school level, respectively) (Zhou 2006). The rising and emerging new risks and income differentiation rendered ever larger groups vulnerable to poverty and livelihood insecurity, while social provisioning was steadily declining up till the early 2000s. The extension of the minimum living standards guarantee scheme (*dibao*) to rural China in 2007 (State Council 2007) has brought some relief to the poor, although the level of rural *dibao* is much lower than that in urban areas, reflecting the extant urban-rural divide. For instance, the urban per capita *dibao* was 92 yuan per month as against 27.6 yuan per month for rural areas on average during the first half of 2007 – a 3.6 time difference (Zheng 2007). Nonetheless, the expansion of this effort testifies the urgency of measures to deal with the collapse of communal social provisions in rural China after 1978.

Perhaps the most conspicuous issue relates to migrant workers in the cities (Logan 2008; Solinger 1999; Watson 2009; Xu 2000; Zhang 2008); their disadvantaged position in the urban economy due to existing institutional arrangements, e.g. the *hukou* regime, means that they suffer from social exclusion and sparsely recognised rights in urban areas, and thus must rely on their rural kinsfolk for support; their remittances to rural areas are a substantial contribution to rural livelihood diversification and development, yet returnees harmed in industrial accidents or due to ill health, as well as returned pensioners, weigh as a heavy burden on rural families and communities.

The impact of globalisation on rural local processes is important, for much of the agrarian change is subject to global forces that are beyond the control of many individual nation states, and in particular given the unbalanced power between the developed and developing worlds typically exemplified in global institutions such as the World Trade Organisation (WTO). While China is frequently deemed a success story in respect of its accelerated economic integration into the global system, the hugely uneven distribution of benefits and cost between different sectors and regions of the country resulting from it, or its adverse effect on Chinese agriculture has not been fully debated academically and politically. For example, during the negotiations for WTO accession, China made considerable concessions under pressure from the USA in the area of agricultural trade, where the latter is a major exporter. The agreement reached between the two countries in late 1999 meant that China's agriculture, an already disadvantaged sector and thus under state protection in the form of price regimes and tariffs, would become even more exposed in the international market for agricultural goods compared to developed countries and regions, including North America or the European Union.

China agreed, among other things, not to use export subsidies, which neither the USA nor the EU had committed itself to. It also significantly lowered state protection for major agricultural products, such as grains and soybean, and undertook a wide range of changes to its tariff system. Despite the fact that China was allowed some time to absorb such shocks; the end result was a considerably weakened ability of the state to support Chinese agriculture (Johnson 2000). There is no doubt that China was left with much less flexibility and lower degree of protection for its own agricultural market than major industrial countries (Johnson 2000, 403). Chinese state support to agriculture may under the WTO rules not exceed 8.5 per cent of the total value of agricultural production in any product even though China as a developing nation should have been entitled to 10 per cent. After China's WTO entry in late 2001, the concessions have led to a rapid influx of foreign agricultural goods as manifest in China's *agricultural* trade deficit: globally 7 billion USD in 2003, 1.5 billion USD in 2004 (Duan and Dwyer, 2008, 85–86), and with the US alone, 3.3 billion in 2007, and 7.4 billion in 2008 (calculated from Morrison 2009, 4 and 7). Even if *agriculture* is only a small composite in China's total international trade, it has had a significant impact, among other things, on rural livelihoods and social development by suppressing the incomes of grain farmers, the increased 'push' factor for rural out-migration, and exacerbated regional and urban-rural development and income gaps with the agricultural sector lagging further behind.

It is telling that the rural policies recently promulgated by the Chinese leadership are not simply reactive, seeking to “catch up with” a situation that has run out of control. These policies also represent dramatic rethinking of fundamental problems (see the next section for more discussion). Whether this cerebral approach will deal with the real issues perceived by rural people here and now has yet to be seen; the proposed policies have yet to demonstrate their intended outcomes. Whether they are backed with sufficient political will to be sustained in the face of more powerful counter-forces from, for instance, global institutions, urban governments, large corporations, and vested interests in central ministries or coastal provinces will also gradually become clear as the process evolves.

