Local Political Elite, Partial Reform
Symptoms, and the Business and Market
Environment in Rural China

Qi Zhang and Mingxing Liu

Abstract
In this article we examine how Chinese local officials impact rural business environment and market development since the late 1990s. If their power is not effectively checked by village elections, local political elite are able to manipulate reform policies in a way to serve their economic and political interests at the cost of villagers’ interests. In other words, local officials selectively implement reform policies not only to maximize economic rents available for extraction but also to minimize the risk that may challenge their rent-seeking capacity in the countryside. We draw on a survey data collected by the authors from rural China in 2003 and 2004 to test our hypothesis on the relationship between political control exercised by local officials over village elections and rural business environment & market development. Our analysis shows that if a local government can keep a village elections under its control, then local officials would charge more license application fees from self-employment business owners, put village land re-allocation process under government administrative control, restrict peasants from founding their own professional associations. Local officials’ self-serving strategy inevitably deteriorates rural business & market environment and bodes an incomplete market-oriented reform for reformists in the central government.

KEYWORDS: local officials, rural China, business and market environment

Qi Zhang is from the Department of Political Science, Northwestern University, USA. Mingxing Liu is from the China Institute for Educational Finance Research, Peking University.
1. Introduction

The role that Chinese local government and officials play in influencing local economy in the post-reform era has long been a hot topic in literature on China’s political economy. The conclusions are mixed.¹

On the one hand, so far a majority of theorists agree that local governments have played a major, if not decisive, part over past decades in determining the pace and pattern of local economic development. The concrete effects are conditional on a variety of institutional and social contextual factors, such as local endowments and historical legacies inherited from the Maoist era,² changing formal national policies and laws,³ and the like. These studies demonstrate that local officials, as a whole, took advantage of new opportunities and incentives formed after economic reform. They coupled these benefits with their political strength and bureaucratic capacity in order to mobilize resources into developing local industries and foster a non-state sector. Ultimately, this not only spurred economic growth but also improved the overall efficiency of resource allocation.⁴

On the other hand, there are also many students of China’s political economy who are not so optimistic about the role of local government and officials. Although local officials may indeed reap some economic rewards by protecting property rights and allying with private entrepreneurs, the economic alliance between them can create both economic and political obstacles to further economic change.⁵ Some researchers hold that because local officials have vested interests, they tend to oppose change and thus constrain economic reform.⁶ In fact, because local officials can care only about their self-interests, rather than the public welfare, their behaviors are hardly socially efficiency-enhancing. Instead, they could be predatory, as is suggested by the fact that villages without grassroots

¹ Chinese hierarchical administrative system ranks as follows (from low to high): township, county, province, and the central government. In this paper when we talks about local government and officials in general sense, we are referring to county and township government and officials. In section 3 and the following sections, we begin to analyze three specific examples, which are based on a field survey and focus exclusively on townships rather than counties. Therefore, from section 3 to the last section, the terms local government and officials refer only to township government and officials.


³ Shirk 1993; Qian and Weingast 1997; Oi 1999; Huang 2008

⁴ Oi 1995; Tsai 2007.

⁵ Huang 1990.

⁶ Pei 2006; Morduch and Sicural 2000
elections have less public goods provision,\textsuperscript{7} excessively high tax and fee burdens on peasants,\textsuperscript{8} and so on.

The aim of this article is to reexamine the role of local government and officials, in terms of its effects on the rural business and market environment. Unlike previous studies in which the author focuses exclusively on a single specific issue, we draw on unique survey data collected by the authors in 2003 and 2004 to simultaneously unravel the analysis in three separate spheres. This enables us to examine the behavior mode of local government and officials from different dimensions and come up with a more complete picture.

To be specific, in our analysis we investigate the relationship between the local government’s degree of political control and (1) the official license fee collected by local officials from those who are applying to start self-employment businesses, (2) the development of the rural land market, and (3) the functionality of Farmer’s Professional Associations. Exploring these three fields will, to a large extent, accurately reflect the situation of rural entrepreneurship, the development of the rural factor market, and the peasants’ self-organization, with regards to the economic sphere. Therefore, how local officials exert their influences and treat their peasant subjects in these fields tell us more about their roles in managing economic affairs and the implications to future rural economic reform.

We find that a local government that gives little self-governing power to villages does not necessarily make for a better rural business and market environment. Rather, it makes decisions to benefit local officials at the cost of peasants’ interests. Put another way, the township governments that maintain a greater degree of political control over village affairs extract higher licensee application fees, rely more on administrative means rather than market transactions to reallocate village land resources, and have less FPAs that can function well. These findings reflect not only the partial reform nature of China’s rural economic reform, but also the deep and inherent flaws of its overall economic reform.

In addition, because we study a broad set of economic issues, this research also enriches our understanding of the concrete means that power holders might utilize to maximize their self-interests, and how this might affect business activities and market prosperity. it is well-known in literature, especially that focusing on empirical studies, that power can be used for rent seeking, principally

\textsuperscript{7} Zhang el al. 2003.
\textsuperscript{8} Bernstein and Lu 2003.
through taking bribes from the entrepreneurs and business elite in exchange for release of regulations on licenses and permits. Based on the survey data, we find that, within the townships we surveyed in rural China, power can be abused in multiple ways that go beyond merely extracting high official license fees from the self-employment business owners. In fact, besides using outright extortion, local officials also resort to indirect strategies to guarantee that their rent-seeking capacity isn’t lost. They limit the market force by allocating land resources in favor of administrative reallocation, and suppress the formation of the self-governing farmer’s associations. This research, therefore, confirms the widespread suspicion that under an authoritarian regime such as China, unchecked power does not advance inclusive economic reform, but instead creates economic payoffs for the political elite themselves. It has proved a deadly quandary that reform is so devised to be enforced exclusively by a powerful bureaucratic group in the hopes that they will combine fairness with efficiency, but this research demonstrates such a scenario is, in reality, an impossibility.

The remainder of this article is organized as follows: In section 2, we focus on three specific examples, collected from a field survey conducted in 2003 and 2004, to demonstrate how rural partial reform symptoms began and became prominent in rural China between the late 1990s and up until now. The descriptions and explanations of the three examples render testable two hypotheses regarding the effects of local government and officials on rural business and market development. Section 3 explains the model specifications, the constructions of the variables, etc. The introduction to the field survey can also be found in this section. The testing results of the hypotheses and the relevant quantitative analyses are presented in section 4. In section 5, we then dissect the partial reform nature of China’s rural economic reform and discuss the political reasons as to why rural partial reform phenomenon is allowed to exist at the local (township) level without being effectively checked. We stress that the root cause of the rural partial reform symptoms is tightly bound to China’s political system, which is beyond the effectiveness of rural economic reform, per se. Section 6 draws a conclusion.

2. Business and Market Environment in Rural China: Examples, Explanations and Hypotheses

In this section we draw on three examples that took place in the countryside

between the late 1990s and the mid 2000s to illustrate how powerful local governments are associated with an unsatisfactory rural business and market environment. All empirical data we use in this article is from a field survey conducted in 2003 and 2004. Section 3 gives a detailed introduction to this survey, including how the survey was organized, what social and economic information was identified at the local level, and so forth.

Based on the discussion of the three examples that have taken place in the countryside since the late 1990s, we now come up with two testable hypotheses:

**H1**: Powerful local governments and officials who dominate rural politics can engage in rent-seeking activities. H1 is explicated by the first and second example.

However, H1 is not the whole story. If reform policies might erode their rent-seeking capacity, the local elite will exercise their power to block these reforms. Therefore:

**H2**: If a market-oriented reform policy is likely to threaten the rent-seeking capacity of local officials, they will try to stop such policy change by using their political power. H2 is explicated by the second and third example.

Before we present the examples, it is useful to contrast the policy environment surrounding the rural economy in the 1980s with that in the post-1990s in order to understand the nature of rural business and the market environment since the 1990s. In the 1980s, the official ideological inclination and formal economic institutions were hostile to market-led activities. But the economic liberalization-oriented reform proceeded phenomenally in this period. A telling example was the spread of the Household Responsibility System (thereinafter HRS) in rural areas, starting as far back as the late 1970s.

