



F YUggYgg]b['h\Y'F c`Y'cZ'h\Y'@cW' GhUy.'5'7Uy'Ghi Xm'cZ'@cW'; cj Yfba Ybh'bhYfj Ybh]cbg]b
Df cdYf hm'F][\hg'F YZcf a ']b'U <Ub[n\ci '8]ghf]Vh
5i h\cf fjt' GU`m'Guf [Ygcb'UbX'>]Ub'N\Ub[
Gci fW.'H\Y'7\]bU>ci fbUž'Bc" (&ž'fł'i`ž'%'--łž'dd"' ++! --
Di V`g\YX'Vm'7cbhYa dcfUf'm'7\]bU'7YbhYfž'5i ghfU]Ub'B Uh]cbU'I b]j Yf g]hm
GhU'Y'I F @' <http://www.jstor.org/stable/2667641>
5 VVggYX.' &+#\$+#&\$\$, '&%) (

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/action/showPublisher?publisherCode=ccc>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is a not-for-profit organization founded in 1995 to build trusted digital archives for scholarship. We work with the scholarly community to preserve their work and the materials they rely upon, and to build a common research platform that promotes the discovery and use of these resources. For more information about JSTOR, please contact support@jstor.org.

**REASSESSING THE ROLE OF THE LOCAL STATE:
A CASE STUDY OF LOCAL GOVERNMENT
INTERVENTIONS IN PROPERTY RIGHTS REFORM
IN A HANGZHOU DISTRICT**

Sally Sargeson and Jian Zhang*

It now seems incontrovertible that states are involved in creating the conditions which underpin market economies. Today, the debate focuses on the institutional forms which state intervention should take. In reaction to the extreme neo-liberal view which held sway in the 1980s, that markets are the most efficient means for organizing finance, production, distribution and consumption, and in response to the financial crises of the late 1990s, historically-inclined political economists have, once again, begun to write persuasively in defence of state intervention in areas which extend well beyond legislation to guarantee “market freedoms”. Numerous studies have provided empirical evidence of the crucial roles of states in encouraging economic growth. They guide investment, establish credit mechanisms, transmit (and, equally importantly, withhold) information, develop physical infrastructure and human resources, foster trade and provide collective goods.¹

This argument has been extended further by some China scholars. In an important series of articles, Jean Oi and Andrew Walder have turned orthodox

* We wish to thank Jonathan Unger, Anita Chan and two anonymous reviewers for their constructive comments on earlier versions of this paper. We are solely responsible for all remaining faults. The field research on which this paper is based was supported by an Australian Award for Research in Asia, and grants from the Asia Research Centre and School of Humanities at Murdoch University.

¹ See, for example, Paul Streeton, “Markets against States: Against Minimalism”, *World Development*, vol.21, no.8 (1993); Linda Weiss and John M. Hobson, *States and Economic Development: A Comparative Historical Analysis* (Cambridge: Polity Press, 1995).

neo-liberal economic theory on its head by arguing that in China strong, property-owning lower-level governments acting as entrepreneurs in the market have simultaneously fostered economic development and met social demands by developing collective industries.² Their analysis highlights how the ownership of collective enterprises has provided local governments and officials with clear incentives, both material and professional.³ Collective enterprises generate an income that can be used for administration, infrastructural improvement, and the establishment of new enterprises that can further expand the revenue base of local governments. Further, as Oi points out, lower-level Communist Party and government officials have a personal interest in local development. Those who prove themselves to be successful economic administrators are rewarded with higher bonus payments, given greater leeway in decision making, and are likely to be promoted higher within the Party and government.

In an analogy that has gained wide currency in the literature on China's state and economy, Oi has compared the behaviour of county, township and village governments to that of corporate and regional headquarters and companies within a large, diversified business corporation.⁴ In what she terms "local state corporatism", corporate-like lower-level governments not only engage in profit-making activities, they also spread benefits and risks to protect and promote local community interests.

We are concerned, however, that this interpretation of the behaviour of local governments and officials suggests that they possess the same politically-neutral, efficiency-maximizing attributes as the market supposedly has in the neo-liberal paradigm. Too often "the local state", like "the market", has been idealized. Different levels of government are assumed to respond rationally to systemically allocated incentives. Officials are credited with having superior knowledge, a strong professional drive and sound ethics. The behaviour of officialdom is

² Jean Oi, "Fiscal Reform and the Economic Foundations of Local State Corporatism in China", *World Politics*, vol.45, no.1 (1992); and "The Role of the Local State in China's Transitional Economy", *The China Quarterly*, no.144 (1995). Andrew G. Walder, "Corporate Organization and Local Government Property Rights in China", in Vedat Milor (ed.), *Changing Political Economies: Privatization in Post-Communist and Reforming Communist States* (Boulder: Lynne Rienner, 1994), and "Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy", *American Journal of Sociology*, vol.101, no.2 (1995). In this study, "the local state", "lower-level governments" and "local governments" refer to governments at the town (*zhen*), township (*xiang*), neighbourhood (*jiedao*), and village (*cun*) levels.

³ Oi, "The Role of the Local State", p.1138. For another favourable view of the rural collective enterprises, see Per Ronnas, "Economic Diversification and Growth in Rural China: The Anatomy of a 'Socialist' Success Story", *Journal of Communist Studies*, vol.9, no.3 (1993). Andrew Walder provides an excellent definition of these public forms of ownership in his article, "Local Governments as Industrial Firms", pp.270-272.

⁴ Oi, "The Role of the Local State", pp.1138-9. The comparison has also been drawn by Victor Nee, "Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China", *Administrative Science Quarterly*, vol.37, no.1 (1992), p.3.

assumed to be economically optimal: whatever is considered by local officials to be good for “their” business is supposed to be good for the firms, entrepreneurs and residents under their jurisdiction. The desirability for the local state to promote growth and advance the collective interests of society, over and above class, sectional and individual interests, has been translated into an assumption of its ability and willingness to do so.

But is that assumption tenable? Are there not different constellations of interests that shape local governments’ and individual officials’ implementation of market reforms? Might not conflicts within the state and between the state and society lead to unintended or undesirable market outcomes? And what of the consequences of market reforms for co-ordination between various parts of the state, the development of China’s political system, and relations within local communities? This paper takes up these questions by examining, in one locale, the role played by local government officials in the transformation of property rights in collective enterprises during the 1990s.

As our analysis will show, local government officials at our field-site put their own concerns above the aims of the central government and above the interests of the local community. They implemented the property-rights reform in a manner that actually altered its content, and defeated achievement of its main goals.

Despite the diversification of ownership and creation of a new governance structure in local collective enterprises, the lower-level governments that we have studied continued to intervene in enterprises. Many of the local officials also took advantage of the opportunities offered by the property-rights reform to enrich themselves by translating their political influence into stock shares. Their gains were made by appropriating assets that had previously been owned collectively by local communities. The accumulation of property and economic control in the hands of such local officials is likely to have important consequences for future economic, political and social relations in rural and suburban localities. Our findings are particularly significant given that China’s central government is now advocating that small state-owned enterprises adopt a model of property-rights reforms similar to that implemented in the collective enterprises we studied.