In summary, the rural condition in China is a long list of interlocking challenges brought about through processes of urban-centred allocation of resources shaped by a shifting political economy in post-reform China that, for three decades, not only served the purpose for macro-level economic growth, but re-configured power relations at the local, national and international levels. At the same time, agriculture and rural people, albeit with varying degrees of individual success, have been shouldering the burdens of feeding the nation, contributing to rapid economic development with cheap and flexible labour, and by dissipating the increasing risks and the human cost of development within informal institutions, such as families and communities.

### **3 The New Rural Policy: Some Issues of Implementation**

Faced with problems and challenges, particularly the three rural issues and increasing urban-rural discrepancies as analysed above, the Chinese leadership has introduced a new set of policies since the early 2000s accentuating in particular urban-rural integration. The vastness of the needed changes in core institutions and in deeply engrained economic and social processes beg the question *how* they can be achieved. The continuing legacy of the extractive practices that allowed industrial growth to take place at the cost of agriculture and rural communities is particularly hard to address. The diversity of the country, the uneven resource endowment and the income disparities are only some of the issues to be addressed in the policy change; the devolution of decision making power and the decentralised management of resources militate against policy implementation according to a central dictate. Political practice in China during the last three decades has dealt with several similar daunting endeavours. China’s approach now employed in the rural policy change towards greater urban–rural integration is experimental and incremental, follows similar patterns, basically reflecting well-tested policy practice. Local authorities have, within the broad formulation of the policy, a licence to carry out experiments, allowing them to identify practices that fit their local situations. The new formulations at the national level, while more consistent, principled and ideologically rooted, build on and integrate many of the urban-rural initiatives that have taken place over recent years. They, in particular, draw on the urban-rural integration initiative taken in 2007, which involved experimental implementation of policies in Chengdu and Chongqing. The central state, in this way, explores the viability of and the constraints on new practices by monitoring their implementation by central and local state agencies in one area. Likewise, each province and under it, each city and county tend to selected localities for various scales of pilot projects. Politicians and researchers acting as policy consultants monitor the progress of new organisations, changed practices and their effects on other social and economic processes, intervening when problems arise, and selecting best practice examples for further development and experimentation. Many typical problem areas, such as the reform of the *hukou* system, the construction of a new rural welfare system, and the social protection schemes for migrant workers require intense collaboration and coordination between sectors and involve multiple agencies. From the multitude of practices emerging from experimentation, various levels of administration select those which have the broadest applicability and are most efficient in attaining the aims of the policy. Programmes that fail or cause problems can be identified and closed down, while successful models can be promoted as good examples. Heilmann (2008) provides extensive examples of how experimentation processes have become firmly established modes of achieving innovation in major policy domains, citing the reform of state-owned enterprises, inducing the rise of private business, the establishment of the stock markets in Shanghai and Shenzhen.

Achieving greater balance in the development between urban and rural areas under the umbrella of *urban-rural integration* means to deal with the most notorious and common issue in development under industrialisation in any nation of the world: *Rural-urban dualism*. In the specific Chinese context, the structural urban-rural divide that was instituted by the planned economy (1950s–1980s) to facilitate extraction of rural surpluses for investment in industrialisation has remained in force until today, although it has undergone substantial change in the way it operates. The core difficulty of the current policy processes is how to dismantle the deeply rooted features of this system. To summarise the asymmetric and exploitative nature of the system in a brief way, it operated during the planned economy by imposing a total state control of all trade between urban work units and rural people's communes; this trade was conducted with the use of list prices based on a calculation of all raw materials, energy, labour and other costs involved in producing them. The state price commissions systematically set the value of rural labour to a fraction of the value used for urban labour, thereby meaning that industrial goods sold in rural areas were very expensive, and agricultural products sold in the cities were very cheap. The *hukou* system was crucial for this to take place, because it prevented mobility of labour. During the reform period, rural people were still formally bound to their land contracts, and their *hukou* registration, while not limiting their mobility any more, became a way of directing them into low-paid segments of the labour market and various forms of informal labour relationships, allowing them to be a highly exploitable source of labour; rural enterprises, often informal or semi-formal in their organisation, produced cheap goods for the consumer markets and provided low-cost services for the established urban economy; and urban expansion caused rural land to be requisitioned in an institutional framework that generated large sums for development of urban areas and for further industrialisation. These asymmetric urban-rural relationships form a basic structure of inequality in the Chinese economy. It is important to note that some measures that are part of the process address the social and labour market issues arising from this: (a) The deprivation of social rights of migrant workers (extension of health and social insurance to migrant workers, plus school attendance of their children (according to Article 12 of the Compulsory Education Law of 2006), the unequal and semi-formal labour market conditions (Labour Contract Law of 2007) are among the core measures that have been taken so far and which the central authorities seek to enforce with great urgency. On top of this effort comes the determination to address the issues of use of rural land for urban development (Ye 2009).