Although, at the time, this new farming system was not accepted ideologically and was considered illegal, the authorities did not use force to prohibit it and the full official acceptance of the HRS came in the mid-1980s. Under the HRS farmers’ production incentives increased hugely and, as a result, agricultural output increased dramatically. Apart from the HRS, many other reform policies were also

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10 The policy comparisons made here are based mainly on Lipton & Zhang (2009) and Huang (2008). In their studies, they gave a much more detailed account of the evolution of national reform policies since the late 1970s.

11 The HRS was an individual-based farming system, which was adopted to substitute for the out-of-date People’s Commune System, a typical collective farming system established in the Maoist era.
allowed to come into being that encouraged the rise of rural entrepreneurship and market transactions, including encouraging farmers to start business easily; restoring rural fairs and marketplaces; supporting labor mobility across localities and land renting between village(r)s; acquiescing in the informal rural finance, and so forth. All of these measures substantially improved rural business and the market environment, improved the efficiency of resource allocation, and led to rapid economic growth in rural areas.  

What happened in the 1990s is more complicated, and its significance for economic reform is more mixed. On the one hand, in response to the central government’s mandate to build an all-out market-oriented economic system, rural reform has been making progress in multiple ways. For example, land tenure for farmers was extended from 15 years to 30 years, village self-governance was allowed and even required by the central government to be realized through village committee elections, rural factor markets were encouraged, and so on. On the other hand, however, since the 1990s, in some spheres reform has, to an extent, stagnated and even reversed, which delivered adverse shocks to the rural economy and society. For example, the barriers to entry or to the expansion of rural entrepreneurship mounted, the repression of rural financing tightened, state taxes and illegal fees imposed on peasants increased and land grab and appropriation were exacerbated, etc. It seems puzzling as to why this policy U-turn occurred in a period in which the market force gained full legitimacy and the central government has been calling for a bigger role of market principle in the economy. Some researchers argue that the reorientation of the

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12 The excellent situation of the rural economy in the 1980s had been fully perceived by some sensitive Chinese top leaders. As Deng Xiaoping, China’s de facto No. 1 leader since the late 1970s until the mid 1990s, commented at the height of Tiananmen turmoil—May 19, 1989, the day the Chinese government declared martial law: “The economy is still the base; if we didn’t have that economic base, the farmers would have risen in rebellion after only ten days of student protests—never mind a whole month. But as it is, the villages are stable all over the country, and the workers are basically stable too (Zhang, Nathan, and Link, 2001).”

13 Huang 2008.

14 Chinese scholars refer to the deterioration of rural situation since the 1990s as San Nong Weiji (三农危机)—a term coined by Li Changping, a rural official in Hubei province, in his now famous 2000 open letter to then-premier Zhu Rongji. The term refers to the three rural crises: agriculture is shrinking, rural society is on the brink of collapse, and the peasants are falling into the poverty trap.

15 In the ideological sphere, the 12th Party Congress declared in 1992 that the final target of Chinese economic reform is to establish a market economy. The 15th Party Congress finally put the stamp of legitimacy on private entrepreneurship in 1997.

16 Song 2001.
development strategy of the central government accounts for this reversed fortune.\textsuperscript{17} We supplement this strand of thought by emphasizing the role that local government and officials play in incomplete reform.

We posit that local political elite are only willing to implement those reform policies that will ensure their economic and political interests. Reform measures that do not meet these criteria will be modified or abandoned. In the 1980s, local officials were active players in support of reform initiatives because, at the beginning, reform started at a very low level so even marginal changes to the traditional planning system would usher in huge economic output growth, which would also benefit local government and officials economically and politically.\textsuperscript{18} However, as time went by and, in the 1990s, more reform measures were put on the agenda, the distributive consequences of reform became more significant. Once some reform policies were implemented, it made it more difficult for the local political elite to extract economic rents and undermined their rent-seeking capacities, despite the reforms’ efficiency-enhancing nature. Therefore it is not surprising that the implementation of these reform policies met implicit and explicit resistance from local officials who were concerned about maximizing their economic rents and minimizing political risks. No doubt the rural partial reform does not bode well for a better rural business and market environment, as is suggested by the following three examples.

\subsection*{2.1 Extraction from Village Self-employment Business}

During the past two decades, the importance of the self-employment sector has been rising, in terms of its contribution to off-farm rural employment opportunities. In 1981, less than 40 million rural individuals worked off the farm, compared to more than 200 million in 2000.\textsuperscript{19} According to a recent study, self employment accounts for about 16 percent of the rural labor force, or approximately 80 million workers.\textsuperscript{20} The rise of the off-farm self-employment sector not only increased rural residents’ earnings considerably over the past two

\textsuperscript{17} Huang 2008; Lipton and Zhang 2009.
\textsuperscript{18} For example, the adoption of the HRS and the rise of Township and Village Enterprises (TVEs) and increased grain output made farmers rich, which satisfied rural residents as well as the top reformists at the center, therefore increasing the political capital of local officials. Also, the economic growth was accompanied by an increase in fiscal revenues and other economic benefits, legal or illegal, that swelled local officials’ pocket.
\textsuperscript{19} Zhang, Huang, and Rozelle 2004.
\textsuperscript{20} Zhang et al. 2004.
decades, but also signals rapid technical progress, vibrant entrepreneurship and creative innovations. In other words, the development of self-employment in rural China, unlike in some other places, indeed comes as a sign of true development, rather than indicating that the countryside is a stopover for disadvantaged workers who cannot find a job in formal sectors.

Despite the rising importance of the self-employment sector, local officials have well-reasoned excuses for using their power to extract rents, usually in the form of a license fee, from the development of this sector. Among several factors may whet the appetite of local officials who are seeking rents, local fiscal status is the most significant factor to this argument. Since the mid-1990s, the county and township fiscal statuses have been getting worse. Due to China’s administrative hierarchy, higher-level government officials could push fiscal responsibilities down to lower levels while asserting the largest possible claim on revenue residuals at will. County and township governments are at the lowest tier of administrative structure in China and therefore suffer from the stunning fiscal shortfall, especially those governments in poor regions. In order to maintain operations, these cash-deprived local governments are more inclined to take advantage of local residents by levying heavy taxes and fees, or by imposing extra license fees when approving the license required for starting up new self-employment enterprises. With the introduction in 2003 of reforms on rural taxes and fees burdens over peasants, local cadres tend to rely more on rents from those off-farm activities, such as charging license fees, to maintain their livelihood. Due to the lack of electoral pressures, local officials meet little opposition and resistance from village entrepreneurs.

This fundraising extraction by local officials has several ominous implications for the rural business environment, some with vivid Chinese characteristics. First of all, this system obviously puts a burden on rural entrepreneurs, both materially and mentally. Levying license fees is not a simple money-for-license process. Rather, the potential entrepreneurs must face and meet a wide variety of requirements from multiple government agencies, each of whom claims the right to charge. For example, one who wants to start a restaurant

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21 Parish, Zhe, and Li 1995.
22 Mohapatra, Rozelle, and Goodhue 2007.
24 A related example is recounted by Bernstein and Lu (2003, 76) in their discussions of the tax and fee burdens on the peasants of China. Though their analytical subjects are farmers rather than self-employment entrepreneurs, their analysis regarding the former is of a general nature that can
must get permission from the fire department, sanitation department, taxing department, etc. In most cases, an applicant needs to visit, in person, all of these authorities—who are located in different places—to inquire about the procedural details, policy requirements, and so on. Moreover, because in practice there is no unified national standard to follow, the policy requirements might vary substantially from one locality to another. It can be imagined how the whole process could consume vast amounts of money and time. In our survey, it takes an average applicant 23 days of running back and forth to get a license. The longest waiting time could amount to 142 days, which means nearly half a year wasted in the application process.

In addition, if the extractions by local officials, which are equivalent to placing a lump-sum tax on the self-employment business owners, are high enough, the process may very likely force out some potential investors and turn them from entrepreneurs into laborers who earn wages by working for others, not by doing businesses on their own. Unfortunately, this likelihood was largely consistent with a recent finding of Huang Yasheng, showing that the growth rate of non-farm business income has declined strikingly since the 1990s at the same time their wage income has been growing rapidly. This means that it is now becoming more and more difficult for rural residents to move out of agriculture by starting their own businesses. Instead, they tend to be wage earners. Although Huang suggests this ebb of rural entrepreneurship is due to the repressive credit policies pursued by the state since the 1990s, our survey evidence and the theoretical analyses suggest that the excessive extractions by corrupt local officials are also to blame. It was a combination of these factors that made the rural business environment deteriorate.

