

## I

## Introduction

In November 2012, Xi Jinping officially became general secretary of the Chinese Communist Party (CCP), the country's "first-in-command" (*yibashou*, 一把手). Soon after entering office, as a precursor to a broader and bolder anticorruption campaign, Xi initiated a campaign to combat government waste, with a particular emphasis on excessive eating and drinking at official banquets. The campaign was part of a larger initiative to improve cadre culture and reduce negative perceptions of government leaders, particularly at the local level.

Prior to Xi's campaign, in September 2012, I arrived in China to conduct fieldwork in central Anhui Province and coastal Jiangsu Province on the underlying causes of county-level developmental variation, with a particular focus on three pairs of counties situated directly across from each other on the shared provincial border. During this first phase of fieldwork, the developmental divergence between the three Jiangsu counties and the three Anhui counties was readily apparent in industrial and urban development as well as in the attitude of local cadres. Despite sharing similar geographic and cultural histories, and despite having similar levels of wealth and industrialization in the mid 1990s, the Jiangsu counties now outshined their Anhui counterparts. Yet a common theme continued to characterize all six counties: feasting was a no-holds-barred exercise in over-ordering and general gluttony.

I returned to the same six counties in April 2013 for a second round of fieldwork and rapidly discovered a highly indicative change: feasting culture in the three Anhui counties remained unchanged, but feasting culture in Jiangsu had evolved. While officials still tended to over-order, in Jiangsu they made a point of referencing Xi's dictum and doggy-bagging

every unfinished dish. In Anhui, references to Xi were often made as well, but these references were followed by guffaws, not “to-go” bags.

I will argue in this book that what may at first seem like a trivial throw-away comparison represents a larger pattern of divergent cadre behavior, with important developmental implications. Jiangsu’s cadre promotion institutions have created pro-growth incentives for county leaders, and these leaders have translated their personal promotion incentives into bolder and more creative local development ideas as well as stricter control of local cadres in an effort to improve local investment environments. In Anhui, provincial authorities have been more concerned with stability maintenance (*weiwen*, 维稳) in local counties, leading to less courageous and less innovative county-level approaches to governance and economic policy. Largely as a result of these contrasting provincial emphases, counties in Jiangsu have vastly outperformed their Anhui counterparts since the mid 1990s, in terms of both economic and institutional development. In the six case study counties, the three counties in Jiangsu were on average slightly poorer than their three Anhui counterparts in 1994, the first year of the analysis; by 2007 they were over 60 percent wealthier. Although not the only factor explaining these outcomes, I argue that different governance and growth environments influenced by provincial variation in promotion emphases explain a significant share of the divergence.

### Explaining the Developmental Orientation of Local Governments

The developmental orientation and effectiveness of China’s local governments in recent decades presents a quandary. Local governments have intervened frequently in local economies, with rampant opportunities for rent-seeking and inefficient obstruction of markets. Corruption has been widespread, and the incidence and perceptions of corruption increase at lower levels of government. And yet in the past 35 years, increased levels of decentralization have been accompanied by the highest sustained economic growth in modern economic history. During this “growth miracle,” many governments have had “helping hands” that benefit local businesses and help produce local growth. Other local governments have instead wielded “grabbing hands” that prey on local residents and businesses and stunt economic development. This variation in local government behavior is reflected in economic outcomes: although China as a whole has grown rapidly, this growth has been uneven. China’s richest

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county is over 100 times richer in per capita terms than its poorest county, the difference between Singapore and Liberia.

Existing theories go a long way in explaining the pro-development orientation of China's local governments; they also go a long way in explaining predatory behavior. Yet these theories do not sufficiently explain the variation in behavior across local governments. As I discuss below, many of these existing theories concentrate on the incentives created by decentralization. For instance, theories based on fiscal federalism highlight the incentives for revenue maximization at the local level as spurring developmental approaches to nurturing local industry. Alternatively, theories based on implementation bias and authoritarian fragmentation that focus on pathological local government behavior highlight the lack of control over local actors within a highly decentralized system. These models do not focus on variation beyond that created by underlying economic conditions created by history or geography: in other words, local governments may be *a priori* pro-development or corrupt due to a combination of fiscal decentralization and political centralization, but the consequences of these incentives vary with initial conditions.

This book seeks to explain the variation in local government behavior that is left unexplained by existing theories. By focusing particular attention on the economic and institutional roles played by local leaders, I explain why so many governments have had “helping hands,” and why other local governments have not performed similar roles. I argue that significant variation in developmental orientation, and thus developmental outcomes, arises as a result of regionally varying incentives for promotion faced by county leaders as well as the formal and informal institutional roles that these leaders play.

