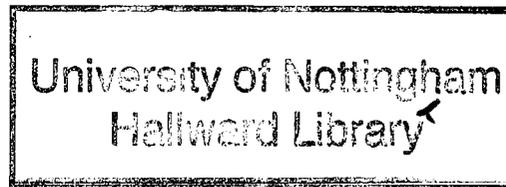


**Economic Reform, Urban Proximity and Small Town
Development in China: A Tale of Two Towns**

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Abstract

This thesis studies small town development in contemporary China (1978-present). It focuses on the socioeconomic impact of economic reform on small town development, with particular emphasis on how gradually released market forces enable urban proximity to play different roles to determine the developmental trajectory of small towns. The research design chooses two economically prosperous towns with different degrees of urban proximity, in which fieldwork is conducted. Xihongmen town is located in suburban Beijing and Zhulin town is located in a rural area of Henan province. The research focuses on government, firms and people as three key elements of small town development, and systematic comparisons have been used as the key research strategy throughout.

The main research findings are as follows: 1) Xihongmen town's government has been transformed into a sophisticated, bureaucratic and complex organisation and the role of leadership in local development has declined over the years, but a simple and hybrid governmental structure was founded in Zhulin town and the personal capacity of local leaders still plays a vital role in local development; 2) The industrial environment in Xihongmen town is dynamic and an upswing has been observed in the local industrial structure (from the primary to the secondary and tertiary sectors), but Zhulin town still relies solely on the ongoing government-led entrepreneurship; its private sectors are underdeveloped and the industrial structure remains unchanged, and some key firms have even relocated themselves to larger cities due to the constraints of the local infrastructure; 3) The local residents of Xihongmen town enjoy much more secure livelihoods, with multiple income sources, welfare and flexible job opportunities available in the local area, but the residents of Zhulin town rely primarily on the local government to provide

non-farming jobs and both income sources and job opportunities are very limited in the local area.

The thesis concludes that the economic reform initiated in 1978 played a key role in revitalising the rural industries and hence laid the foundations for the growth of small towns. The rural reform policies gave rural areas advantages over urban areas in the early stages of the reform. The evolving policy frameworks gradually relaxed the various constraints and enabled urban proximity, a previously less important factor under the centrally planned system, which became the key factor to differentiate the developmental trajectories of small towns. The thesis further explains that proximity has multi-dimensional impacts on the socioeconomic development of small towns. On the one hand, small towns that enjoy proximity to cities can benefit enormously from economies of scale and spillover effects, and this advantage could be further reinforced during the process of ongoing urbanisation. On the other hand, urban proximity could also have negative impacts on the social structures/orders of small towns, which in turn could affect their economic outcomes. For those towns with low degrees of urban proximity, a high level of community solidarity generated from dense clan/kinship networks might also act as a force to motivate their economic development. However, the latter type is certainly more vulnerable and requires the right blend of a number of historically contingent factors, which are path-dependent and difficult to replicate.

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Chapter 1: Introduction

1.1 Why Study Chinese Small Towns?

Anyone interested in the current economic development of China will be more or less familiar with the Chinese small town development strategy, which is regarded as an integral part of China's modernization program. Based on the widespread rural industrialisation initiated in the late 1970s, the small town development program seems to provide an alternative way for China to become urbanised without experiencing the over-urbanisation problems commonly faced by other developing nations. Thus, the small town development strategy has been extensively promoted and studied, and various scholars have termed it "urbanizing the countryside" (Friedmann, 2005) "*in situ* urbanisation" (Zhu, 2000) and "Peri-urbanisation" (Webster and Muller, 2002) to indicate its distinctive characteristics.

The aim of this thesis is to study the linkage between urban proximity and small town development in contemporary China (post-1978 reform) under the evolution of national policy frameworks. Before detailing the research objective and questions, this section sets out to clarify the definition of small towns and also to explain why small towns are a significant and worthwhile topic that needs to be studied.