2.2 Land Reallocation: Market-oriented VS Administrative

In rural China, land is one of the most valuable assets for both agricultural productions and business investments. With the introduction of the HRS in the early 1980s, land was allocated to village households on the basis of household size, possibly adjusting for the demographic composition of a household. By law, land tenure was secured initially for 15 years and, in 1999, for 30 years. During the past two decades, due to demographic changes within the household; the presence of off-farm business opportunities; population migration; urbanization;
the effective household labor-to-land ratios and the market value of land and labor have undergone substantial change. This indicates new opportunities for market-oriented institutional innovations, such as the emergence and development of the rural factor market, including markets for land rental and farm labor, and so forth. The center has demonstrated its positive attitude toward the development of the rural factor market.

But allocation of land via a market-oriented mechanism has long faced formidable obstacles imposed by local power holders. So far, local governments and officials are able to intervene in the rural land market by directly interfering with land rentals and transfers between farming households, or by indirectly affecting the land reallocation decisions within a village community. Because the survey focuses mainly on land reallocation, here we discuss only the case of land reallocation.

Besides land rental and transfer, administrative land reallocations can also be used as another way of transferring lands to those more productive households. Therefore land reallocation acts as “the substitute” for land rental and transfer (Brandt, Rozelle and Turner, 2002). Since lands are not privatized and the collective (hereafter referred to as “village”) still retains the ownership, the decision right on land reallocation is not left to the market but instead to village leaders.

Even village leaders do not have the final say with regard to land reallocations, however. In fact, on many occasions local governments step in as the final arbiter so that any decision made by village leaders will be examined by local officials and needs their approval, which definitely creates rent-seeking opportunities for local officials. In order to guarantee its ability for extracting rents, the local party-state would, in turn, do its best to keep control over land reallocation. This dictatorial manner of land management not only further lowers the allocation efficiency of land reallocation, but also diminishes the role of

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26 Those markets are not allowed to exist in rural areas until 1984. After development for more than one decade or so, the factor market development is still thin (Brandt et al., 2002).
28 By the same logic, it is also possible that village leaders could use their power to extract some rents from households. This has been confirmed by Brandt et al. (2002). They find that rent extraction could come in the form of side payments or cooperation with other aspects of village political and economic life, such as in a village election. Brandt et al notes that leaders who were subject to contested village elections might also be restrained in their behavior by the threat of losing office.
29 Deininger and Jin 2005.
market mechanism in land allocations.\textsuperscript{30} By virtue of this, a powerful local government spells the underdevelopment of the rural land market.

But as far as the rural land market is concerned, in fact, township officials are not the main culprit. Remember that both village cadres and township officials can only swell their pockets by manipulating the allocations of land within rural communities, rather than making a deal on the land, per se. The reason is that they have no power to requisition land for non-farming usage, which is exclusively determined by the higher level authorities.\textsuperscript{31} Because the county government is responsible for enforcing land requisition, it therefore reaps the windfall benefits created by simply giving farming lands to non-farming businessmen, who are, in most cases, urban real estate developers, in exchange for a share of profits. This land-for-money magic, fueled by the de facto monopoly of county government on land use, reveals more clearly how this power is used in the countryside.

It is worth pointing out that, in recent years, the movement of urbanization led to the appreciation of land assets. As a result, the rents from controlling land resources have been increasing, which, in turn, will lead to tighter control over the rural land resources and then to stagnation of market-oriented reforms in this sphere.

\textbf{2.3 Farmers’ Professional Associations: Self-served VS Government-controlled}

After realizing the importance of FPAs in helping farmers assimilate and utilize new technologies, realize economy of scale, and adapt to a variable market environment, in recent years the central government has been an ardent advocator of FPAs. According to the Agricultural Law enacted in 2002, peasants are allowed to form and organize FPAs to provide services in various areas such as agricultural production, marketing and sale, information dissemination, vocational training, and so on. In 2003 the Central Committee of the CCP issued a document

\textsuperscript{30} In case that land reallocation does not need the approval of local officials, village leaders, though they are not altruists in any sense, are more likely than township officials to respect the villagers’ will and take their demands into account when making decisions on land reallocation within villages (for a general analysis of the behaviors of village cadres, see Tsai (2007)). This will make the efficiency of land reallocation more or less close to the optimal level achieved through market-oriented mechanism.

\textsuperscript{31} In reality the State Council will allocate land quotas to each county, and the county government is in charge of making use of lands without violating the restrictions set by the former. But for complex reasons, the county government is usually able to get around the land quotas and successfully appropriate village lands without fearing punishment from higher level government.
in which it acknowledged that the development of FPAs would bring about enormous benefits, such as improving farmers’ competitiveness and building a bridge for communication between local governments and peasants. In 2004 the No. 1 Document issued by the Central Committee of the Chinese Communist Party stipulated that “local governments should encourage the development of farmers’ associations. Relevant law should be enacted as soon as possible…For some exported agricultural products, such as vegetables, fruits, etc, the pace of establishing corresponding associations should be accelerated.”

Despite the center’s enthusiasm, the development of FPAs is still in the incipient phase. According to a nationwide survey, by 1995 only 5 percent of rural households were participating in associations. Even for those established FPAs, many of them are only nominally FPAs (or are called FPAs only in name), or are commercial units or government showoff projects for propagandistic aim, rather than for the benefits of the farmers.32

Several factors are thought to be blamed for the underdevelopment of FPAs. The main reason is the lack of autonomy and independence. As is well known, organizing peasants together to form associations calls for collective action among farmers, which would be likely to fail due to the high transaction and negotiation cost and free-ride problem. Therefore, in many cases certain external agencies should be involved in this process, especially during the incubation period, to facilitate the formation and development of FPAs. In many countries, such external agencies include universities, NGOs, and certain governmental agencies. In China it is usually local governments that take on the role of both the initiator and organizer of FPAs. However, in contrast to experiences in other countries, once local government is involved in China, it naturally tends to intervene heavily or even exercise control over FPAs, due to the lack of an exit mechanism. In consequence, FPAs come into being in a manner not respecting the self-will of peasants, which is considered the necessary condition for a well-functioning association. According to Shen, Rozelle and Zhang, government still has a big influence on the emergence of FPAs, and as a result many FPAs simply do not function.33

One reason for why FPAs are likely to be interfered with or even controlled by local governments is that the government tends to transform FPAs into profit-making organizations, rather than an association serving farmers, in order to

33 Shen, Rozelle and Zhang 2005.
line its pocket. For example, in the field investigation we found that by controlling a Supply and Marketing Association specializing in live hogs, local government can easily monopolize the purchase price of pork. In some places local governments are so innovative in their pursuit of developing local industrial sectors that, to attract industrial investments, local officials promise entrepreneurs a supply of low-cost agricultural inputs. The common method adopted by them is to manipulate the FPAs into luring farmers into growing the crops that will be used as the intermediate inputs for the would-be industrial enterprises, because they won’t find any other market for their products unless they sell them to the government-sponsored FPAs, which only purchase the crops preferred by local government at a specified price. In this way, local government sacrifices the farmer’s interests to boost investments and promote GDP growth, as local officials simultaneously flout their “achievement” of developing a local economy in order to impress their superiors.