*Decentralization, Federalism, and Developmentalism*

A key theme of the reform-initiating 11th Central Committee Third Plenum in 1978 was to devolve economic power to localities. Following the Plenum, local economies grew rapidly. Improvements in agricultural productivity gave way to rapid growth of local industry, particularly in township and village enterprises (TVEs).<sup>1</sup> While a conventional view sees China's growth as a market-driven process resulting from a relaxation of government controls, a more compelling understanding of China's growth attributes rapid growth to an increasingly pro-development orientation

<sup>1</sup> Many in-depth accounts of this growth experience have been written. See, for instance, Bramall (2006).

of many local governments.<sup>2</sup> With decentralization in a state-dominated economy, local governments in China have assumed highly interventionist roles, often taking on characteristics of a local developmental state.<sup>3</sup> Local governments often have more direct control over the economy than national counterparts, and the interventionism of Chinese local governments seems to increase as one moves down the administrative hierarchy. In one of the most cited accounts of developmentally minded local governments in China, Jean Oi's "local state corporatism," local governments act like corporations in their management of state firms while utilizing a "combination of inducements and administrative constraints characteristic of a state corporatist system" to both encourage and control the private sector (Oi 1999, 99). The local developmental state idea in China also finds a champion in the discussions of local development "models," and particularly the South Jiangsu or "Sunan" model (*sunan moshi*, 苏南模式).<sup>4</sup>

Analyses of China's growth often attribute this local "developmentalism" to incentives for revenue maximization following from increased fiscal decentralization. In the 1980s, the Party-state devolved expenditure and revenue collection authority to local levels in order to promote growth and facilitate the transition to a market economy (Shirk 1993).<sup>5</sup> Consequently, according to "market-preserving federalism," the central government committed itself to fiscal reforms that allowed local governments to keep marginal revenues, aligning local government incentives

<sup>2</sup> The conventional view comes in different forms, from the neoclassical market reforms perspective of Pei (1994) and Steinfeld (1998) to a structural reform and factor accumulation perspective that minimizes the role of government reforms, including Krugman (1994) and Young (2003), as well as to the peasant-led revolution idea of Zhou (1996). For a review of the debate on China's economic success as dependent on non-capitalist institutions versus fundamental market reforms, see Wu (2002) and Woo (1999), as well as Wu's response (Wu 2003).

<sup>3</sup> See Blecher and Shue (1996), Walder (1998), Oi (1999), Blecher (1991), Vogel (1990), Duckett (1998), and Thun (2006), among others. For a discussion of developmental states more broadly, see Johnson (1982) and Woo-Cumings (1999).

<sup>4</sup> The Sunan model was first identified in the mid 1980s, with the basic idea of development through rural collective industrialization. As described by Liu (2005), this was a "government intervention model" (*yizhong zhengfu ganyu moshi*, 一种政府干预模式) and a "local government corporatist model" (*difang zhengfu gongsi zhuyi moshi*, 地方政府公司注意模式). The Sunan model is often contrasted with a "Wenzhou model" emphasizing private sector development, but even this "private industry" model had a strong local government role: see Nolan and Dong (1990) and extended discussion in Bramall (2006). See Zhang (2009) and Tsai (2007) for more in-depth discussion of these models.

<sup>5</sup> According to Oi (1992), the tax-sharing systems of the early 1980s gave local finance officials no incentive to work hard, and localities only became entrepreneurial once fiscal authority was devolved.

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with revenue maximization and leading to pro-market and pro-growth policies and behavior (Montinola, Qian, and Weingast 1995). Federalism induced competition among jurisdictions, leading to experimentation and imitation and increased factor mobility through competition for capital and migrant labor.<sup>6</sup>

Scholars in more recent years have questioned the fiscal federalism framework. Fiscal federalism “with Chinese characteristics” helps induce interjurisdictional competition, but without political centralization governments are as likely to have corrupt “grabbing hands” as developmental “helping hands,” regardless of revenue imperatives.<sup>7</sup> As per Robert Klitgaard’s famous formula, “corruption equals monopoly plus discretion minus accountability”: with increasing discretion as a result of decentralization, failure to increase accountability will tend to result in increased corruption, all else equal (Klitgaard 1988, 75). Arguments that fuse local economic autonomy with enhanced political centralization thus have more explanatory power in terms of the China local growth success story. Xu (2011) and Landry (2008) describe a decentralized authoritarian regime that combines political centralization with economic decentralization, helping to explain both the alignment of local incentives with national goals as well as the responsiveness of localities to national reforms, albeit with “implementation bias.”<sup>8</sup> In China’s economically decentralized and

<sup>6</sup> Montinola, Qian, and Weingast (1995, 58) contend that competition induces local governments to secure property rights and “provide a hospitable environment for factors,” while Qian and Roland (1998) argue that competition punishes corruption with capital flight, similar to the way that international capital markets discipline national governments through the threat of capital outflow (Obstfeld 1998). For additional market-preserving federalism arguments, see also Qian and Weingast (1997), Weingast (1995); Mckinnon (1997), and Jin, Qian, and Weingast (2005).