On the basis of this case study, we wish to question the overwhelmingly positive assessment in much of the literature on “local state corporatism” of the behaviour of local governments and officials. That assessment erroneously conflates the interests of local governments, individual officials and the members of local communities, and also fails to consider the broader implications of concentrating property and power in the hands of lower-level governments and officials. We shall show that if this concentration of property and power in the hands of local officials has sometimes motivated and facilitated economic development, it has also reduced the ability of the national government to guide economic and political reforms, has discouraged private economic activities within some localities, has prevented people from participating openly in planning and decision-making in the communities in which they live and work, and has exacerbated divisions within and between social groups.

We begin by outlining the design of national policies regarding property-rights reform, and how these reforms were enacted in Xihu, a suburban district of Hangzhou, the provincial capital of Zhejiang.⁵ Our analysis combines information gathered from published Chinese sources and government and company documents with the findings of three separate research trips to Xihu. In 1992-1993, Sally Sargeson conducted ethnographic research on the consequences of labour reforms in three joint-venture collective firms in Xihu, and interviewed managers and employees of 12 other local firms, as well as officials in district, neighbourhood, village and union offices. To examine the property-rights reform process, Jian Zhang conducted 73 interviews with provincial and lower-level Communist Party and government officials and the managers of collective and shareholding enterprises in Xihu in 1994 and 1996.

Promoting Property Rights Reform

At the beginning of the 1990s, share-holding cooperative enterprises (*gufen hezuozhi qiye*, hereafter called SCEs) became one of the central government's preferred models for reforming ownership of collective and small state-owned enterprises.⁶ The conversion of collectively owned enterprises into SCEs was intended by the central government to meet two distinct sets of objectives. Economically, it was expected to reduce the ownership controls exercised over these businesses by local governments and government departments.⁷ The allocation of property rights and the separation of government from business would, it was hoped, create clearer incentives among groups of shareholders to seek optimal returns to their capital investment and property. These incentives would encourage further investment and increase the scale and technological standard of enterprises. Influential economists in the central government's State Commission for Restructuring the Economic System believed these changes

⁵ On the development of shareholding co-operatives in other parts of China see Ricky Tung, "The Development of Rural Shareholding Cooperative Enterprises in Mainland China", *Issues and Studies*, vol.30, no.5 (1994); and Eduard B. Vermeer, "Experiments with Rural Industrial Shareholding Cooperatives: The Case of Zhoucun District, Shandong Province", *China Information*, vol.10, no.3/4 (1995-6).

⁶ An SCE is loosely defined as a socialist collective economic organization in which shares are purchased by or allocated to collective organizations, private individuals and employees and enterprises; investment is made in the form of capital, labour, material and technology on the basis of a shareholding system; the enterprise is controlled by elected boards of directors; income is distributed according to share ownership and labour contributions; and the enterprise assumes full responsibility for its operations, profits and losses. For historical background on the popularization of SCEs, see Tung, "The Development of Rural Shareholding Cooperative Enterprises"; Ma Jinglong, "Wenzhou gufen hezuozhi fazhan yanjiu" [A Study of the Development of the Shareholding Co-operative System in Wenzhou], *Zhejiang xuekan* [Zhejiang Journal of Research], no.2, 1994.

⁷ Keun Lee, "Property Rights and the Agency Problem in China's Enterprise Reform", *Cambridge Journal of Economics*, vol.17, no.2 (1993), pp.186-187.

would pave the way for greater enterprise productivity and more effective market performance.⁸

Politically, the transformation of collective enterprises into SCEs offered the possibility of maintaining local public ownership of the means of production and avoiding the social polarization that seemed likely to occur as a result of any outright privatization of state and collective assets.⁹ It also provided a means by which to grant decision-making authority to managers while allowing the state to continue to pay lip service to the principle of workers' participation in the democratic management of enterprises.¹⁰

The reform of property rights was particularly significant in Zhejiang because of the preponderance of collectively owned enterprises in the provincial economy. In 1992, when the national government began to promote SCEs as a desirable model of reform, collective enterprises were responsible for producing 61 per cent of the Gross Value of Industrial Output (hereafter, GVIO) in Zhejiang. Of this, 65 per cent was contributed by township- and village-run enterprises.¹¹ The strength of these collectives in Zhejiang is partly a consequence of the channelling of investment into collective industry by lower-level governments during the Maoist period. It also reflects the relative political conservatism of the post-Mao provincial government.¹² Most important of all,

⁸ Wu Xiang et al., "Nongcun gufen hezuo jingji zongheng tan" [A Discussion on the Rural Shareholding Co-operative Economy], *Zhongguo nongcun jingji* [Journal of Rural Economy], no.11, 1992; "Sichuan: nongcun gufen hezuo jingji fazhan yanjiu" [A Study of the Development of the Rural Shareholding Co-operative Economy in Sichuan], *Jingji tizhi gaige* [Journal of Economic System Reform], no.2, 1995; Vermeer, "Experiments with Rural Industrial Shareholding Cooperatives"; You Ji, "Corporatization, Privatization, and the New Trend in Mainland China's Economic Reform", *Issues and Studies*, vol.31, no.4 (1995); Zhao Changwen, "Gufen hezuozhi shi yi zhong changqi de zhidu xuanze" [The Shareholding Co-operative System is an Enduring Alternative System], *Jingji tizhi gaige*, no.5, 1995.

⁹ "Guanyu tuixing he wanshan xiangzhen qiye gufen hezuozhi de tongzhi" [Circular Relating to Implementing and Improving the Shareholding Co-operative System in the Village- and Town-run Enterprises], a document of the Ministry of Agriculture, no.24, December 1992, in Zhejiang sheng tigaiwei (ed.), *Gufen hezuozhi shiwu shouce* [A Practical Manual of the Shareholding Co-operative System], produced by the Commission for Economic Restructuring of Zhejiang province, November 1993, pp.63-68.

¹⁰ Bian Wenhai, "Gufen hezuozhi: qiye tengfei de chibang" [The Shareholding Co-operative System: The Wing on which Enterprises Take Off], *Gaige yuebao* [Reform Monthly] no.2, 1996, p.53; Jiang Kexing, "Gufen hezuozhi shi shehuizhuyi chujijieduan gongyoushi de zhongyao xingshi" [The Shareholding Co-operative System is an Important Form of Public Ownership in the Primary Stage of Socialism], *Jingji tizhi gaige*, no.2, 1995.

¹¹ *Zhejiang tongji nianjian 1993* [Zhejiang Statistical Yearbook 1993] (Beijing: Zhongguo Tongji Chubanshe, 1993), p.138. Private enterprises predominate in the economy of some counties and cities in southern Zhejiang, such as Wenzhou.

¹² Zhejiang and Hangzhou's economic conservatism can be seen through comparison with the most market-oriented economies of China such as in Guangdong and Fujian. On this, see Keith Forster, "The Political Economy of Post-Mao Zhejiang: Rapid Growth and Hesitant

however, it results from rural governments' efforts to secure economic controls and political authority in the face of what they considered to be the threat posed to their power by the post-Mao national leadership's approval of decollectivization and the distribution to households of communal property and the responsibility for production.