If FPAs are immune to government interventions then things would be very different both for peasants and for local governments. Not only would peasants be able to take part in the market as a whole to share market information, withstand market risks, facilitate the provision of the public goods, and so forth, but they could also strengthen their negotiation capacity in relation to the local government, allowing them to defy the latter’s blatant rip-off. The local government, in turn, would find it much harder to make farmers obey if it is confronting peasants as an independent group rather than as separate individuals. And as a result, the organized peasants will be able limit the local government’s unpopular behaviors, such as rent-seeking behaviors. It is obvious therefore, that local governments guard their own interests by taking preemptive actions to deprive FPAs of independence and autonomy, therefore stifling the organizations’ development.34

34 In this article we only consider farmer’s associations (FAs) of purely economic nature. Besides them, in rural China there are a vast amount of FAs forged on the basis of kin, clan, and religion. And, compared with the FPAs, these organizations are more independent, autonomous, and more capable of initiating collective actions, which under some circumstances could be directed against local governments at various administrative levels. In theory, to local officials any organized institutions and associations that are out of the government’s control are a potential threat to the existing party-state authority. Li (2004) points out that local officials hysterically oppose any political organizations established by peasants, out of fearing that those organizations will strengthen the masses. In practice FPAs are economically oriented and rarely involved with any collective petitioning or protesting targeting local governments and officials. Therefore in this article we do not assume that local governments actively interfere with the affairs of FPAs to influence or even control them out of political considerations, though such a possibility may indeed exist.
3. Data, Methodology, and Descriptive Statistics

3.1 Data

All data is from a field survey conducted in 2003 and 2004. This survey is organized by The Center for Chinese Agricultural Policies (CCAP) and covers 2300 villages in 213 townships in 6 provinces. The six provinces are: Jiangsu, a province located in southeastern China; Gansu and Shaanxi, tow provinces in northwestern China; Sichuan, a province in southwestern China; Jilin, a province in northeastern China; and Hebei, a province in northern China. As far as the development level is concerned, of the six provinces, Jiangsu sits in the richest tier of China, while Gansu and Shaanxi occupy the poorest tier, respectively. The other three provinces lie between them. The data includes comprehensive information covering village and township economic and social life, village election, village public goods provision, village grass-roots governance, and so on. To glean information, we generally interviewed cadres of the village committee in each village, and township officials who are familiar with township economic and political situation and can get access to statistical information. Based on village data, we can aggregate the village information to township level to get the basic picture of the rural business and market environment of each township. Therefore this data, to a certain degree, reveals the status quo of rural politics and market-oriented reform progress.

3.2 Model Specifications

In order to test H1 and H2, we estimate the following models:

\[ \text{LICENSECOST}_j = C_j + \alpha \cdot \text{POLITICAL CONTROL}_j + X \]  
\[ \text{LANDRAL}_j = C_j + \beta \cdot \text{POLITICAL CONTROL}_j + X \]  
\[ \text{ASSOCIATION}_j = C_j + \phi \cdot \text{POLITICAL CONTROL}_j + X \]

Where subscript \( j \) means \( j^{th} \) township, \( \alpha, \beta \) and \( \phi \) are coefficients to be estimated. Dependent variables include three variables which are used to measure the size of rents extracted by local officials and the extent to which market-oriented reform policies can be adopt. Those variables include:

Licensecost It is defined as the log total cost (RMB Yuan) that a village
residents has to pay for obtaining a license if he/she wants to start up a new self-employment enterprise. It is measured at the township average level and reflects the size of rents extracted by local officials. A possible drawback of Licensecost indicator is that it does not reflect the tradeoff between the amount of money that a village entrepreneur is willing to pay for the license and the time that the entrepreneur is willing to wait for the license. Besides Licensecost, we also construct another variable to measure the rents extracted by local officials, Licensecost Per Day, which is calculated as the total amount of license fee divided by the total days an applicant has to wait for until he obtains the license. This variable can be regarded as the daily price that village entrepreneurs have to pay for obtaining licenses. It is measured at the township average level too.35

**LANDRAL** It is constructed as the percentage of total villages within one township where the land reallocation decision needs to be approved by township government. Higher value of this variable means the slower market-oriented reform progress in reallocating land resources and more interventions by local governments in the villages under the administration of the concerning township.

**ASSOCIATION** This index indicates whether the FPAs function well. It is calculated as the percentage of total villages within one township where FPAs can be defined as functionality. Here we borrow the definition from Shen, Rozelle and Zhang (2005), that functionality is a term designating FPAs in villages that meet three criteria, including *not* being registered as a commercial entity in Marketing Administration Bureau, *not* being mainly set up to run a commercial business and *not* being dominated by a government official in the making of major decisions.

The key explanatory variable is Political Control (PC), the percentage of total villages in one township where the nomination of candidates for village committee needs to be approved by upper level local government (township government) in the most recent election (in our case is the year of 2003). From

35 Licensecost Per Day, however, may still overstate the extent of corruption for those who wait for long days but pay lower daily license fee, while it may underestimate the corrupt degree for those who wait for short days but pay higher daily license fee. An alternative indicator that to some extent can address this problem is to measure how much an entrepreneur will pay if he or she wants to get the license in one day, not the cost he must pay per day. To get this indicator, we regress the total license cost paid by an entrepreneur (the dependent variable) on the days for which he or she waits (the independent variable) for each township, and calculate the predicted value (we denote it as Plicensecost) when the independent variable take the value of 1. This predicted value (Plicensecost) is the cost an entrepreneur should pay for getting the license in one day in this township. According to the regression results, using Plicensecost as the substitute for Licensecost Per Day does not bring very significant changes that will alter our original conclusions. For space reason, we do not report these results.
above analysis we have known that local governments can manipulate the reform policies because as power holders they can exercise their authority without backfiring. $PC$ reflects to what extent the village politics in a township is controlled by local government and officials. Therefore, this is the key variable of interest to us. If the empirical evidences support the expectations of the hypotheses ($H1$, $H2$), then the estimated coefficient of $\alpha$, $\beta$ and $\phi$ should be positive and statistically significant.

Other control variables $X$ include: $PGDP$ is the log value of per capita net income. This variable controls for income level. $MIGRANT$ is the share of headcounts of labor forces who are working as migrants in total labor forces in 1997. $PLAND$ is the log value of area (Mu) of the per capita cultivated land. It reflects the average land endowment within the township. $TOWNCADRE$ is the headcounts of township officials as the share of its total population. It tells us the size of township bureaucrats whose payment constitutes a major part of the fiscal pressure on local government. $MINORITY$ is the populations of the Non-Han ethnic groups as the share of its total populations. Sometimes the government may give the minorities some preferential treatments to maintain political harmony. We include this variable to see whether the ethnic population composition as a whole has any impact on rural business environment.

So far our model specifications of equations (a), (b) and (c) assume that the Political Control degree ($PC$) by local government over rural politics can be regarded as an exogenous variable in the estimation. Many people may doubt if $PC$ should instead be treated as an endogenous variable, because local officials have the intention of extracting rents, which will cause them to seize the political power and retain political control over village politics. This argument predicts a reverse causality in which the estimated results derived from the estimations that directly using $PC$ as the explanatory variable would not be efficient and consistent. Although the doubt of the potential endogeneity problem is indeed consistent with the conventional wisdom that the motivation of seeking rents and guaranteeing wealth accumulation will stimulate the struggle for political power, we should point out that we do not need to worry about it in our case. As well known, even economic reform and village democratic experiment have substantially enhanced the economic and political freedom of villagers, such political freedom is restricted at village level. Also, in China the political authority of local government and officials is exogenously given by the higher-ups. So the power of local officials is not the optimal choice derived from their objectives to maximize
its personal interests (say, through winning over the township or county election), but instead are based on the existing political system, which has nothing to do with their personal preferences and intentions.

3.3 Descriptive Statistics

Table 1 presents the basic descriptive statistics of the variables. As far as village politics (Political Control) is concerned, it seems the situation is not optimistic because, on average, within a township the proportion of villages whose candidates for village committee election need the pre-approval of local government is fairly high (66 percent, column 2), suggesting a strong de facto political control of local governments over rural politics.

Table 1 also shows that on average, a village entrepreneur needs to pay RMB 256 Yuan in order to obtain a license for starting up a new self-employment enterprise (Licensecost), equivalent to 11.1 percent of average per capita net income. The mean of Licensecost Per Day means to obtain the business permits and licenses, the daily price a peasant entrepreneur should pay is 29.1 Yuan. On average, this amounts to 4.6 percent of average daily net income.

As for determination on land reallocation, in the absolute majority of the villages (90 percent) the final decision on land reallocation needs the approval of township government, which means the role of the market force in reallocating land resources is fairly weak.