Definition of Small Towns: The confusion over the definitions of China's urban places and urban population has been discussed extensively in the previous literature (Chan and Xu, 1985; Kirkby, 1985; Ma and Cui, 1987; Goldstein, 1990; Pannell, 1990). In Chinese scholarly publications, government documents and news reports, the term "small town" (*xiaochengzheng*) is frequently used without clear and consistent definition. It may mean a county seat, a place with or without official

town status, a satellite town, a mining and industrial district or a rural market centre with a few hundred people, officially classified as a rural settlement (Xu, Wu, and Leung, 1987: 17-23). For many years, scholars in China and elsewhere have classified Chinese towns largely in terms of their economic functions (Fei, 1986; Skinner, 1964). In this study, I adopt the official Chinese system of town classification, in which a non-village settlement below the city level is either a "designated town" (*jianzhizhen*) or an "undesignated town" (*feijianzhizhen*). The latter type includes many rural market towns (*jizhen*) and village towns (*cunzhen* or *xiangzhen*).

Only designated towns with official urban status are recognized as urban places. A township (*xiang*) seat may be granted urban status and become a designated town only when it meets the criteria established by the State Council. The criteria for granting urban status have varied considerably over time (Lee, 1989). According to the most recent criteria established by the State Council in 1984, all county capitals qualify as urban, and a township seat may be granted urban status if the township has a total population of more than 20,000 people, of whom 10 percent or more are in non-agricultural employment (see Appendix 2 for detailed criteria). If a township has fewer than 20,000 persons, the township seat may become an urban place if its non-agricultural population exceeds 2,000. Townships with fewer than 2,000 non-agricultural residents can apply for urban status and become designated towns if they are located in minority areas or in sparsely populated, mountainous or remote border regions. Settlements that meet the above criteria can apply for town status from the appropriate provincial authorities. Other settlements, including rural market centres and villages, which do not have official status are classified by the state as rural places, and their populations and economic activities are designated as rural for statistical purposes. Locations where the benefits flowing from town

designation are well justified (Ma and Cui, 1987). Conferring official town status on a settlement has significant fiscal implications. When a place becomes a designated town, it is normally included in the provincial or county budget. It then receives far greater funds from the county in which it is located than do the undesignated towns and villages. Such funds are critical for maintaining urban services and facilities as well as for housing development and other construction (Ma and Lin, 1993).

This thesis focuses on designated towns (*jianzhizhen*) as the unit of analysis and examines their salient role in the process of Chinese urbanisation and modernisation. There are three main reasons why small towns are so important and deserve to be thoroughly scrutinized in this research.

First, small towns have been a robust growth engine for the Chinese economy in the last two decades. In 1976, there were only 3,260 designated towns; the number increased to 6,211 in 1984, 11,481 in 1988 and 18,709 in 2001. The average population in each town in 2001 was around 30,000, which means that at national level, around 40% of the Chinese population is currently residing in small towns (PRC, SSB 2001). Economically, small town development in China is closely associated with rural industrialisation. Rural industry developed very fast between 1978 and 1996; it employed some 28.3 million workers in 1978, with this figure rising to 128.6 million by 1995 and to 135 million by 1996. Undoubtedly, rural industry has been the “backbone” to absorb rural redundant labour. Therefore, rural industrialisation has been highly praised as a “pillar of the country’s economy and playing a decisive role in national economic modernization” (Byrd and Lin, 1990: 17-18). Its significance has been well summarised as “leave the land but not the countryside, enter the factory but not the city” (Fei, 1986: 23). Since small towns play a key role in accommodating rural industry and transforming rural localities, a

Chinese-style urbanisation has emerged based on rural industrialisation. In some regions, such as the Pearl River Delta, small towns are growing faster than the cities, in contrast to the urbanisation trends of most developing countries where cities are growing faster than towns (Xu and Li, 1990).

Second, small town development has been firmly established as a basic urbanisation strategy for future Chinese urban development by the central government. It has profound influences on various other policies and institutions, such as the Household Registration system (known as the hukou system in Chinese), central-local fiscal policy and the rural land system. In retrospect, it is evident that the growth of smaller urban places has been promoted in China at various times under different policies. The strategy emerged out of China's own experience and observation of the situation in other developing countries. After 1949, the country's large cities became magnets for the population. Massive migrations from the villages deprived agriculture of its labour force, with catastrophic results during the labour-intensive periods of planting and harvesting. The growth of the urban population without a corresponding expansion in the available food surplus and in expenditures on the urban infrastructure and essential services presented a political threat. The other important factor is that the new government faced the task of overhauling the backward national economy. China adopted the Soviet model of industrial-oriented economic development. The 'consumer cities' left by the Nationalist party and foreign imperialists were seen as parasitic rather than generative, especially in terms of economic production (Ma, 1979). These cities generally lacked manufacturing industries. The task of transforming them into 'production cities' was achieved through massive industrialisation processes (Lo *et al.*, 1977). On the government agenda, it was thought that urban development should concentrate around the production and