Since the early 1990s, the provincial government of Zhejiang has embraced the concept of SCEs as a desirable way of providing incentives for owners to increase profitability while maintaining "public ownership" in collective enterprises. Following tentative experiments with property-rights reform in late 1993, the provincial government directed that under the slogan "Grasp large enterprises, free small ones" (*zhua da, fang xiao*), profitable large and medium-sized collective enterprises would be transformed into SCEs or limited liability companies. Unprofitable smaller enterprises would be leased or sold. By the end of 1995, 32,800 of Zhejiang's 75,900 rural collective enterprises had undergone one or the other type of transformation.¹³ The Hangzhou municipal government similarly requested that district governments convert all "suitable" enterprises into SCEs or limited liability companies within three years.¹⁴

Xihu is a suburban district of Hangzhou, with four towns, four townships and five urban neighbourhoods under its jurisdiction. The district's rural collective economy has grown rapidly throughout the post-Mao reform period, in large part as a consequence of local government initiatives. Consider, for instance, the response of lower-level governments in Xihu to the perceived threat of decollectivization. In the early 1980s, residents' requests that the local governments divide collective assets up among households were not only ignored; some township and village governments actually enacted regulations which ensured that henceforth 80 per cent of the income from land requisitions by Hangzhou city and from all of these collectives' assets had to be used to

Reform", in Peter T.Y. Cheung, Jae Ho Chung and Zhimin Lin (eds), *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics, and Implementation* (Armonk: M.E. Sharpe, 1998), pp.145-211. The Hangzhou city government's conservatism and its failure to promote economic activity was openly criticized in the municipal paper, *Hangzhou ribao* [Hangzhou Daily], on 13 May 1993.

¹³ *Gaige yuebao*, no.7, 1996, p.49. In some counties in Zhejiang the majority of rural enterprises were transformed into SCEs. In Taizhou, for example, by 1993 more than 60 per cent of all township and village enterprises had become SCEs. See *Gaige yuebao*, no.12, 1993, p.15.

¹⁴ "Guanyu xiangzhen qiye tuixing gufen hezuozhi ruogan yijian de tongzhi" [Notice of Some Opinions on the Implementation of the Shareholding Co-operative System in the Village- and Town-run Enterprises], a document of the Commission for Economic Restructuring of the Hangzhou municipal government, no.29, April 1993; and "Hangzhou shi gufen hezuo qiye guanli zanxing banfa" [Provisional Regulations for Shareholding Co-operative Enterprises in Hangzhou], a document of the Hangzhou municipal government, no.8, April 1993, in Hangzhou shi jingji tizhi gaige weiyuanhui (ed.), *Gufen zhi qiye shidian zhengce huibian* [A Collection of Policies Regarding the Experiments of Shareholding Enterprises], a document of the Commission for Economic Restructuring of the Hangzhou municipal government.

expand collective industry.¹⁵ Moreover, throughout the 1980s lower-level governments in Xihu attempted to suppress private enterprise by refusing to lease land and buildings to private entrepreneurs, charging them higher fees for water and electricity, and discriminating against them and their families in the distribution of subsidies and welfare. Private businesspeople moved from Xihu to adjacent counties whose governments had more benign attitudes toward private business.

The high rate of collective accumulation initiated by the local state in Xihu bore fruit. Between 1978 and 1994, Xihu's GVIO increased from 19.3 million *yuan* to 3.2 billion *yuan*, an annual average growth-rate of 37.5 per cent. In 1994, secondary and tertiary industry contributed more than 83 per cent of the GDP in Xihu, and over 96 per cent of the GVIO derived from the collective sector, in which township and village-owned enterprises predominated.¹⁶ Although 43 per cent of the 356,000 registered residents of Xihu in 1994 were categorized as rural, more than three-quarters of the adult rural population had abandoned agriculture to work in collectively owned firms. The average annual incomes of Xihu's rural residents had increased from 175 *yuan* in 1978 to 2,412 *yuan* in 1994.¹⁷ In highly industrialized towns such as Gudang, average annual per capita incomes had reached 4,800 *yuan*.¹⁸ Nevertheless, Xihu's collective enterprises were unable to fill their labour requirements solely from among the local population. The majority of the employees in Xihu's collectives were rural migrants, who performed almost all production-line tasks.¹⁹

In the early 1990s, however, owing to increasing competition in the market, the reduced availability of credit and the difficulties of collecting debts, the high

¹⁵ *Gudang shinian bianhua: 1978-1988* [Ten Years of Changes in Gudang: 1978-1988], document of Gudang town government, December 1988; *Gudang cailiao huibian: 1989.1—1991.6* [A Collection of Documents Regarding Gudang Town: 1989.1-1991.6], a publication of the Gudang town government, July 1991.

¹⁶ *Xihu qu jingji tongji nianjian 1994* [Xihu Economic Statistical Yearbook, 1994], pp.44, 98, 130.

¹⁷ *Fenjin zhong de Hangzhou shi Xihu qu: sishi nian guomin jingji he shehui fazhan weida chengjiu, 1949-1988* [Xihu in Development: Great Achievements of Economic and Social Development in the Last Forty Years: 1949-1988], a publication of the Economic Planning Committee of the Xihu district government; *Xihu qu jingji tongji nianjian 1994*.

¹⁸ *Hangzhou shi Xihu qu Gudang zhen 1995 jingji shehui fazhan gaikuang biao* [1995 Statistical Table on Socio-economic Development in Gudang Town, Xihu District, Hangzhou], a document of the Gudang town government, April 1996, pp.1-2.

¹⁹ For example, the highly industrialized Gudang village in Gudang town contains only 175 villagers, yet the village's collective enterprises employed approximately 2,000 migrant workers; also see *Qianjiang wanbao* [Qianjiang Evening News], 24 December 1992; Sally Sargeson, *Reworking China's Proletariat* (London: Macmillan, 1999). Many of the migrants do not register as temporary residents when they arrive in the city, and so it is impossible to secure accurate statistics on the number of migrants living and working in Xihu. However, in some of the enterprises that we visited more than 90 per cent of the labour force were rural migrants.

rates of growth and of profit margins of Xihu's collective sector decreased.²⁰ The district government viewed property-rights reform and the provision of greater incentives to enterprise managers and employees *via* share ownership as a means to improve profitability.

Buoyed by what it judged to be the successful transformation of six selected enterprises in 1993, Xihu district government established a Working Committee the following year to oversee the conversion of collectives into SCEs. The *comprehensive membership of this committee bears testimony to the fact that every organ of the district government had a direct interest in the process of transformation*, given that the collective enterprises were among their main sources of revenue.²¹ The Working Committee issued quotas to all of Xihu's town, township, neighbourhood and village governments to transform a total of 120 collective enterprises into SCEs by the end of 1994. Fulfilment of this quota was designated as one of the criteria for evaluating the work performance of lower-level officials. By mid-1996, 67 per cent of all of the collective enterprises in Xihu district had completed property-rights reform. Of these, 237 firms had become SCEs, 124 had become limited-liability companies, and 672 smaller collectives had been sold at public auction to their managers or private entrepreneurs.

However, officials at both the provincial and district levels began to express concern that the reforms were not achieving the central government's aims. A leading official of the Rural Co-operative Division of the Zhejiang Party Committee's Rural Work Office (*Zhejiang shengwei nongcun gongzuo bangongshi*) dismissed the transformation of collective enterprises into SCEs as "a dismal failure". A similar conclusion was expressed by Xihu district officials, who complained that the Structural Reform Commission was staffed by impractical ivory-tower theoreticians who did not understand how the reforms were being subverted by lower-level officials and wily entrepreneurs. In late 1996, the Xihu government stopped issuing quotas for the transformation of collective enterprises and announced that it would hold an inquiry to determine the outcome of the reforms undertaken thus far.