As found by Shen, Rozelle and Zhang, a majority of FPAs (70 percent) have functioned well. However, although such figures are large, they represent only a small fraction of China’s rural households. Members of these functioning FPAS constitute only 2.08 percent of China’s rural households (or about 4.95 million). Shen et al. also pointed out that those estimates of FPAs are considerably below estimates routinely used by Ministry of Agriculture (MOA). Besides, we need to be cautious about the problems of measurement errors. For example, respondents might fail to distinguish between when one FPA can make self-decisions and when such decisions were made by local government, even if they claimed they understand when talking with the interviewers. In addition, due to political

36 These figures, though they are very high, seems not much higher than the world in general. Djankov et al. (2002) show that the total cost of obtaining all of the business permits and licenses worldwide is almost half of the annual per capita income (47 percent of per capita income).
37 According to the statistics of Plicensecost, we know that if an entrepreneur wants to get the license in one day, the average total cost he should pay is 280 Yuan, which is about 43 times greater than average daily net income.
38 Shen, Rozelle and Zhang 2005.
considerations, respondents might tend to overstate the degree of self-determination of FPAs. Although the first measurement error does not affect any statistical properties of estimated results, the second measurement error will cause a downward bias to estimated $\phi$.\textsuperscript{39} In other words, even if measurement errors exist, as long as the estimated $\phi$ is statistically significant, we will get the correct judgment about how politics affects the functionality of FPAs.

Table 1  Descriptive Statistic Results

<table>
<thead>
<tr>
<th></th>
<th>No. of OBS</th>
<th>MEAN</th>
<th>STD</th>
<th>MIN</th>
<th>MAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Control</td>
<td>207</td>
<td>0.66</td>
<td>0.27</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Licensecost (Yuan)</td>
<td>207</td>
<td>256</td>
<td>298.8</td>
<td>27</td>
<td>2638</td>
</tr>
<tr>
<td>Licensecost /Day (Yuan)</td>
<td>207</td>
<td>29.1</td>
<td>59.8</td>
<td>2.1</td>
<td>680</td>
</tr>
<tr>
<td>Land Reallocation</td>
<td>207</td>
<td>0.9</td>
<td>0.16</td>
<td>0.18</td>
<td>1</td>
</tr>
<tr>
<td>FPA Functionality</td>
<td>92</td>
<td>0.7</td>
<td>0.38</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Per Capita Income (Yuan)</td>
<td>207</td>
<td>2298</td>
<td>1141</td>
<td>350</td>
<td>5481</td>
</tr>
<tr>
<td>Migrant</td>
<td>207</td>
<td>0.16</td>
<td>0.12</td>
<td>0</td>
<td>0.65</td>
</tr>
<tr>
<td>Per Capita Cultivated Land (Mu)</td>
<td>207</td>
<td>4.5</td>
<td>31.3</td>
<td>0.001</td>
<td>449</td>
</tr>
<tr>
<td>Headcounts of Township Cadres/Total Population</td>
<td>207</td>
<td>0.004</td>
<td>0.009</td>
<td>0.001</td>
<td>0.09</td>
</tr>
<tr>
<td>Minority Population/Total Population</td>
<td>207</td>
<td>0.1</td>
<td>0.26</td>
<td>0</td>
<td>0.99</td>
</tr>
</tbody>
</table>

Note: Political Control, the percentage of total villages where the nomination of candidates for village committee needs to be approved by upper level government in last election in the township; Licensecost, the amount of fees charged when village residents applying for license of running self-employment enterprises. Licensecost/Day, the amount of fees charged per day when village residents applying for license of running self-employment enterprises, it is calculated at township level; Land Reallocation (LANDREL), the percentage of total villages within one township where the land reallocation needs to be approved by township government; FPA Functionality (ASSOCIATION), whether the FPAs functions well. It is calculated as the percentage of total villages within one township where FPAs can be defined as functionality; Per Capita Income (PGDP, in logarithmic term), per capita net income of the township; Migrant, the share of headcounts of labor forces who are working as

\textsuperscript{39} Wooldridge 2002.
migrants in total labor forces in 1997;  *Per Capita Cultivated Land (PLAND*, in logarithmic term), the acreage of the per capita cultivated land; *Headcounts of Township Cadres/Total Population (TOWNCADRE)*, the headcounts of township officials as the share of its total population; *Minority Population/Total Population (MINORITY)*, the share of minority population in total population in a township.

4. Testing Results

4.1 Basic Results

Column 1 and column 2 of Table 2 reports OLS estimation results for equation (a) without controlling for provincial dummies. The political control variable, \( PC \), has the expected positive coefficients and is highly significant. Those results clearly back up \( H1 \) that political power is used to extract rents from rising economic sectors like self-employment enterprises, because villagers have to pay a higher cost (and daily price) when they apply for opening new self-employment enterprises in a township with relatively lower levels of village democracy. Based on the estimated results, we can also calculate that as the political control degree increases (declines) by one standard deviation from its mean level, the total cost and daily price of applying for a license will correspondingly increase (decline) by 14.4 percentage points (equivalent to 25 Yuan) and 20 percentage points (equivalent to 3.4 Yuan), respectively.

The specifications in column 1 and column 2 may omit some unobservable province-level attributes which likely affect the license application costs. To address this concern, column 3 and column 4 report the estimated results after the provincial dummies are controlled for. These new results still conform to the hypothesis that higher political control (or less village democracy) led to more application costs because the estimated coefficients of PC variable in column 3 and column 4 are both positive and statistically significant. Not surprising, after provincial dummies are included the magnitudes of PC in both column 3 and column 4 become smaller. As the political control degree increases (declines) by one standard deviation from its mean level, the total cost and daily price of applying for a license will correspondingly increase (decline) by 9.8 percentage points (equivalent to 16.8 Yuan) and 16.9 percentage points (equivalent to 2.9 Yuan), respectively.40

40 As mentioned before, we also run regressions using \( Plicensecost \) as dependent variable. Again the coefficient of \( Plicensecost \) has a positive sign and is statistically significant at 10 percent level
### Table 2 Political Control and License Cost: OLS Results

<table>
<thead>
<tr>
<th></th>
<th>License Cost</th>
<th>License Cost</th>
<th>License Cost</th>
<th>License Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Per Day)</td>
<td>(Per Day)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political Control</td>
<td>0.52**</td>
<td>0.71***</td>
<td>0.36*</td>
<td>0.60***</td>
</tr>
<tr>
<td></td>
<td>(0.23)</td>
<td>(0.21)</td>
<td>(0.22)</td>
<td>(0.23)</td>
</tr>
<tr>
<td>PGDP</td>
<td>0.51***</td>
<td>0.75***</td>
<td>0.05</td>
<td>0.55***</td>
</tr>
<tr>
<td></td>
<td>(0.12)</td>
<td>(0.11)</td>
<td>(0.15)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>Migrant</td>
<td>0.37</td>
<td>-0.01</td>
<td>-0.12</td>
<td>-0.27</td>
</tr>
<tr>
<td></td>
<td>(0.45)</td>
<td>(0.44)</td>
<td>(0.45)</td>
<td>(0.45)</td>
</tr>
<tr>
<td>PERLAND</td>
<td>0.11</td>
<td>-0.04</td>
<td>-0.04</td>
<td>-0.01</td>
</tr>
<tr>
<td></td>
<td>(0.08)</td>
<td>(0.09)</td>
<td>(0.10)</td>
<td>(0.09)</td>
</tr>
<tr>
<td>TOWNCADRE</td>
<td>-1.60</td>
<td>6.65</td>
<td>12.79**</td>
<td>14.00</td>
</tr>
<tr>
<td></td>
<td>(6.90)</td>
<td>(9.73)</td>
<td>(5.97)</td>
<td>(10.32)</td>
</tr>
<tr>
<td>MINORITY</td>
<td>0.25</td>
<td>0.21</td>
<td>-0.08</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td>(0.23)</td>
<td>(0.24)</td>
<td>(0.20)</td>
<td>(0.22)</td>
</tr>
<tr>
<td>Provincial Dummies</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.13</td>
<td>0.24</td>
<td>0.22</td>
<td>0.26</td>
</tr>
<tr>
<td>N</td>
<td>207</td>
<td>207</td>
<td>207</td>
<td>207</td>
</tr>
</tbody>
</table>

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Robust standard errors are in brackets. See formal text and Table 1 for variable coding.

Source: field survey by the authors.

