

AUSTRALIA-CHINA AGENDA 2013

Understanding China through its Local Politics

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THE AUSTRALIAN Centre on China in the World engages with the public and policy discussion of relations with the People's Republic of China and the Chinese world. Australia-China Agenda 2013 is our contribution to this important election year and the on-going consideration of the bilateral relationship.

This is a relationship that touches on virtually every aspect of our national life. A mature and beneficial engagement of such breadth and depth requires the leadership and support of government at all levels, as well as public stewardship, media understanding, educational enhancement and the strategic involvement of the business community.

Australia-China exchanges are also profoundly influenced by regional and bilateral relationships. Australia and China trade in goods as well as culture, politics and people, ideas and education, community and personalities.

Australia-China Agenda: 2013 brings to the attention of the public and the media, politicians and specialists some reflections and policy ideas authored by specialists with a professional interest and involvement in the relationship.

—Geremie R. Barmé
Founding Director, CIW

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AUSTRALIAN CENTRE ON
CHINA IN THE WORLD



Australian
National
University

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Canberra, Australia

2013

JANUARY 一月

FEBRUARY 二月

MARCH 三月

APRIL 四月

MAY 五月

JUNE 六月

JULY 七月

AUGUST 八月

SEPTEMBER 九月

OCTOBER 十月

NOVEMBER 十一月

DECEMBER 十二月

二〇一四年

LAST MONTH, I was fortunate enough to spend time in a place I'll call 'Benghai', celebrating the ninth anniversary of my love-hate relationship with the rural county that has become the core of my academic career. Even before the three-hour bus trip from the provincial capital came to its traditional Jackie Chan-inspired crescendo, a few of the truisms about Benghai were under assault. Previously, Beijing and Hefei had left me bewildered by their shock assault urbanisation projects, their waves of identikit apartment blocks, but there was always sleepy Benghai to return to. There would be the odd political scandal, a handful of speculative real estate investments, and endless rounds of optimistic infrastructure projects to support the 'eco-industrial park' on the edge of town. But the players, and the game, had a comforting familiarity about them. No more. Benghai was on the move.

Returning to my old office, it was clear something was amiss. Gone was the grizzled caretaker, listlessly following his mop around the ground floor, in between screenings of the high-volume Peking Opera epics, whose distorted sounds would echo through the four-storey building. The office, once the envy of all work units in Benghai, kind gift from a European country, a form of apology for pulling out of China early, as there

was a war to be fought in Afghanistan. In his stead was a bank of impossibly cheerful uniformed women in their early twenties. Their smiles could signify only one thing: real estate.

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Climbing the stairs to my old office, China's urbanisation drive was there to greet me. The former vista of water buffalos, bamboo, and misted peaks was replaced by a tangle of mud and discarded scaffolding, from which emerged the shells of several apartment blocks, up to 15 sto-

reys tall. My colleagues, whose building had been sold off by the county government, were soon to be evicted. The office was scheduled for demolition before the end of the year. There was consensus that a ten year life was 'about right' for a building in modern Anhui.

Across the valley, the county government was stealthily going about its relocation, despite sporadic disapproval at the provincial level. This was partly driven by the need to keep the project rolling for the benefit of the 'shadow state' of friends and relatives who supplied the materiel for the relentless cycle of construction and destruction, and partly to secure promotion for future party secretaries. Not by raising GDP, which many researchers see as the secret sauce driving economic growth in rural China. Rather, it would fix the *fengshui*. The old county government had a mountain to the south, and no water at its doorstep, the reverse of the classical formula for geoman-

tic success. How could the county party secretary housed in such an unpropitious structure secure a promotion to the provincial government?

On the back of the fiscal stimulus package of 2009, a man-made lake had emerged, and one by one, government bureaus were emerging from what was once prime farmland. Already, patterns of status could be discerned. The most impressive edifices belonged to government agencies with the capacity to charge for their services, or levy fines. The Sand Management Office, which made a tidy living by shaking down the drivers of the overloaded trucks that carted river sand to build the provincial capital, Hefei, grain by grain, merited a six-storey building. Just a few kilometres away, the cracked and pitted road to the capital stood as a monument to their failure to do their job. Despite generous hiring procedures, it was thought unlikely they would have enough staff for each office. The humble Records Bureau, which stood in its shadow, had several staff members in each office.

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On the other side of the lake, which sprouted neon blooms of an evening, another real estate development was underway, with prices breaking through the RMB4000 per square metre barrier, a recent phenomenon in Benghai. A modest two-bedroom flat in an obscure corner of Anhui would set me back \$150,000, if I kept the renovations 'basic'.

Yet there were indications that Benghai was moving up the economic food chain. The developer of this venture, which would also boast a five-star hotel, was a local businessman, making this the first local property development of any scale. The developer had started out as a contractor, building the roads and irrigation ditches that had proliferated during the early years of the New Socialist Countryside campaign. Previously, many of my colleagues had joked that the county government was being run from Zhejiang, such was the number of property developments originating in that province.