The inquiry found, first, that despite the conversion of collective enterprises into SCEs, many lower-level governments were continuing to interfere in decision making by enterprise managers. Second, and in apparent contradiction to the first finding, no proper structure of SCE governance had been established, and there was no effective system by which either the local government or individual shareholders could monitor managerial behaviour to protect shareholders' interests. Finally, local cadres, in particular those who held managerial positions in the enterprises, had taken advantage of the reforms to

²⁰ *Xihu qu jingji tongji nianjian 1988*, p.130; *Xihu qu jingji tongji nianjian 1993*, p.58.

²¹ The Working Committee comprised the vice-director of the Xihu district government, the district Party secretary, and leaders of the Planning Committee, Economic Committee, Structural Reform Commission, Committee on the Agricultural Economy, Tax Bureau, Industry and Commerce Bureau, Audit Bureau, Labour Bureau and Bureau of Land Management.

translate their political influence into individual ownership shares and other assets. To understand the nitty-gritty of who got what, why and how, we need to examine how lower-level governments and local leaders manipulated the transformation of collectives into SCEs.

Sharing out the Collectives in Xihu

Regulations specifying share distribution, the structure of authority and the distribution of profits in SCEs were drawn up by Xihu district government to conform to the aims of the national government and to the guidelines established by the Zhejiang provincial government. In practice, however, the pattern for transforming collectives into SCEs was designed by the lower-level governments, often after negotiations with enterprise managers. Consequently, the structure of shares, the organization of boards of directors and the rules governing the payment of dividends varied greatly between and within districts. Despite this, a uniform result of the transformation is that the goal of separating government and business has not been achieved. To some extent, this is because local governments continue to enjoy monopoly control over crucial production factors and use this to exert pressure on enterprise managers. For example, two cadres of the Gudang Town Industrial Office (*zhen gongban*) and the Beishan Neighbourhood Industrial Office (*jiedao gongban*) responded incredulously to the question of whether the transformation of ownership would lead to a reduction in their control over local collective enterprises:

“How could we possibly lose power? We have other means of controlling them.”

“They still have to use water, electricity, land and buildings. We control all those. If they don’t do as we say, they’re out!”

Of greater relevance to our analysis, however, is the fact that local governments and officials organized the share ownership, the composition and authority of the enterprises’ boards of directors, and the payment of dividends from SCEs in such a way as to ensure that they could continue to intervene in enterprises, earn profits and increased revenue from the sale of collective firms, and acquire individual ownership of public assets.

Who Shares?

In Xihu district, the new SCEs are supposed to have at least three main bodies of shareholders who hold three different types of shares: collective shares (*jiti gu*), distributed shares (*fenpei gu*), and individual shares (*geren gu*). The features of these shares are summarized in Table 1.²²

²² For regulations pertaining to each of these types of shares, see “Xihu qu xiangzhen qiye gufen hezuozhi shixing banfa” [Provisional Regulation on the Shareholding Co-operative System in the Village-and Town-run Enterprises in Xihu District], a document of Xihu district government, no.68, October 1993; “Guanyu shenhua chengzhen jiti qiye gaige de

Table 1: The Officially-specified Organization of Shares in SCEs in Xihu

Type of shares	% of total shares	Owners	Dividend recipients
Collective Shares	At least 30%	Local community, represented by local governments	Local governments
Distributed Shares	No specified proportion	All local employees, represented by the Employee Shareholders' Association	* At least 30% to a public welfare fund for all local workers * Remainder (70% or less) to individual employees at manager's discretion
Individual Shares	At least 20%	Individual local residents and employees	Individual local residents and employees

Collective shares are owned by the local community, which is represented by the local government. They represent the value of assets originally invested in the enterprise by the community, often in the form of land, buildings and start-up capital, and some of the accumulated funds held in the enterprise. According to district regulations, collective shares should make up at least 30 per cent of the total shares in the firm. In some localities, the actual proportion of collective shares is higher than this: in Gudang town,²³ collective shares amount to approximately 40 per cent of the total shares in SCEs.²³

ruogan yijian" [Some Opinions on the Deepening of the Reform of the Urban Collective Enterprises], a document of the Xihu district government, no.6, July 1995; "Guanyu jin yi bu wanshan xiangcun jiti qiye chanquan zhidu gaige de ruogan yijian" [Some Opinions on the Further Improvement of the Transformation of the Ownership System in the Village-run Enterprises], a document of the Party Committee of Xihu district, no.44, July 1995.

²³ *Xihu bao* [Xihu News], 10 July 1995. According to one report, SCEs in eastern China have a higher percentage of collective investments (on average 56 per cent) than do enterprises in central and western China. See Nongye bu nongcun gufen hezuo ketizu, "1992 nian nongcun gufen hezuo zuzhi fazhan baogao — quanguo 75 ge xian de diaocha fenxi" [Report on the

Distributed shares derive from part of the accumulated funds held in collective enterprises. Xihu district regulations stipulate that 50 per cent of these accumulated funds should go into distributed shares, which are to be owned collectively by the enterprise employees. In July 1994, the Zhejiang provincial government directed all SCEs to establish an Employee Shareholders' Association (*Zhigong chigu hui*) to represent them.²⁴ Xihu district further regulated that at least 30 per cent of the distributed shares would be held collectively by all staff and workers who are locally registered residents, and 70 per cent could be assigned to individuals to receive dividends.²⁵ Distributed shares are allocated to enterprise managers and local employees for no cost. However, the distributed shares lack most of the attributes of shares in a Western market economy. Holders of distributed shares only have a right to receive annual dividends from the shares. The shares are not transferable or inheritable, and cannot be withdrawn by employees when they leave an enterprise.

The designation of distributed shares to individual staff members and workers was intended by the district government to provide employees with an incentive to maximize enterprise productivity and profitability without completely privatizing the collective enterprises. District cadres told us that the regulation was also designed to increase managers' and other employees' loyalty toward their enterprises and discourage job switching in the face of increasing competition from the private and foreign sectors for managerial, technical and skilled staff. Normally, distributed shares are allocated to employees according to their position, length of employment in the enterprise, and their contribution to the enterprise's development. Thus, managers are allowed to receive as many as 15 times more distributed shares than the number allocated to ordinary workers. Yet, as explained below, enterprise managers who also hold local government office have often received more distributed shares than the stipulated limit. Moreover, the incentive that distributed shares are supposed to offer to all employees is weakened by the fact that the migrants who comprise the majority of the workforce in SCEs are not allocated any, irrespective of how long they have been employed or how hard they have worked.²⁶

Individual shares are the shares that have been purchased privately by local employees and residents. In Xihu, they are supposed to account for at least 20 per

Development of the Rural Shareholding Co-operative Organization in 1992: A National Survey of 75 Counties], *Zhongguo nongcun jingji*, no.3, 1993, p.48.

24 "Guanyu jin yi bu wanshan xiangcun jiti qiye chanquan zhidu gaige de ruogan yijian" [Some Opinions Regarding Further Improvement of the Property Rights Reform in the Rural Collective Enterprises], a document of the Zhejiang Provincial Party Committee, no.39 (September 1994), in *Zhejiang sheng nongcun jiti zichan guanli tizhi zonghe gaige gongzuo shouce* [Working Manual for the Comprehensive Reform of the Rural Collective Assets Management System in Zhejiang Province], a document of the Rural Work Office of the Zhejiang Provincial Party Committee, November 1995, pp.35-42.