<sup>7</sup> Blanchard and Shleifer (2001) use this terminology in contrasting the performance of local governments in China and Russia. They argue that the degree of political control, as opposed to differences in intergovernmental fiscal relationship, explains why China’s local governments favor growth and Russia’s do not. For more on the “grabbing hand” and growth-hindering rent-seeking, see Shleifer and Vishny (2002), Krueger (1974), and Bhagwati (1982). Others have challenged market-preserving federalism on its own (technical) terms, maintaining that levels of fiscal decentralization did not actually increase during the reform era (Bramall 2008); that China is not de facto federal and that local governments have less autonomy than the market-preserving federalism paradigm suggests (Tsui and Wang 2004); that constraints to free factor mobility are still imposed by protectionist local governments (Young 2000; Naughton 2003; Bai et al. 2004; Tsai 2004); and, perhaps most importantly, that there is no constitutional constraint on altering the degrees of marginal revenue held by local governments, and that these sharing percentages have changed frequently and arbitrarily (Yang 2006, 143–147).

<sup>8</sup> In China’s hierarchical system, central policies are distorted as they move down the hierarchy, with decisions increasingly reflecting the preferences of implementing local governments

politically centralized regime, officials are upwardly accountable, with little direct downward accountability above the village level. The key means by which the CCP maintains political centralization in an economically decentralized state is hierarchical control through personnel management. During the reform era, explicit rule-based personnel management has evolved considerably. Administratively, since the late 1980s and particularly the mid 1990s, the center has attempted to formalize and control the cadre management system through increased institutionalization.

Institutionalization of cadre management enables the central government to transmit priorities throughout the administrative hierarchy through control over personnel decisions. This hierarchical personnel management system enables yardstick competition for advancement between local leaders, and there is considerable evidence that the CCP emphasizes economic growth in these performance contracts.<sup>9</sup> Indeed, the “GDP worship” of local officials is often perceived as common knowledge (Zhuang 2007), and many studies have uncovered a relationship between growth and promotion, implying that performance management serves an effective development role.<sup>10</sup> This is the basis of the “tournament promotion” (*jincheng jinbiaosai*, 晋升锦标赛) hypothesis: if growth is a key target, then meritocratic promotions will incentivize faster growth and enhance actual growth outcomes. According to this logic, the combination of economic

and agents: “by the time one has moved through six, seven, or more layers of the system, the cumulative distortion ... can be great. Almost invariably, unanticipated and unwelcome consequences are part of the implementation process from the Center’s perspective” (Lampton 1992, 57). This gives rise to what Naughton (1987) describes as “implementation bias.”

<sup>9</sup> Landry (2008) quotes a State Planning Commission official (cited originally in Yin 2001): “The current government stresses that development is the fundamental principle. Economic development becomes a criterion for assessing local officials. The current cadre assessment overstates the economic growth of the region led by the assessed officials. Moreover, the criteria for assessing economic growth are essentially superficial: the number of projects and enterprises established, and the growth rate of the local economy.”

<sup>10</sup> Most influentially, Li and Zhou (2005) find that over 1979–1995, the likelihood of provincial leader promotion increases with economic performance. Similarly, Chen, Li, and Zhou (2005) demonstrate that not only are provincial leader promotions based on their own economic performance, but that the difference of per capita GDP growth relative to predecessors significantly predicts provincial promotion prospects. This finding is similar to that of Hsu and Shao (2014), who find that GDP performance relative to predecessors is a much more important determinant of provincial promotions than performance relative to other provinces. Bo (2002) finds that between 1978 and 1998, provincial leader promotions are sensitive to central revenue contributions. Additionally, Xu, Wang, and Shu (2007) find that cross-regional governor transfer increases GDP growth. Wu et al. (2013) find that GDP growth relative to predecessors is the best predictor of promotions of prefecture-level leaders.