Besides Political Control variable, results of other control variables in equation (a) are also worthy of noting. As we can see, when other things are equal, villagers of more wealthy townships will pay a higher daily price when applying for license. This suggests that in wealthy regions, local officials tend to extract more from entrepreneurs. The reason might be that in wealthier regions the opportunist cost of time is relatively higher, so that entrepreneurs might be willing to afford a higher price in exchange of some government services, such as shorter

when provincial dummies are controlled for. This result suggests that a village entrepreneur has to pay more cost in order to get the license in one day in a township with greater degree of political control by township officials than he does in a township with lower degree of political control.
approval time. In the meantime, the effect of the income level on total application costs is somewhat vague. While the estimated coefficient of PINC is statistically significant in column 1, its significance disappears in column 3. The sharp contrast of the results concerning PINC between column 1 and column 3 suggests that further research is needed.

In addition, “cadre burdens” of the township (TOWNCADRE) seem to have a positive and significant effect on license cost only in the specification of column 3. Because in most specifications this variable is not statistically significant, it is hard to say that a big government usually necessarily goes hand-in-hand with rampant rent-seeking, though sometimes they are indeed two facets of the same coin. In the meantime, off-farm employment opportunities (Migrant), land endowment (LAND), and ethnic population composition (Minority) have no effect on Licensecost and Licensecost Per Day.

In Table 3, column 1 (without provincial dummies) and column 2 (with provincial dummies) report the OLS estimation results for the LANDRAL equation (b). Again, the Political Control variable has the expected positive sign and is significant at 5 percent level no matter whether the provincial dummies are controlled for, which confirms the expectation of our hypothesis that higher degree of political control by local officials corresponds to less market forces in land reallocation. The underlying reason is, as we have proposed above, that incumbent township officials can use their power to procure rents from the allocation of land resources and use lands to secure their control over village cadres. Based on the estimated result, we can calculate that as political control degree increases by one standard deviation at the mean level, the proportion of villages whose land is redistributed by administrative reallocation rather than by market transaction will correspondingly increases by 4.6 percentage points when provincial dummies are not included and by 3.9 percentage points when provincial dummies are included, respectively.

In addition, results in column 1 and column 2 show that as income level grows, the market mechanism will have more room for redistributing land resources, which is indicated by the negative and significant coefficient of PGDP. Towncadre has positive and significant coefficients in both column 1 and column 2, suggesting big bureaucratic size will dent market force in rural land reallocation. Other factors, including off-farm employment opportunities, land endowment, and minority population share have no significant effects.

Based on the definition of functionality of FPAs, the OLS estimation results in column 3 and column 4 also substantiate both \( H1 \) and \( H2 \), that FPAs in
townships where local governments have dominance over village politics tend to function badly, as indicated by the significant and negative coefficient of the PC variable. Accordingly, one standard deviation of increase of political control degree corresponds to 7.7-7.8 percentage points of increase in the number of FPAs that cannot function well, depending on whether provincial dummies are controlled for or not.  

What is interesting is that in contrast to the results in column 1 and column 2, the significance of PGDP disappears in column 3 and column 4. This result indicates that the destiny of organized groups depends more on political rather than economic factors, since its functionality has less to do with the economic development level. This also confirms the popular viewpoint that, in modern-day China, the incumbent elite weigh more political factors than economic interests when making decisions on organized groups that might someday oppose them.

In addition, the size of bureaucrats (TOWNCADRE) delivers significant and negative effects. In other words, a larger bureaucratic system comes at the expense of the functionality of FPAs because more governmental officials may mean the higher likelihood of intervening in economic and social activities, including affairs of FPAs, and, in turn, lower the efficiency of FPAs. In addition, other variables are not significant.

To summarize, the power of local political elite enables them to maintain control over village politics, and, in turn, to extract rents from village entrepreneurs or maneuver to block reform progress in some areas that, in the future, may undermine their capacity of rent-seeking or challenge their political authority. Both theoretical and empirical evidences make it convincing that local

41 We should remember that the role of politics is still likely to be underestimated because of the possible measurement error aforementioned in previous section. Therefore, the real effect of political control may be even larger.

42 We also employ another estimation strategy to estimate equation (b) and (c). In Table 2 the dependent variable (LANDRAL) is defined as the percentage of villages within one township where the land reallocation should be approved by township government. Here we redefine LANDRAL as a binary dummy variable, instead of a continuous frequency variable. That is, LANDRAL is assigned a value of 1 (0) if there are more (less) than 60 percentages of the villages within the township where the land reallocation decisions should be approved by township government. Similarly, ASSOCIATION takes the value of 1 (0) if more (less) than 60 percent of villages within the township do not meet the three functionality criteria. The Probit model is used to reestimate equations (b) and (c). The robust tests don’t lead to any dramatic changes in the conclusions we get from Table 3.
government and officials are not immune to the charge against them that they are tightly associated with the partial reform symptoms since the 1990s, which led to an unsatisfactory business and market environment in rural China.

On the other hand, however, there are some weaknesses inherent in this empirical analysis. First of all, the data we draw on is of cross-sectional nature without containing any longitudinal information. Therefore it entails only comparisons between regions but fails to enable us to make any meaningful assessment of the changes of rural business and market environment over time. In addition, rural economic reform involves a bundle of policies but the survey only touches on some specific policy spheres. We hope to handle these issues in another survey in the future.

Table 3 Political Control, Land Reallocation, and Functionality of FPAs: OLS Results

<table>
<thead>
<tr>
<th></th>
<th>Land Reallocation</th>
<th>Functionality of FPAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Control</td>
<td>0.12***</td>
<td>-0.29**</td>
</tr>
<tr>
<td></td>
<td>(0.05)</td>
<td>(0.14)</td>
</tr>
<tr>
<td>PGDP</td>
<td>-0.05***</td>
<td>-0.03</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.09)</td>
</tr>
<tr>
<td>Migrant</td>
<td>-0.06</td>
<td>-0.26</td>
</tr>
<tr>
<td></td>
<td>(0.07)</td>
<td>(0.36)</td>
</tr>
<tr>
<td>PERLAND</td>
<td>0.03*</td>
<td>-0.08</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.10)</td>
</tr>
<tr>
<td>TOWNCADRE</td>
<td>3.01***</td>
<td>-24.38***</td>
</tr>
<tr>
<td></td>
<td>(0.92)</td>
<td>(8.53)</td>
</tr>
<tr>
<td>MINORITY</td>
<td>-0.05</td>
<td>0.18</td>
</tr>
<tr>
<td></td>
<td>(0.05)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>Provincial Dummies</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.07</td>
<td>0.09</td>
</tr>
<tr>
<td>N</td>
<td>207</td>
<td>92</td>
</tr>
</tbody>
</table>

Note: * p < 0.1, ** p < 0.05, *** p < 0.01. Robust standard errors are in brackets. See formal text and Table 1 for variable coding.

Source: field survey by the authors.
4.2 The Effects of “Democratization”: Hypothetical Projections

As we have seen from the results in Table 2 and Table 3, the marginal effects of political control on the rural business and market environment are not negligible. However, what intrigues researchers most may be the hypothetical questions such as to what extent the business and market environment would be improved, and to what extent rural economic reform would be further continued, and so forth, if political control of local government and officials over village democratic elections loosened, or even disappeared? The estimated results from Table 2 and Table 3 enable us to answer these questions.

Based on the specifications of column 3 and column 4 in Table 2, we are able to track the changes of Licensecost and Licensecost Per Day as the degree of political control of local government over village elections declines from the maximum (PC=1) to zero (PC=0) when other controlling variables are fixed at their respective mean levels, which are illustrated in figure 1A and figure 1B, respectively. For example, figure 1A shows that if a township government requires that in all villages within its jurisdiction the nomination of the candidates for village head post needs its pre-approval (in this case PC takes the value of 1), then a potential self-employment entrepreneur must pay 206.2 Yuan to obtain the license to start up his/her new business, equivalent to 9 percent of the average per capita net income. Whatever the reasons, if a township government completely gives up its control over village committee elections in all villages (in this case PC takes the value of 0), correspondingly the license application fee drops to 143.5 Yuan, equivalent to 6.2 percent of the average provincial per capita net income.

Figure 1A: Less License Fee (Yuan) as Political Control Loosened
Figure 1B: Less License Fee (Yuan/Day) as Political Control Loosened

Figure 1B shows how much benefit could be brought by a loosening degree of political control, as measured by the application price that a peasant entrepreneur must pay every day during the application period. For example, the daily price of applying for a license declines from 21.5 Yuan (3.4 times the size of the average daily net income) to 11.8 Yuan (1.9 times the size of the average daily
net income), corresponding to a decrease of political control level from one hundred percent to zero.