Some of the policies affect the fundamental structures of state finances and the authority vested in diverse levels of jurisdiction. This is manifest, for instance in the organisation and reorganisation of the local fiscal system. Since the Constitution was amended in 1983, *counties* have to an increasing extent become subordinated to *cities*.<sup>1</sup> The amended Constitution granted provinces the administrative control over counties through *prefectures (diqu)* which were in charge of groups of counties and directly subordinated to the provinces. However, provinces keen on enhancing the economic status of their major cities in the 1980s have increasingly established large prefecture-level cities that became responsible for managing the subordinate counties. This “city carries county” (*shi dai xian*) trend strengthened the position of city authorities, but also made county finances subservient to city interests so that some regarded it as “cities live off the counties” (*shi chi xian*, literally meaning “cities eat the counties”), i. e. as starving counties and thereby rural areas of their financial incomes (Jinrongjie 2009).

The 2009 Document No. 1 issued by China's central government, therefore, proposed to reorganise the system so that county finances and a range of core responsibilities relating to agriculture were to be managed directly by the provinces, and each province is now exploring how it can best effectuate this policy (CCP Central Committee and State Council 2009). For the sake of securing the ability of the central state in terms of targeting fiscal and budget transfers directly to rural areas, the need to separate rural and urban management even further is an apt example of how the existing devolution of decision making power needs to be changed in order to achieve intended outcomes. In particular, the task of separating financial management and budgets from township and town government activities is complex and raises

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1 Counties are large jurisdictions in China's administrative system, subordinating townships and towns, and although they tend to have a major urban core in the form of a town (*zhen*), counties are normally considered to be rural, a fact also reflected in the level of planning and economic decision making powers vested in this level of jurisdiction.

enormous problems, as noted by Kang Yuxie (2008), an official in charge of Shaanxi's finance office. The implications of this "intra-bureaucratic" shift need to be further explored; they are not limited to the mode of financial management and budgetary control, but, as one commentator on the experiments on direct provincial management of counties in Hubei province (which started in 2004) suggests: "In essence the local level difficulties of finance are not a technical issue, but one of institutional innovation, and therefore the systemic framework for county and township finances must be thoroughly reconstructed if we want to solve the fundamental problems", i.e. ensuring that grassroots funding of public goods is available (Ren 2007, 34). The main idea is not only to wrest rural finances out of the control by cities, thereby increasing, as Ren terms it, "the efficiency of using funds" (Ren 2007, 34), i.e. avoiding misallocation of funds, but to devolve more power to the counties, enable them to build up a stronger personnel and career structure (i.a. preventing the loss of the best staff to city administration), and to gradually turn the independent township and town financial structures into branch offices of the county finance administration (Ren 2007, 35), thus enhancing capacity of the county level government, enabling more strategic and better coordinated decision making, and ensuring adequate funding levels in grassroots jurisdictions.

Other parts of the process of change cannot be put on a halt until the channels of financial transfer have been improved, and so what we are witnessing is a development that requires flexibility and political coordination to achieve aims, and a situation of aims and measures being stated in broad and unviable terms in policy documents, while being translated into highly specific transactions and procedures at local levels, often seemingly at odds with each other.