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decentralization and local policy autonomy with hierarchical compliance through political centralization helps provide an understanding for local developmentalism. In other words, economic and fiscal decentralization provide local governments with the *ability* to promote economic growth, and centralized political control provides local cadres with the *incentive* to promote economic growth.

*Unexplained Regional Variation in Local Developmental Orientation*

Yet a puzzle remains. Not all local government economic intervention has been positive; China has produced predatory local states that stand in stark contrast to the local developmental state idea. As Chalmers Johnson has noted, “The state *can* structure market incentives to achieve developmental goals ... but it can also structure them to enrich itself and friends at the expense of consumers, good jobs, and development” (Woo-Cumings 1999, 48). Some “developmentally” minded behavior can quickly become predatory, and many behaviors in an interventionist mode can become more predatory as time progresses (Tsai 2002, 250). For instance, the Asian Financial Crisis led many Asian countries that had previously been considered “developmental” to be defined as “crony capitalist.” Variation can also be seen between local developmental states. Thun (2006) identifies three local development models in China: local developmental states, laissez-faire local states, and centrally controlled SOEs. More broadly, local governments often play distinctly nondevelopmental roles, and studies of local Chinese governments have utilized a wide range of definitions across the “developmental” and “predatory” spectrum.<sup>11</sup> Corruption is endemic, and much of this corruption is distinctly antidevelopment.<sup>12</sup>

<sup>11</sup> Blecher (1991) distinguishes between China’s local “development states” and local “entrepreneurial states.” In the former, entrepreneurship lies within enterprises, and the role of governments is to create the conditions for market-based development: the state “stays above the competitive fray but works to keep that fray vibrant” (Blecher 1991, 286). In the entrepreneurial state, the state is actively involved in productive activity. Similarly, Duckett (1998) documents the emergence of an “entrepreneurial state” in Tianjin in the early 1990s as local state agencies responded to structural constraints and growing market opportunities. For a discussion of different typologies of China’s local states, see Saich (2002), Tsai (2002), and Baum and Shevchenko (1999).

<sup>12</sup> It is of course possible that corruption and development complement each other. Wedeman (2002, 177) notes that local governments may have a vested interest in local development, even if this interest is simply “for the crass purpose of increasing the size of the local economic pie from which they can extract a slice.” Yet most literature highlights the antigrowth effect of corruption, an issue I return to in Chapter 3.

Why have some governments been more “developmental” than others? The authoritarian decentralization argument fusing economic decentralization with political centralization can explain away cases of predation and low growth as those in which political incentives fail to work. Local outcomes would be expected to vary if incentives for economic growth do not always travel down administrative ranks due to weak incentives or a lack of monitoring. However, this would only explain random variation in outcomes. As I show in this book, however, the variation in government approaches is systematic and varies by region. Current explanations for local developmentalism do not account for this systematic regional variation. Decentralization and local autonomy have resulted in high variation in county economic outcomes both across provinces and within provinces. There has been strong regionalism in economic outcomes; during most of the reform era, counties in coastal provinces have grown much faster than counties in other regions, and as a result poor counties are now concentrated in western and central provinces (see Figure 1.1).

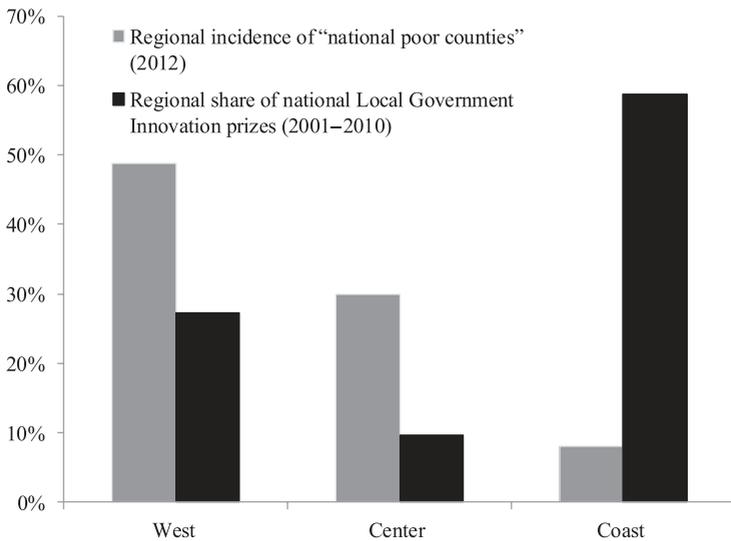


FIGURE 1.1. Regional variation in poverty and government innovation  
*Regional national poor counties (国家级贫困县) and Local Government  
 Innovation Prize (中国地方政府创新奖) winners*