Figure 2 illustrates to what extent having a village democracy under weakened political control will provide fresh momentum to the market mechanism in reallocating rural land resource, based on the specification of column 2 of Table 3. When other factors are controlled at the mean levels, if the degree of political control reaches its maximum (PC=1), in 94 percent of villages within a township the land redistribution will be determined by government officials, rather than by market force. This proportion of government-determined land redistribution will fall to 83 percent if villages can make clean elections that are immune to government’s intervention (PC=0). The simulation results here show that the progress of market force in land reallocation associated with the better village self-governance is not as impressive as we expect, for at the maximum only slightly more than ten percentage points of villages within one township will turn to the market rather than local government to realize the redistribution of land resource. A possible explanation to this is that, in our sample, the variation of the dependent variable (Land Reallocation) is not so considerable that the projected gains from loosening political control levels are severely limited.

Figure 3 shows how the functionality of FPAs changes, corresponding to the changes of political control deriving from the specification of column 4 of Table 3. When other factors are controlled at the mean levels, if the political control degree falls from the maximum (PC=1) to the minimum (PC=0), then the proportion of villages having FPAs functioning well will increase from 60 percent to 90 percent. It is clear that the more the government gives up, in terms of its de facto control over village democracy, the more benefits that farmers will accrue to through an increase in FPAs serving their interests.

Figure 2 Administrative Interventions Attenuate as Political Control Loosened

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43 From Table 1 we know that the mean of Land Reallocation is as high as 0.9, with a standard deviation of only 0.16. In fact, in more than half of the total townships Land Reallocation takes the value of 1.
Figure 3  Functionality of FPAs Improves as Political Control Loosened
5. China’s Partial Reform Symptoms

5.1 The Nature of China’s Partial Reform

Contrary to the prevailing opinion that local governments and officials are the indispensable props of a vibrant and successful rural economy, the above discussion and findings show that, as time passes, these local bureaucrats instead begin to encumber, rather than facilitate, the creation of a congenial business and market environment in the countryside. This argument is consistent with two basic aspects of the nature of China’s partial reform.

First, as Shih pointed out, reform is not a single dichotomous variable but a multitude of continuous and discrete variables, which can affect the efficiency of resource allocation in a number of different dimensions.\textsuperscript{44} As far as China’s rural economic reform is concerned, it consists of a bundle of policies aimed at improving rural business and market environment to enhance the efficiency of resource allocation in a number of areas over time. In practice, the advance of rural reform, which commenced in 1978, is not a smooth process. Though rural reform as a whole has made huge progress, in the course of reform some of the measures were readily implemented but others failed. A close scrutiny of the incomplete rural reform since the 1990s, however, would make it clear that the central government is not to blame for all the failed reform policies, as Huang brought forward in his recent book.\textsuperscript{45} In fact, there are many policy areas that the central government leaves gray, so that local government can make discretionary decisions regarding the implementation of these reform policies. In such cases, the failed implementation of policies must first and foremost be attributed to local government and officials. But why do local officials let some reform policies stand while delaying or blocking others? The answer relates to the second aspect of Chinese partial reform phenomenon, to which we now turn.

In addition, while the literature on technocrat-led reform gives credit to the insulated technocracy,\textsuperscript{46} it is more realistic to assume that government officials are motivated by a mix of political and personal incentives.\textsuperscript{47} In the case of China’s rural reform, when local officials become political incumbents, they primarily consider how to carry out reform policies in a way that maximize their own economic and political interests, rather than the broad public interests. In

\textsuperscript{44} Shih 2007.
\textsuperscript{45} Huang 2008.
\textsuperscript{46} Przeworski 1991; Williamson 1994.
\textsuperscript{47} Schneider 1993; Grimes 2001; Murillo 2002.
other words, local officials are only willing to implement reform policies in a way that does not reduce the amount of economic rents available for extraction under the current economic system, nor threaten their capacity to extract rents in the predictable future.

Moreover, as Victor Shih showed in his analysis of the behavior of the central officials in making financial reform policies, officials of the central government in China are operating in an environment with high political uncertainty so they also care as to whether implementing a certain set of reform policies will help accumulate their political capital vis-a-vis their political rivals to increase their political survival probability. Similar to their counterparts at the center, local officials also need to seriously consider the political effect that is brought about by economic reform, namely, whether certain reform policies, if implemented, will effectively augment peasants’ de facto political strength, resulting in a challenge to the officials’ authority. Without question local officials will only adopt those reform policies that do not attenuate their political dominance in the countryside.

All in all, China’s rural economic reform is necessarily a political one, in which local government and officials determine which reform policies are feasible, according to their own economic and political calculations. Although a complete economic reform would go a long way with a rural economy, the political elite evaluate each reform policy not only according to its economic consequences, such as its effect on the economic rents available to extract, but also by its political consequences. The local political elite are bound to oppose those reform policies that would be efficiency-enhancing but would also diminish their opportunities and capacities of expropriating rents, or those that would increase the de facto political strength of peasants, enabling them to defy authority. Local officials are willing to be zealous reformists only when reform measures are economically and politically beneficial to themselves.

Based on these theoretical discussions, as well as the empirical findings in previous sections, we now have a basic evaluation of the role of local government and officials in administrating the rural economic reform and as a result, the effect this has on rural business and market development. In a nutshell, a powerful local government will utilize its power and resources to seek its own economic and political interests rather than the interest of the public at large, including seeking

48 Shih 2007.
49 Acemoglu and Robinson 2000.
economic rents, vetoing reform policies that will likely impair rent-seeking opportunities, or challenge their political dominance in rural areas. By virtue of this, it is predictable that there will be a limited improvement in the rural business and market environment since the commencement of economic reform.

5.2 Why Partial Reform Symptom in China could be a Local Phenomenon

In most literature on partial reform symptoms, the authors concentrate their analyses on the state level and, therefore, they attribute the delay or appropriation of the reform to those power holders at the center. In this article, we supplement the literature by extending the partial reform framework to the local level to include local officials’ incentives and behaviors. If partial reform symptoms do indeed exist, posing a real threat to China’s economic reform, due to the resistance and manipulation of local political elite, then the question is how local officials can get away with this. Doesn’t China have a highly centralized hierarchy in which the higher level authorities can easily punish or remove subordinates they deem indocile? And shouldn’t the village democratic experiment, which the central government has pushed in the countryside since the mid-1980s to enable rural residents to practice self-governance within its own purview, be more or less able to keep the corrupt local officials in check?

In practice local government and officials are able to delay or veto certain reform measures for two major reasons. The first one has to do with the decentralization that many believe to feature China's economic growth since the 1980s. Decentralization in China has granted considerable power and autonomy to local governments. As we have mentioned above, rural economic reform impacts the rural economy and rural society in more than one area over time. Even senior officials at higher administrative levels may not be aware of the final effects of various reform policies in the short run. So economic reform in China was heavily experimental in nature, rather than relying on a blueprint approach and, in the process of reform experiment, some unexpected outcomes might occur. To reduce those risks associated with the implementation of reform, the higher level governments allow the lower level governments to make discretionary decisions about the timing, sequencing and pace of reform implementation policies, thereby enabling local governments to take advantage of the vast information asymmetry between themselves and the higher-ups, therefore allowing them to manipulate the implementation of reform policies.

50 Huang 2008; Montinola, Qian, and Weingast 1995.
Even if the problem of information asymmetry, mentioned above, does not exist, local governments may still be able to block some reform policies without fearing punishment from their superiors. For the political elite at higher levels, whether economic reform can be fully implemented is probably not at the top of their policy agenda. Rather, there might be other more important tasks, such as keeping social stability, maintaining the dominant position of the ruling party at the local level, and so forth, which the central government relies on the local governments to accomplish. If, therefore, a full-fledged economic reform would impair the ability of local governments to guarantee their superiors’ priorities, the central government would rather sacrifice reform progress by agreeing to the local officials’ partial reform strategy. Put simply, local governments can veto some reform policies because their higher-ups allow them to do so, not purely because the higher authorities are poorly informed about their colleagues’ behavior.