The roll-out in 2002 of the New Cooperative Medical Scheme (NCMS) in rural China as a policy has attracted increasing scholarly attention in recent years (Brown, de Brauw and Du 2009; Wagstaff et al. 2007; 2008; 2009; You and Kobayashi 2009). The collectively supported 'rural cooperative medical system' (RCMS) established in the 1970s rapidly collapsed during the 1980s following decollectivisation. In consequence primary health care increasingly became unaffordable and inaccessible due to commodification of public services as a result of the economic reforms. The negative impacts of this were conspicuous. For instance, the rural population without health insurance increased from 10 % in the late 1970s to 87 % in 1993 and to 84 % in 1998. The uninsured population was reduced in 2003 as a result of the expansion of NCMS, but overall about 80 % of rural residents were still uncovered by any insurance scheme (Feng 2007). The outcome was against a policy process where as early as March 1994 there was an effort to revive the previous RCMS, starting with experiments in 14 counties of seven provinces (Carrin 1999). In the intervening decade a complex range of trial runs and experiments took place but with limited effects, as the political will that was needed for the nationwide expansion of NCMS backed by the necessary central government budgetary support was only strengthened after the new Hu-Wen leadership came to the office in 2003. In addition, the design and implementation of NCMS in each county relies on transforming the existing medical infrastructure and local conditions, in particular restructuring of practices in local finances and the management of hospitals, clinics and other health care providers.

Similarly, the commitment to extend the rural minimum living standard guarantee scheme to all parts of the countryside also demands further measures to reorganise county finances. The dilemma with the abolition of taxes and fees at township and town level in 2005 means while the measures have been welcomed by farmers, these levels of authorities have become increasingly dependent on budget allocations through the counties, thereby indicating their increasingly powerful role. Accordingly, it is clear that the coordination between county finances and county and subordinated health and social service provision authorities, as well as between counties and provincial finance authorities have become arduous tasks (see Tian's analysis in this special issue).

The formulation in the *Decision* (CCP Central Committee 2008, 13–14) is that the reform of the township government structure to be completed in 2012 is to "strengthen the social administration and public service capacities of the township and town governments" and more vaguely to "apply a range of measures to strengthen grassroots finances", to monitor the issue of the "peasant burden", and to improve the practice of setting village compacts (*yi shi yi yi*) for individual service provision projects. In

other words, the clear distinction (and with that separation) of social and public service functions on the one hand and financial administration on the other is for obvious reasons not stated clearly in the *Decision*, opening up the potential for many local solutions, but the thrust seems to be that township and town governments ultimately will retain very few fiscal and budgetary powers of their own. In return, the *Decision* promises a much livelier environment for economic activity, with better provision of banking services, credits and so on (CCP Central Committee 2008, 11–12). While it is probably too early to draw any conclusions on the basis of the processes set in motion, it is thus almost certain that what has been termed *local state corporatism* is being systematically undermined. This pattern of local management, seminally described by Jean Oi (1998a, 1998b), by which township, town and village cadres together with local enterprise managers operated the local economy as a business, often mixing public, collective and private assets and forming dominating local elites will probably not be able to survive the changes in their existing form. What the *Decision*, in its subtext, is promoting is a strong division between the public and the corporate, separating authority, public services and public finances from the market, where publicly and privately owned enterprises compete. Such a division is necessary for the expansion of public services to rural communities, for only in that way will it be possible to manage the promised growth in transfer of funds from higher levels of state authorities and gradually turn the towns and townships into more efficient providers of public services.