25 "Guanyu jin yi bu wanshan ...", Xihu district document (1995), p.3.

26 "Xihu qu xiangzhen qiye gufenzhi banfa"; "Guanyu shenhua chengzhen jiti qiye gaige de ruogan yijian"; and "Guanyu jin yi bu wanshan chanquan gaige", Xihu district document.

cent of the total shares.²⁷ In principle, subscriptions to buy individual shares are voluntary. However, a 1995 district regulation made it obligatory for employees who are allocated distributed shares to buy a proportionate number of individual shares so as to link their private interests to those of the enterprise as a whole.²⁸ It follows that managers should purchase the largest number of individual shares in the enterprises. Further, in order to encourage individuals to invest in SCEs, Xihu regulations specified that in addition to receiving the same profit-linked dividends as collective and distributed shares, individual shares would be guaranteed an interest payment.²⁹ Such shares can also be transferred to other local employees and residents and are inheritable.

Lower-level governments and officials often used their authority to influence share distributions and asset sales. An illustration of this is provided by Wulin Industrial and Trade Company, which was created by Wulin village in 1994 from a small collective electronic-parts factory. In the new reform, a million *yuan* worth of individual shares was issued to the enterprise employees and villagers. The chief of Wulin village, Chao Peizheng, who was also the company's managing director, designed the share structure. Chao issued a regulation skewing the individual share purchases: ordinary villagers and company workers were allowed to buy, at full face value, between 1 and 3 shares, managerial and technical staff could purchase between 3 and 10 shares, and members of the board of directors were entitled to between 10 and 50 shares.³⁰ In addition, half of the company assets, worth 250,000 *yuan*, were allocated by Chao as distributed shares in the following manner: 20 per cent to Chao as the managing director, 30 per cent to be used by Chao to reward managerial and technical staff for their past contributions to the enterprise, 20 per cent to be used by Chao to reward ordinary workers according to their past contributions to the enterprise, and the dividends of the remaining 30 per cent were to be distributed by Chao to provide bonuses for selected employees. After the transformation, Chao not only simultaneously held the position of village chief, chairperson of the board of directors, and managing director of the Wulin company, but also became the largest individual shareholder and took control of all distributed shares in the firm. The conversion of the collective factory into an SCE served as an opportunity for the village leader to take personal control of the company. This was facilitated, in part, by restricting individual investment in the company by employees and villagers.

27 "Xihu qu xiangzhen qiye gufenzhi banfa", p.3.

28 "Guanyu jinyibu wanshan chanquan gaige", Xihu district document, p.3.

29 "Xihu qu xiangzhen qiye gufenzhi banfa", p.5.

30 "Hangzhou Wulin shiye youxian gongsi zhangcheng" [Regulations of Hangzhou Wulin Company Ltd.] and "Hangzhou Wulin shiye youxian gongsi zhao gu shuoming shu" [Share-issue Notice of Hangzhou Wulin Company Ltd.]. Reports of similar cases can be found in Susan Whiting, *The Micro-foundation of Institutional Changes in Reform China: Property Rights and Revenue Extraction in the Rural Industrial Sector*, PhD Dissertation, University of Michigan, 1995, p.116.

An even clearer illustration of how a local official could manipulate share allocations to personal advantage, this time in a manner which contravened both the national government's policy and the district government's regulation linking the apportionment of distributed shares to individual investment, is provided by the Hangzhou Transport Machine Parts factory. In 1994, the factory was transformed by the Beishan neighbourhood government into Yatai Shareholding Company. The factory's assets were valued at 6.28 million *yuan*. Because a high price was set for each share and a large number of shares were issued, Gu, deputy chief of Beishan neighbourhood government and managing director of the firm, initially refused to purchase any individual shares in the company. Yet later, Gu purchased 55,000 *yuan* worth of individual shares and then allocated to himself free-of-charge distributed shares worth 1.88 million *yuan*. At the end of the year, dividends from all his shareholdings were double the amount of his paltry personal investment.

Before the property-rights reforms began, many established collective enterprises in Xihu were leased on contract to their managers. In the course of transforming the collectives into SCEs, the valuation of enterprise assets became a point of contention between local governments keen to meet deadlines set by higher levels, and enterprise managers able to procrastinate and eager to purchase cheap shares. To break the stalemate and meet their deadlines, the local governments frequently accepted low valuations of enterprise assets. This undervaluation of collective assets resulted in an effective transfer of property and income-earning potential at bargain-basement prices to the new holders of distributed and individual shares — in particular the enterprise managers. Wu Min, the vice-director of the Xihu Economic Committee, cited Hansen Company as one instance where there had been such a transfer of assets to managers:

As soon as Hansen was converted, the shareholding managers leased from Gudang town government the factory they occupied for only 420,000 *yuan* per annum. Then they sub-leased two floors of the building to other enterprises for [a total of] 380,000 *yuan*, and rented access to their electricity transformer for 170,000 *yuan*. During the valuation procedure, the transformer had only been assessed at 50,000 *yuan*. But it costs at least 500,000 *yuan* just to get an operating license and to install a transformer. So the enterprise's collective assets were outrageously undervalued.

This discounting of enterprise assets enabled Hansen's four top managers to purchase 36 per cent of the total shares in the company as individual shares. The Gudang town government also allocated those same four staff members 18 per cent of the shares as distributed shares.

The head of Gudang town's Industrial Office defended the town government's under-valuation of Hansen's assets by arguing that even if Hansen's managers had benefited, this had not actually resulted in a loss for the government. Gudang town government had retained the remaining 46 per cent of the shares in the Company as collective shares. In addition, it had profited from the sale of 400,000 *yuan* worth of individual shares in the company, and was receiving 420,000 *yuan* in annual rent. Indeed, the town government's income

from rent and shares increased 5.4 fold in the year following transformation of the local collectives into SCEs, and it earned a 6.7 million *yuan* windfall from the sale of collective assets.³¹

Yet while Hansen's managers and the town government both benefited from the transformation of property rights in the Hansen Company, they did so by appropriating the property rights of local workers. None of the few Gudang residents employed in the company's workshops were allocated distributed shares. Nor were they invited to subscribe to individual shares. Zhu Renmei, vice-director of Hansen, alleged that this was because, unlike the managers, workers appeared to lack confidence in the factory's prospects. Nor were property rights the only kind of right alienated in the course of transforming Hansen's ownership. Despite the Xihu government's prohibition on using property-rights reform as an excuse to downgrade working conditions and shed workers, one of the first management decisions taken following Hansen's transformation into an SCE was to close the factory canteen and dismiss 20 employees.

Yile village provides our final example of how some local governments have misappropriated the property of residents by manipulating asset valuations and share distributions. In 1993, heedless of requests by local residents to distribute all collective assets equally among village households, the village government transferred the entire productive fixed assets of the village, valued at 21.6 million *yuan*, to the Yile Shareholding Co-operative. Shares worth 4.38 million *yuan* were distributed in amounts of 10,000 *yuan* to each of the 438 households registered as residents of Yile. However, the Co-operative's board of directors passed a regulation that made villagers ineligible to receive distributed shares or dividends from collective shares unless they also purchased an additional 10,000 *yuan* worth of individual shares in the Co-operative.³² For villagers this regulation amounted to the forced purchase of shares in assets that had previously been collectively owned.