The sting in the tail of that joke was the outgoing party secretary. Despite undeniable improvements to the *fengshui* of the county government, he had missed out on promotion, and been shunted into what amounted to retirement. At the time of writing, he was under investigation, not for taking payments for positions, or even accepting the appreciation of property developers from the eastern seaboard, but for substantial investments in a Zhejiang market. His former patron in the provincial government had made good in Beijing, and was not returning calls.

Yet as all of these stories unfolded, it was hard not to notice that the informal, private economy of Benghai seemed to be faring well. While I travelled to as many corners of Benghai as my trusty moped (maximum speed, 40 km/h) would take me, my inbox was being filled with ruminations from old China hands, foretelling disaster as the economy slowed, with structural issues unaddressed. Yet both the local state and local business in this quintessentially ‘middle China’ county were thriving (grain farmers,

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many of whom were in debt on the back of low rice prices, were a different matter). Informal solutions were being found to problems that the central state was unable, or unwilling, to address.

Notions of ‘predatory’ and ‘developmental’ states are too simplistic. In practice, the formal local state is both prey and predator of the informal, or shadow state. When a mid-level official complains that his brother, who owns a computer shop, has to hand out tens of thousands of dollars worth of supermarket cards every year to ensure that contracts from the official’s department continue to flow, is there a victim? Moral categorisations make little sense. Moreover, a large part of the local party apparatus was quietly engaged in enabling local enterprises to get things done, often for their own benefit, either through the revenue from taxes leveled on service industries or from their own indirect involvement in business.

Just before travelling to Benghai, a neat summary of the motivations of local officials was published by Stephen Green of Standard Chartered Bank.

The article attempts to address the impossible conundrum of how local government in China continues to function, despite debt, corruption and chronic underfunding by the central government. Green argues that: ‘The performance assessment system is skewed towards incentivising fixed asset investment – few officials get rewarded for local service sector growth.’

While there is no doubt that the formal assessment system does encourage overinvestment by local governments in easily showcased infrastructure projects – be they expressways, town squares, or airports – my time in Benghai suggests officials are rewarded in different ways for growing the service sector, or more accurately, their service sector. At the county and township level, local service businesses are intimate-

ly intertwined with local government. They are staffed and run by the relatives and friends of local officials who (with the exception of the county party secretary and a handful of others) will spend their careers working within the boundaries of their home county. As Green points out, services should be more mobile than manufacturers. But in practice the service sector is kept off limits to out-of-towners, and the local government struggles to keep footloose manufacturing businesses by offering cheap land, complementary infrastructure, and tax holidays.

How to explain this paradox? Officials in Benghai continue to strive to attract manufacturers, not because they discriminate against service companies, but rather because the spillover benefits that manufacturers deliver to the service companies that are owned by the friends and relatives of local officials. The formal assessment system does reward officials who hit revenue targets, and service businesses help them to achieve this in two main ways: business tax (which, unlike the VAT and enterprise income tax from manufacturers, is not shared with the central government), and conveyancing fees, which flow into the 'extra-budgetary' revenue stream. As scholars such as Tao Ran and Liu Mingxing have argued, the revenue sacrificed by offering cheap (or free) land to manufacturers can be recovered by restricting the supply of commercial and residential land.

The disparity between the two types of land could readily be observed. In contrast to the 15-storey residential block rising behind my old office, parts of the Benghai 'eco-industrial park' were unintentionally living up to their name. The sprawling scale and untended nature of the manufacturers' allotments were turning them into biodiversity hotspots, particularly for amphibians. Yet the absence of shuttered factory doors, and the thriving service economy that surrounded it, suggested that China's odd version of rural capitalism wasn't quite ready to croak its last.

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AUSTRALIAN CENTRE ON CHINA IN THE WORLD

The Australian Centre on China in the World (CIW), College of Asia & the Pacific (CAP), The Australian National University (ANU) is an initiative of the Commonwealth Government of Australia in collaboration with ANU, a university with the most significant concentration of dedicated Chinese Studies expertise and the publisher of the leading Chinese Studies journals in Australia. CIW is a national research centre that is jointly managed by a body of academics that includes scholars of China at universities in Adelaide, Brisbane, Hobart, Melbourne and Sydney.

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CIW sites

<http://ciw.anu.edu.au>
<http://www.thechinastory.org>

CIW publications (also available online)

China Story Yearbook 2013: Civilising China, October 2013

China Story Yearbook 2012: Red Rising, Red Eclipse, August 2012

Stephen FitzGerald, *Australia and China at Forty—Stretch of the Imagination*, 澳大利亚与中国已届四十年—舒展的想象力, February 2013

Australia and China: A Joint Report on the Bilateral Relationship 中国和澳大利亚：关于双边关系的联合报告, with the China Institutes of Contemporary International Relations (CICIR), February 2012

CIW journals

China Heritage Quarterly
(<http://www.chinaheritagequarterly.org>)

East Asian History
(<http://www.eastasianhistory.org>)

The China Journal, co-published
(<http://ips.cap.anu.edu.au/chinajournal/>)

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