*Source: State Council Leading Group Office of Poverty Alleviation  
 and Development (2012); Innovations & Excellence in Chinese  
 Local Governance (中国地方政府创新奖), 2013 handout;  
 author’s calculations.*

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This economic regionalism can perhaps be explained by geographic conditions and local opportunity, but in addition to economic variation across regions, there has also been less-discussed variation in local governance across regions with regard to levels of corruption, institutional innovation, and government-business relations, as I demonstrate in later chapters (see Figure 1.1 for the regional contrast in Local Government Innovation Prize winners). I argue that these governance outcomes have been related to economic outcomes in virtuous and vicious circles; they are not merely consequences of growth outcomes, but also contributors to growth outcomes.

As a consequence of regional variation, an analysis of local government development orientation must take a sub-national perspective. Given China's vast regional differences in geography, culture, and institutions, applying a uniform national model to explain development outcomes is potentially misleading; this is especially true given that provinces and prefectures establish their own rules for fiscal transfers and criteria for personnel management. Much of the literature referenced above has a tendency to look at China as a single case rather than a set of regions/localities, which is problematic given that much national-level research necessarily involves national means, masking internal variation and leading to "mean-spirited" analysis (Snyder 2001, 98).<sup>13</sup> Sub-national comparison is thus important for studying China, a large country in which many policies and institutions have explicit regional variation, and in which the central Party-state often implements regional strategies that explicitly favor one region over another.<sup>14</sup> There is thus no reason to expect that the personnel management institutions and criteria for promotion that incentivize local leaders should be identical across regions and provinces; indeed, the central documents focused on local performance measurement are explicit about regional and local variation in targets.<sup>15</sup> Variation in incentives will lead to variation in outcomes,

<sup>13</sup> As King, Keohane, and Verba (1994, 208) write, "what may appear to be a single-case study, or a study of only a few cases, may indeed contain many potential observations, at different levels of analysis, that are relevant to the theory being evaluated." For more on "whole nation bias" see Rokkan (1970, Chapter 2) and Snyder (2001).

<sup>14</sup> Wang and Hu (1999) show how China's regionally divergent development paths have been a direct (and intentional) consequence of national policies. Similarly, Zweig's idea of "segmented deregulation" shows how central decision-makers as opposed to market forces determined regional comparative advantages in an increasingly open economy (Zweig 2002, 50).

<sup>15</sup> In observing regionally distinctive local government behavior, I follow Thun (2006, 9): "It is, of course, not unusual or new to focus on the developmental role of local government. It is less common to focus on systematic patterns of institutional *differences*

assuming that local actors have the autonomy and power to affect these outcomes; indeed that is the argument of this book.

### Argument of the Book

Ask a Jiangsu county-level official why neighboring counties in Anhui have failed to develop, and nine times out of ten you will receive the same answer: “they’re backwards” (*tamen de suzhi luohou*, 他们的素质落后). These assertions of cultural determinacy are made boldly and flippantly, representing an apparent long-term historical stereotype. Yet there are no ethnic or religious differences between these bordering counties, and cross-border migration is common and relatively unimpeded. Indeed, in the late 1990s, local interviews in Southern Jiangsu pointed to culture as a major reason for Northern Jiangsu’s developmental challenge, in particular a “Central Plains stereotype” of a simple, satisfied people lacking drive (Jacobs 1999). As Northern Jiangsu has developed, the stereotype has slowly disappeared. However, while observed “cultural differences” seem to be a perceived consequence of economic development rather than a determinant of this development, “cadre culture” and local governance do differ in growth-affecting ways across the two provinces. Provincial institutions have interacted with local conditions to alter local institutional cultures. Cadres interact with each other, with businesses, and with local citizenry in ways that have been largely shaped by these provincial institutions. I argue that this behavior is a direct consequence of central policies that work their way down the administrative hierarchy in oft-unanticipated ways. The consequent corruption and low-growth economic environments, i.e., “backwardness,” result not from a lack of upward accountability and control, but rather from high levels of upward accountability with inconsistent objectives and no local oversight in the form of downward accountability.

More broadly, in this book I explain regional variation in county development outcomes by analyzing the relationship between provincial political institutions, local governance, and leadership roles. I focus on two related questions: *What is the role of county Party secretaries in determining local governance and growth outcomes? Why do county Party secretaries emphasize particular developmental priorities?* These

between localities. There is no single dominant approach to development at the local level, whether it be market-led growth or local state corporatism, but rather multiple patterns ... There is no one-size-fits-all development approach, but a mosaic of local patterns within the national framework.”