Of even greater significance to our argument is the way the village government subsequently created new shares based upon the Co-operative's continued profitability and growth. Between 1993 and 1995, the total value of Co-operative assets increased from 21.6 million *yuan* to 96.9 million *yuan*. This increase in value, more than 75 million *yuan*, was credited in its entirety to the collective shares controlled by the village government, whereas the value of individual and distributed shares held by villagers remained unchanged.³³ The village government thereby acquired assets and income which, by right, belonged to village households.

³¹ *Xihu bao*, 10 July 1995, p.3.

³² "Shenhua gaige zhuan jizhi, cujin jingji kuai fazhan" [Deepening the Reform and Transforming the Mechanism, Accelerating Economic Development], a document of Yile Village Shareholding Co-operative, pp.1-6.

³³ You Ji notes a reverse trend in corporatized state firms, where state shares have dwindled at the expense of private shares. See You Ji, "New Trend in Mainland China's Economic Reform", pp.55-57.

The brief histories of property-rights reform in these four firms demonstrate that in the process of allocating shares in SCEs, local government officials in Xihu have taken advantage of the reform in varied ways to assume possession of public property. At Wulin and Yatai, Chao and Gu both used their official positions to acquire substantial numbers of shares in, and control over, lucrative firms. The increased value of shares in the highly profitable Yile Shareholding Co-operative was wholly commandeered by the village government, while the Gudang town government's under-valuation of enterprise assets at Hansen allowed valuable community property to be transferred into the hands of four company managers.

Instituting Corporate Governance in SCEs

In theory, SCEs and shareholding corporations are governed by boards of directors elected by all shareholders, including individual shareholders and members of the Employee Shareholders' Association. Boards are supposed to represent the interests of, and be accountable to, all shareholders. The boards of directors should employ the SCE managers, who in turn are accountable to the boards.

In practice, we found almost the opposite. Most SCEs' boards of directors have not been elected, but rather have been directly appointed by local government officials and enterprise managers. The majority of the boards comprise only officials and enterprise managers. Thus, it is not surprising to find that the membership of the Yile Shareholding Co-operative's board constitutes the same people who are in charge of the village government. Nor does the formal delegation of board members necessarily reveal the extent of government representation or influence on a board. The Gudang town government allocated to itself two of the five positions on Hansen's board of directors, but Hansen's managing director was not informed which two officials actually held those positions. His confusion was compounded when six town officials attended the 1995 board meeting and signed the board of directors' annual statement. That same year, the town government appointed a new deputy Party secretary to the firm, made him deputy chairman of the board, and directed Hansen's managers to arrange for him to purchase 100,000 *yuan* worth of individual shares.

Clearly, the boards do not represent all shareholders. Very few of them, for instance, include a representative of the Employee Shareholders' Association. Indeed, most SCEs do not even have an Employee Shareholders' Association, even though these are supposed to own the distributed shares and to oversee the interests of employee shareholders. In fact, as of late 1996 it was still difficult to establish an Employee Shareholders' Association in Hangzhou. The Hangzhou Industry and Commerce Bureau insisted that all such associations should obtain a "legal person" status as owners of distributed shares, which was supposed to be provided by the Bureau of Civil Affairs, but the Hangzhou Bureau of Civil Affairs consistently refused to register Employee Shareholders' Associations because it had not received advice on how to categorize this new type of association. Even where Employee Shareholders' Associations exist in name,

they make no claim to speak for the holders of distributed shares. For example, in one SCE that we visited all of the distributed shares were owned by an association that was organized not by the workers, but rather by the company's managing director. The chairperson of this association was also appointed by the managing director. She is not a member of the board of directors, has never attended board meetings, and candidly admitted that she does not understand how she should go about representing shareholders.

Nor are there many opportunities for consultation between SCE managers, boards of directors, and shareholders. Boards of directors of most SCEs and Shareholding Corporations in Xihu do not hold regular meetings; when meetings are held, they are treated as occasions for the board to formally receive the manager's report and to approve decisions regarding investments and the payment of dividends that have already been made either unilaterally by managers or by managers in council with local government officials. The manager of Libao Company, the first model SCE in Xihu, said he had never bothered to hold a board meeting because the Xinwen village government and the Xiangfu town government, which were both shareholders in Libao Company, had never requested that he do so. Local officials and SCE managers acknowledged that, for the most part, individual shareholders were not invited to attend annual meetings, were not consulted about issues to be discussed at meetings, were not informed about the performance of enterprises and were not always advised of decisions taken by the boards at meetings. It is therefore impossible for individual shareholders to monitor the performance and ensure the accountability of SCE managers either through their boards of directors or at shareholders' meetings.

The absence of shareholder representation and consultation is not the result of ignorance, apathy or satisfaction with the *status quo* on the part of local residents. On the contrary, it is an artefact of resistance by lower-level governments to central-government policies attempting to establish a forum for shareholders' participation in SCE planning and decision making. In early 1995, in response to widespread complaints about the privatization of collective assets, the failure of SCE boards to represent shareholders' interests, and local governments' continued interference in SCEs and their misuse of revenue from asset sales and dividends, the Zhejiang provincial government decided to abolish the lower-level governments' ownership and management of the collective shares in SCEs. The governments would be replaced by township collective-assets management companies (*xiang jiti zichan guanli gongsi*, hereafter TCAMC), which would become the legal representatives for the collective assets.³⁴ The TCAMCs' boards of directors were to be elected by Township Farmers' Representative Assemblies (*xiang nongmin daibiao huiyi*), new organizations that would be formed during the property-rights reform. The elected boards

³⁴ *Zhejiang sheng nongcun jiti zichan guanli tizhi zonghe gaige gongzuo shouce*, pp.28-30. Experiments with TCAMCs were first carried out in Tongxiang county, Jiaxing city and Shaoxing city in July 1995.

would have the authority not only to manage the SCEs' collective shares but also to decide upon dividend payments.

The provincial government's effort to establish TCAMCs was led by no less a personage than Li Zemin, the Party Secretary of Zhejiang province. Still, because the reform was seen by lower-level governments to be contrary to their interests, they resolutely opposed the formation of TCAMCs even in the experimental phase. Township leaders complained that the TCAMCs would erode their authority, complicate decision-making, and thereby increase their workload. Their resistance proved decisive. When all localities were directed to establish TCAMCs in October 1995, it was evident that the provincial government had bowed to pressure from lower levels. Local officials rather than farmers' elected representatives were to be at the core of the new institutions: the TCAMC's boards of directors would be chaired by township Party secretaries, and board members would be "elected" from among local officials and enterprise managers nominated by township governments and Party committees.³⁵ An officer of the Rural Co-operative Division of the Zhejiang Party Rural Work Office wearily concluded: "The TCAMC reform had absolutely no effect. We just ended up establishing an organization with a new name, while everything stayed as it was".