The second and more important reason is related to the restricted village democracy practiced in the countryside. So far, most villages have held village committee elections to directly select its own leadership and realize village self-governance. Most students of China’s rural democracy acknowledge the undeniable achievements of village self-governance 1980s. Electoral procedures have improved greatly last two decades and a good number of elections held in recent years can be regarded as free and fair. The practice of village self-governance has exerted great influences on the rural political economy, such as making the elected village leaders more accountable to villagers, changing villagers’ political attitudes and arousing citizenship consciousness, and

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52 After the dissolution of the People’s Commune system in the early 1980s, in 1987 the Standing Committee of the National People’s Congress approved a trial Organic Law of Village Committee (OLVC) that regulates how village elections should be organized, in order to maintain the political order in the grassroots in a new institutional environment. The law was made permanent in 1998. The law grants broader autonomy to village committees. According to the law, the villagers’ committee is a community-based administration for managing village affairs. In addition, elections must be held every three years for positions in the village committee. Every adult has one vote. Candidates are not required to be members of the Communist Party. The law also specifically states that the local government—township government—“may guide, help, and support village committees, but must not intervene in affairs that are in the purview of the villagers’ committee” (OLVC, Article 2). In other words, the village committee is no longer the administrative subordinate of the township government. By the end of 2001, nearly 90 percent of villages had held village committee elections (Li, 2004).
53 O’Brien and Han 2009.
54 Li 2003, 140-143; Kennedy et al. 2004; Manion 1996.
55 Manion 2006; Shi 1997; Chen and Zhong 2002.
increasing village public investments,\textsuperscript{57} and the like.

On the other hand, however, the efficiency of rural democracy is believed to be limited because direct elections are limited in villages and leaders of local government are still appointed, rather than being elected by citizens. As a result, ordinary villagers are, in most cases, not only excluded from the policy-making process but cannot hold local officials accountable through elections if they discover that the political elite are selectively implementing some types of reform policies and blocking other.

By contrast, under the current political regime local governments have a number of methods to intervene in village political and economic affairs via multiple channels. First of all, local governments can interfere with village affairs through their influence on village party committees. Current OLVC endows the villagers with the right of self-governance, but at the same time emphasizes that village democracy should be under the leadership of the party, which leaves a hole in the village democratic practices. Because of this, local governments can step into village politics and economy indirectly, via their backstage manipulation of village party committees.\textsuperscript{58} A recent study of the relationship between the village committee and the village party committee shows that, in practice, local governments tend to downplay the importance of the village committee vis-à-vis the village party committee, in the hope of ensuring its supremacy over village residents. In fact, much as the actual role of the village party committee is a function of a wide range of factors, the most commonly seen phenomenon is that the more local governments get involved in village affairs, the more powerful the village party committee is in relation to the village committee.\textsuperscript{59} For example, the village party secretaries who are in charge of the village-owned enterprises have the final say on village collective accounting and so on.\textsuperscript{60} No doubt the village party committee provides a convenient tool for local governments that wish to pursue their own agenda.

Also, thus far the local governments keep tight grip on the allocation of many key economic resources, including land and banking loans, as well as the exclusive right to examine and approve major investment projects. This monopoly

\textsuperscript{56} O’Brien 2001.
\textsuperscript{57} Luo et al. 2007.
\textsuperscript{58} According to the Chinese Communist Party's constitution, local authorities--the township party committees--have the power of directly dismissing the village party secretaries.
\textsuperscript{59} Liu et al. 2009.
\textsuperscript{60} Oi and Rozelle 2000; O’Brien and Li 2000.
of key political and economic resources by local governments is well beyond the ability of village democracy to regulate, and unlikely to be changed in the foreseeable future. Without the backing of local governments, village committees can make few major decisions that have bearing on village economic interests. In many cases, village elites have no other choice but to concede to local governments' encroachment on village self-governance, in return for its cooperation in other aspects, such as investment in village public goods, the starting-up of new village-owned enterprises, and so forth. In other words, because local governments control the flow of vast political and economic resources, they retain the ability to intervene in village elections and self-governance to ensure that the village democratic experiment will not result in outcomes beyond their control. As a result, villagers can do little to stop local officials from manipulating the implementation of reform policies, even when they have delivered adverse impacts on their welfare.

To be sure, on many occasions the ordinary villagers are not merely meek policy-receivers who are indifferent to the grabbing hand of local government and officials. When their economic interests are corroded beyond a certain level by local government and officials, they are likely to resort to more assertive and confrontational measures, e.g., collective appeals or protests, etc, for self-protection. In reality, however, these strategies seldom work in favor of the powerless and can hardly force local governments to concede. As a recent study on China's mass movement pointed out, decentralization in China has given local governments great power that they can use to impose considerable costs on the masses' collective appeals, through repression or other coercive means. By the same token, local governments' power determines that China's popular resistances are, on the whole, small scale, short-lived, often isolated, and more importantly, less likely to receive support from the higher-level authorities. Only in a few cases can the collective resistance of peasants lead to ideal outcomes.

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61 In this regard, O'Brien and Han (2009) gave a detailed summary of existing studies.
62 In fact, most countries without mature democratic system, including those making transitions to full democracy, face similar problems. For example, by examining evidence in African countries, Van de Walle (2001, 282-83) came up with similar views. He argues that in African countries, without organization, social actors usually lack the means to influence policy. His writing suggests that in the absence of well-organized social groups, unpopular governments can survive for long periods with only limited popular support. Hellman (1998) explored the Eastern European version of partial reform during the transitional period in which private rent seekers capture state policies and delay reform.
63 Cai 2008.
6. Conclusion

Whether government is a Helping Hand or a Grabbing Hand, in terms of its effect on economic development and reform has long been a hot debate in literature on political economy.\textsuperscript{64} Based on the findings of this study, we are inclined to think that under certain conditions a powerful government, in our case Chinese government at the local level, is proximate to a Grabbing Hand. Economic reform in rural China was implemented by local officials first and foremost as a way to ensure their self-interests so that any reform policies were delayed, modified, or blocked by them to fit their demands.\textsuperscript{65}

China’s local officials are not alone in doing this. In fact, many researchers have noted the strong self-selective nature of reform in many developing and transitional countries. For example, in Eastern Europe corrupt governments undertook privatizations aimed not at increasing overall efficiency but simply at increasing rents available to them,\textsuperscript{66} and in African countries institutional reforms were implemented in such a way that the benefits of the reform were limited to the initiators of the reform, who are, in most cases, state leaders.\textsuperscript{67} Put simply, as long as one elite group has dominant clout in politics so that it can get away with the punishment from the rival groups, a partial reform phenomenon is nearly always inevitable. In this sense, we tend to believe that an ultimate solution to China’s rural partial reform problem is to empower people through comprehensive and deep-rooted political reforms that extend beyond village direct election.\textsuperscript{68} This is the general lesson and probably the most important one that China’s reform experience can offer to other developing countries.

Thorough political reforms are a long-term solution but seem unlikely in the short run. Yet this does not mean that nothing can be done at present stage. One inferential point brought up by this study is that township officials are far from being the sole or even the principal stumbling block for economic reform. As we explained why rural partial reform was possible, it became clear that the elite of

\textsuperscript{64} Wade 1990; Evans 1995; Frye and Shleifer 1997
\textsuperscript{65} O’Brien and Li (1999) told a similar story. They pointed out that in rural China, street-level officials implement policies from the central government in a selective way by choosing to implement some unpopular policies but intentionally omitting others that are welcomed by villagers.
\textsuperscript{66} Hellman 1998; Stiglitz 2000.
\textsuperscript{67} Van de Walle 2001.
\textsuperscript{68} We are therefore making an argument echoing that of Pei (2006), who held the view that without deep and genuine political reforms, any economic institutional reforms cannot succeed.
the higher authorities are, in fact, willing to permit the corruption of the local elite and their selective implementation of reforms, in exchange for political support and cooperation on certain politically sensitive policies and objectives. After all, it is the higher authorities, particularly the central government, who assign political tasks and delegate power to the local government. Without their acquiescence, partial reform phenomena are nearly impossible. In this sense, the political elite at higher administrative levels, especially those in the central government, are equally to blame for the derailment of economic reform as those at the local level. This paper makes it clear that, in order to help attenuate the partial reform symptoms demonstrated at the local level, the central government must rethink the priority of reform and make the accomplishment of economic reform a top goal.
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