The existing structures of social administration and public service are probably already under severe pressure to change. Quite significantly, when the global financial crisis in 2008 began to cause some 70 million migrant workers to lose their urban jobs and a decline in export revenues, the Chinese government announced a financial “stimulus package” of 4,000 billion RMB. The strategic move is to use the dividends of the past foreign trade surplus and huge national savings to provide a firmer foundation for health, education, pension and other welfare schemes with the goal of enhancing social resilience and social cohesion. This measure aims to speed up and improve the social provisioning amongst those hit hardest by the crisis. The timing was opportune, as the global economic downturn provided an opportunity for the central leadership to reflect on the nation’s development strategy during the past three decades which was overly dependent on export, but neglecting serious inequality and poverty issues and social welfare provisioning. This has significantly constrained domestic consumption levels despite China’s large domestic market, as individuals and families have to save rather than spend for their own social security and welfare. Indeed, this “opportunity” has led to a large *additional* out-of-season allocation by the central government to go to the rural sector without engaging with domestic budget claims from other sectors. We may compare it to the 5,100 billion RMB pledge to develop hard infrastructure in the Eleventh Five Year Plan (2006–2010): The large numbers of construction workers (mainly hailing from rural areas) are among the main beneficiaries of large construction schemes as they provide employment. However, it is not certain how, if at all, the state makes a particular effort to monitor whether those employed on such schemes are actually receiving proper remuneration packages and employment conditions, whether they are socially included (in terms of for example schools for their children and in terms of housing provision), and whether the normal social and health insurances as well as pension schemes apply to them, or in other words whether they are treated as equal citizens as urbanites. The real test of the political determination to put things right is whether and how state agencies at all levels enforce the requirements imposed by the Labour Contract Law that was enacted in January 2008, alongside the range of other recent laws and regulations relating to the social protection of migrant workers.

#### 4 The Prospects of the New Rural Policies

Starting off the new policy processes and bringing to fruition their broad aims to a large extent depend on the funding regimes of the state and the ability of the central government to motivate local policy making to work towards the overall aims. It is evident that the governments of China’s large cities and the political and economic elites have been main beneficiaries in the reform era of a continued development strategy, which systematically extracts rural surplus and resources, including land and labour, to boost urban growth. The vested interests that have emerged, grown and consolidated during the reform era, in particular the formation of national and local elites in most jurisdictions, and the increasing

alliance between those who control wealth and those who make political decisions on, say resource allocation/reallocation, form a potential barrier to the transformation of the existing structures which favour such interests through the urban-centred policies (e.g. the continued exploitation of rural migrants) and resource flows.

On the other hand, innovative types of public funding for social provisions, which involve a combination of funding streams, in particular in health service, linking core institutional funding with insurance payments, and systems of minimum living standard guarantee *through* (rather than *by*) local community agencies have in effect introduced the principle of universal entitlement by which the individuals' rights are gradually disentangled from his/her community's economy. The process would help establish a rural welfare system directed at the individual and set outside the village context. For individual Chinese farmers, up till now closely defined in terms of their rural identity and family/household roles, and inter-linked with the economic fortunes of their villages, the development of such a universal welfare system would thus also be the beginning of a recognition of individual rights and citizenship as their urban counterparts. This is, of course, further underlined in the fact that the political rights and participation of rural residents, including rural-urban migrants, will gradually become equal to that of urban residents, as promised by the *Decision* (CCP Central Committee 2008, 13–14) that the quota of rural residents in the National People's Congress at various levels will become congruent with their proportion of the population. This is more than just a symbolic step, potentially giving more political weight to rural residents in crucial aspects of national decision making, so that the rural majority will have to be reckoned with.

We cannot venture much of a prognosis here. The processes set in motion are broad and complex, based on local initiatives and experiments, and occurring in timeframes and policy contexts that vary between jurisdictions. It is difficult to predict policy outcomes at this stage since it is an evolving and highly dynamic process with new policy constitutes are in the process of formulation, piloting and expansion nationwide, e.g. the rolling out of a rural pension scheme in August 2009. The bold and strategic formulation of the issues in programmatic form provides an authoritative frame for the Chinese leadership to proceed with the reforms, and it provides a guideline that local decision-makers and policy practitioners can use in their work. Many of the processes that form part of the *Decision* are already underway, while others are on the drawing table or being experimented with. It may be that the effect would be to check the trend of growing inequality and to an extent curb some vested interests, or even that the emerging but powerful economic and political elites may bring full implementation of the new rural policies to a halt. Therefore the actual effectiveness of the new policies in addressing the issues identified in this paper is uncertain and can only be assessed in time.

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