This institutional compromise completely negated the central government's original aim of separating governments from enterprises, and the provincial government's resolve to grant ownership rights and the means of monitoring SCEs to disgruntled local communities. In a public speech, Li Zemin declared that the provincial government had decided to make such an arrangement because it wanted to accommodate the interests of local cadres as well as residents.³⁶ In private, provincial and district officials complained that the provincial government had lost the struggle, and that ownership of collective property by local governments had not been changed at all.

Our account of how lower-level governments interfered in the foundation and operations of the SCE boards of directors, Employee Shareholders' Associations, and TCAMCs demonstrates the extent to which the local governments have become independent, self-interested economic actors, and how, to achieve outcomes in their interest, they are able and willing to resist the directives of upper levels of the state, disregard the demands and criticisms of shareholders and local residents, and subvert the course of market reforms.

Profiting from Shareholdings

To encourage the pursuit of efficiencies and higher profits, the SCEs and Village Shareholding Co-operatives are supposed to make dividend payments that remunerate shareholders according to their proportionate share of ownership and in keeping with the enterprises' profits. In Xihu, different types of shares attract different payments. Individual shares are guaranteed an interest payment that is

³⁵ *ibid.*

³⁶ *ibid.*, p.8.

usually 30 per cent higher than bank interest over the same term. These payments are counted as a production cost. In addition, both provincial and district regulations state that individual shares should receive the same profit-linked dividend payments as collective and distributed shares. If a firm's profits exceed 30 per cent of the face value of the shares, the excess is supposed to be reinvested in the enterprise. District regulations also stipulate that 20 per cent of the profits are to be allocated to a public accumulation fund and 5-10 per cent to a public welfare fund.³⁷

The dividend payments do not, however, always reflect either profit margins or share ownership but rather a complex calculus of subjective evaluations and local-government and managerial objectives. For example, irrespective of Libao Company's profits, its manager said he always issues 30 per cent of the original purchase price of shares as dividends to individual and collective shareholders, and the local government strongly endorses his management of the enterprise precisely because of his payment of high dividends. Different enterprise managers have exhibited contrary patterns of behaviour. District officials complained that whereas before the reform, some managers of collective firms had consistently exaggerated enterprise profits in order to receive bonus payments, after the reform they minimized dividend and tax payments by reporting low profits or even losses. In contrast, some enterprises that have not shown any profit at all nonetheless return high dividends. This is partly because of the need to encourage employees to invest funds and partly because managers want a quick return on their own personal investments. Dividends which should be paid to the Employee Shareholders' Association as owner of the distributed shares are instead used by managers to pay bonuses to selected employees according to their "attitude toward work" (*gongzuo biaoqian*). This practice has disproportionately increased the income of managers' relatives and friends.

Where dividend payments are determined by the local governments rather than by enterprise managers, their decisions similarly tend to reflect their political interests. A regulation of Yile Shareholding Co-operative states that the co-operative will pay 40 per cent of its profits as dividends to shareholders. In 1994 and 1995, however, the co-operative paid considerably more than that. Shareholding households received over 7,000 *yuan*, or a 70 per cent return on the "mandatory" individual investment that had initially proved so unpopular among villagers. Such a high yield persuaded villagers to accept the current institutional arrangements that allowed the village government to maintain its control over collective assets and revenues.

Local officials do not hesitate to spend the income from the collective shares in SCEs on themselves. The costs of local administration in Xihu district have risen noticeably over recent years. In Gudang village, as in many other localities, the three major items of administrative expenditure have become the salaries and "entertainment expenses" of officials, and car maintenance.³⁸ One Xihu district

³⁷ Provincial regulations direct that 10 per cent of the profits should go to each.

³⁸ Gudang village budget, 1995, 1996. Also see Wang Shaoguang, "Central-Local Fiscal Politics in China", in Jia Hao and Lin Zhimin (eds), *Changing Central-Local Relations in*

officer quoted a popular aphorism which, he said, summed up the resentment of local residents towards their leaders' misuse of collective dividends: "their houses become higher and higher, their cars become smaller and smaller,³⁹ and their bellies get fatter and fatter".

But officials are not the only beneficiaries. Residents in Xihu enjoy a high quality of physical and social infrastructure provided by some of the local governments from the dividends paid to collective shares. Yile government spends 10 per cent of the co-operative's profits on welfare, education and social services. The largest single outlay of Gudang village's budgets in 1995 and 1996 was subsidies paid towards the cost of constructing an entirely new residential complex to re-house villagers. In some cases, the benefits enjoyed by residents of Xihu are superior to those provided by the central state to its tenured employees. Welfare provisions, for both Yile villagers and Gudang town residents, include old-age and disability pensions, subsidized education and health care, family-planning rewards, cable television for all households, and subsidized cremations.

Nevertheless, the design of local welfare systems suggests that in this sphere, too, one of the primary objectives is to buttress the control exercised by the local governments over the local economy and populace. The two major criteria determining eligibility for welfare are native residence and employment in the collective sector or agriculture. Only those people who are registered residents of the locality are eligible for the collective goods provided by the local governments.⁴⁰ Migrant workers do not receive health care, housing subsidies, free access to local schools or welfare. Benefits for registered residents are differentiated according to whether they work in collective enterprises and the remnant agricultural economy, or in the handful of private businesses operating in Xihu. Local residents who are employed in private business must often either pay hefty fees to qualify for local welfare, or receive only a set proportion of what others are entitled to. This encourages residents to work in SCEs, rather than establish enterprises that might compete against SCEs for materials, employees, and markets. It also generates support and compliance on the part of local employees toward the governments that provide for them.

In short, the organization of shares, governance structures and dividend payments in the SCEs have been manipulated by lower-level governments and cadres in a way that has allowed them to appropriate public assets, increase their own incomes and perquisites, and maintain their control over local collective assets. Consequently, the property-rights reform has had only a limited effect in rationalizing government-enterprise relations.

China: Reform and State Capacity (Boulder: Westview, 1994), p.101.

³⁹ This implies that officials' cars are new Japanese imports.

⁴⁰ "Wulin cun guizhang zhidu" [The Village Code of Wulin], a document of Wulin village government.

The Implications of Local State Interventions

It is notable that despite the approval and practical support given to private business by the national and provincial governments, the district government of Xihu has never adopted a policy designed to encourage the growth of private business. In Xihu the local governments have attempted to crowd out competitors so that they can enjoy monopoly control of capital, resources, enterprises and personnel. They have put restrictions on the provision of electricity and land to private business. Private business people have not been invited to purchase shares in SCEs. Hence, in Xihu's rural industrial sector it is hardly surprising that only 1.4 per cent of the GVIO derives from private enterprises.⁴¹

The implementation of property-rights reform by the local governments has also altered relations among the members of local communities, and between the local populace and migrant workers. Conflicts have arisen over the allocation of large blocks of distributed shares to officials and managers, and over decisions to exclude, limit, or make mandatory the purchase of individual shares by residents. Welfare systems funded by the local governments' dividends have institutionalized inequalities between categories of the local populace, separating those who are dependent upon employment in SCEs from those who are employed elsewhere or who have become private entrepreneurs. Within the SCEs, the discretionary payment of dividends by enterprise managers to selected employees serves to drive a wedge between groups of local workers. Moreover, the regulations drawn up by the local governments to allocate shares in the SCEs and co-operatives according to residential registration have strengthened localism, aggravated discrimination against migrants, and created strong disincentives among native residents against geographical and job mobility and marriage beyond the community.

Symbolically, the sense of communal identity of local communities is reinforced by these local regulations and is expressed visibly in the sameness of material goods redistributed by the local governments. In Yile, village government regulations stipulate that all villagers' houses be built of identical materials to a single plan, and be supplied with exactly the same satellite dishes. The village government provides all of the physical infrastructure and all entertainment facilities. In Gudang, regulations stipulate that on their birthdays, all retired villagers receive exactly the same decorated sponge cake and gift, and every few years all will travel together to the same hotel destinations and participate in the same guided tours. But the local governments' provision of this largesse to the local community on strictly equal terms glosses over their usurpation and sale of residents' property rights. And the lack of transparency enables officials to conceal their personal financial interest in the SCEs. In Yile, village cadres were very evasive when asked whether the Party Secretary had any hidden investment in the village's highly profitable enterprises: "He is involved in some enterprises, but he doesn't want anyone to know about it. It is best if we don't talk about it".

⁴¹ *Xihu qu jingji tongji nianjian 1994.*

In order to secure their acquisition and control of collective property, local officials have attempted to enlist the support, or at least the compliance, of the local populace. However, the failure of the provincial government to establish popularly elected TCAMCs demonstrates that lower-level officials are not attempting to curry favour with their superiors by following the directives of the higher levels of Party and government. Nor are they trying to win the support of residents by acceding to their demands for the equal division of collective assets, or addressing their complaints about the *de facto* privatization of firms, failure to disclose investments and expenditures, and shareholders' inability to participate in SCE decision-making. Instead, officials are attempting to co-opt the residents through expanding construction and welfare programs, and increasing in number and scale their acts of patronage. The walls of local government offices are pasted over with notices detailing such acts as the government's decision to construct a centre for senior citizens and to present them with gifts on public holidays. Articles in local newspapers regularly applaud the generous donations made by cadre-entrepreneurs to primary schools. Shining new factories, roads, clinics, and satellite dishes all bear concrete testimony to the entrepreneurial ability and munificence of local government leaders.⁴²

In the context of village democratization, public patronage is reconfiguring local political culture. During the elections of village committees and village representative assemblies, serving candidates point to local growth and improved living standards as evidence of their collective orientation, altruistic civic-mindedness and successful management, and promise to further improve the appearance of villages and the incomes of their inhabitants. However, while patronage sustains officials' political domination and control of the economy, it also requires that they meet the demands of their local constituents. Villagers are aware that even if local officials are not really accountable to the public, they are nonetheless vulnerable to public criticism.⁴³ Therefore, the threat of complaining to higher levels of the government and Party has become a new bargaining tool used by villagers to pressure local officials to disburse yet more money to the community.

For example, when 20 of the 83 new houses subsidized by Yile government were found to be poorly constructed, local gossip held that village leaders had received large commissions from the building company responsible for their construction. Complaints were lodged with the village government. Without bothering to hold an inquiry, the village government paid compensation of 40,000 *yuan* (twice the amount of the original subsidy!) to each of the dissatisfied house-owners. An even more revealing case concerned the Party Secretary of Yuquan village. Despite the fact that he had twice been cleared of charges of corruption relating to SCEs, serious allegations and demands for his resignation

⁴² For a critical analysis of officials' public "benevolence", see Wang Shaoguang, "Central-Local Fiscal Politics", p.102.

⁴³ Kevin J. O'Brien, "The Politics of Lodging Complaints in Rural China", *The China Quarterly*, no.143 (1995); Jiang Wandu, "Grassroots Democracy Taking Root", *Beijing Review*, 11-17 March 1996.

continued to be lodged with the district government.⁴⁴ Complaints ceased immediately after the Secretary tripled village government spending on infrastructure, increased pensions seven-fold, and installed cable television in all of the Yuquan residents' homes.

Conclusion

The implementation of property-rights reforms by lower-level governments has produced complex and contradictory effects in Xihu. Because of the ways they are responding to market incentives, the local governments and officials appear to be gaining even greater independence from central, provincial and district rule. Their independence is based on control over the local collective economy, and it is sustained by a clientelistic political culture that encourages consumer demands which they alone, as leaders of government and business, can satisfy. They pursue their own material and political goals that are not identical to the aims and interests of the central state, or to those of local community members. They do not abide by the regulations issued by higher levels of government. Nor, despite the creative new ways local residents are pressuring governments to increase redistribution, are they directly accountable to an electorate. The consequence is that, while there is a strong tendency towards material and symbolic egalitarianism within towns, neighbourhoods and villages, these communities are also characterized by growing inequalities of property ownership, power, and access to collective goods.

Our study of the implementation of property-rights reform in Xihu district thus highlights some of the less positive features of "local state corporatism". When examining whether the property rights of lower-level governments and the ambitions of officials provide them with incentives to develop the economy, we found that governments and officials generally are keen to develop firms in which they have a stake. However, the alternative implicit in the "local state corporatism" thesis also appears to hold true. Economic activities and institutions from which lower-level governments and officials do not stand to benefit may be repressed or ignored. As shown in Xihu, in order to advance or protect their own material interests and power, they may deter private entrepreneurship, limit individual investment in public firms so as to ensure they retain majority ownership, and pay scant respect to the newly-established governance boards of SCEs. Moreover, the decisions made by local governments often reflect their political considerations rather than any economic rationale, as demonstrated by their payment of overly high dividends and spending on public redistribution.

The evidence we have presented suggests that the Chinese state does not always have the capacity to guide the process or determine the outcome of market reforms. Despite the intentions of national and provincial policies to separate government and business while maintaining local collective ownership of enterprises, local governments and officials in Xihu not only continued to intervene in the decision making of enterprises, but also took the opportunity

⁴⁴ *Xihu bao*, 10 October 1995, p.6.

offered by property-rights reform to transform their control over collective assets into substantive ownership of the enterprises by officials. The inducements to comply with higher levels of the state, which are offered to lower-level governments and officials in the shape of bonus payments and promotions, must have appeared trivial in comparison to the gains in property, income and political power to be won from retaining control of lucrative enterprises.

The acquisition of property rights in SCEs by local governments and officials may also affect the practice of "grass-roots democracy" in China's villages. Local governments' expansion of the collective sector, their funding of infrastructural improvements and welfare for residents, and village leaders' patronage certainly have won them popularity among their constituents. But it has also permitted them to subvert what Kevin O'Brien summarizes as the participatory goals of political reform: "free, fair and contested villagers' committee elections, active village councils, public disclosure of investment decisions and welfare expenditures".⁴⁵ Moreover, it has reinforced the exclusive scope of village democracy and the localized nature of citizenship. The migrants who live in these "village democracies" are not eligible to vote in local elections, although they comprise the majority of the workforce in the collective economy, and they cannot acquire shares in the enterprises in which they work or receive the goods and services funded by their profits. Thus, it seems possible that the greater independence, wealth and power gained by local governments and local leaders in the course of the property-rights reform may provide the means for entrenching authoritarian, populist rule over class-divided, corporatist communities. If that happens, "local state corporatism" may prove detrimental to the aims and interests of China's central state as well as to the economic and political rights and social relationships of members of local communities.

Perth

February 1999

⁴⁵ Kevin J. O'Brien, "Villagers' Committees: Implementing Political Reform in China's Villages", *The Australian Journal of Chinese Affairs*, no.32 (July 1994), p.40.