construction of new industries. Based on those concerns, the urbanisation policy in China can be summarised as a three-fold strategy: "strictly controlling large cities, rationally developing medium-size cities, and actively developing small cities and towns". This broad strategy gave birth to the so-called small town development program. The promotion of small town development also partly justifies the continuous implementation of the hukou system, widely known for its strong discrimination towards rural migrants. Given the need to prevent a flood of migrants from rural areas to the major urban centres, the government firmly believes that through the development of small towns, the rural population could be channelled to those newly established towns rather than the existing cities and the hukou system could offer an effective means to achieve such a goal.

Third, small towns in China also function as social and cultural centres in the countryside and as vehicles for the diffusion of modern values and technology. They are the places where festivals are held, where most of the peasants have their first contact with the urban way of life, and where they find basic health, educational, recreational, and social facilities. During this process, the traditional production mode has been shifted away from agriculture to modern industry. The circulation of news and cultural products from cities also exerts profound influences on the social structures/orders of the traditional rural communities. All these changes contribute to the emergence of a new way of life and transformation of people's minds, since urbanisation, in essence, is not merely a population accumulation in urban places in a statistical sense, but also involves changes in livelihoods and socio-psychological adaptation towards a more urbanized and modernized lifestyle.

The above discussions show the important functions of small towns to China's current modernisation endeavour. The study of small town development will

contribute significantly to our understandings of both national level policy issues and socioeconomic changes occurring at grass-root level. Thus, it has great potential to make contributions to both scholarly and policy fields.

1.2 The State, the Market and the Paradox of Urban Proximity

To understand Chinese small town development, we have to place it within the wider context of China's market-oriented economic reform, with its basic institutional frameworks inherited from the centrally planned economic system. In doing so, we need to thoroughly understand how the state and the market work together to shape an essential context for the development of small towns during the economic transition period. It is generally assumed in development theory that the existence of industrial urban centres in less-developed countries gives rise to rural-urban migration which exceeds the capacity of the cities to employ the new settlers. The actual income differences between urban and rural areas are not solely responsible for this: also responsible are the migrants' expectations of higher gains (Christiansen, 1992). This potentially leads to the rapid influx of migrants to the existing cities, with the potential for some serious social problems to occur during the process. The cases of Delhi in India and Mexico City in Mexico are frequently used as examples to demonstrate how urbanisation works in a relatively poor country under the free market mechanism.

In contrast to those countries, China represents an extreme case in that the state, rather than the market, dominated economic development by coercively creating a rural and urban divide through implementation of the hukou system. Labour mobility was strictly controlled prior to the economic reform, with only a few exceptions (for detailed discussions, see Christensen 1990, Cheng and Selden 1994,

Chan and Zhang 1999). In another comprehensive and systematic study of late-Maoist urban China, Parish and Whyte (1984:358) summarised the Maoist model of urbanisation as having the following distinctive structural features:

- Strict migration controls and minimal urbanisation
- A penetrating residential work unit organisational system
- A highly developed bureaucratic allocation system
- An emphasis on production rather than consumption
- A relatively egalitarian distribution system
- A rejection of schools as a basic mechanism for sorting talent
- Much stress on citizen involvement in areas such as public health and social control
- Rigid taboos on all forms of dress, expression, ritual life, and communication that did not conform to the official ideology

All those structural features show that urbanisation in China worked in an entirely different way, in which the state dominates the landscape of urban development and individuals have limited freedom to move or choose their occupations. Consequently, the centrally planned system and political unrest brought turbulence and chaos to the Chinese society and economy, which reached a tipping point in the late 1970s, and the economic system had to be reformed to ensure sustainability. Since 1978, the initiation of the "reform and open door policy" provided the new context for Chinese socio-economic development. Reflected spatially, small town development has gradually emerged as a strong regional development/urbanisation model. In the previous section, I demonstrated the importance of small town development to the whole urbanisation and modernization process in China. It is also evident that in the political and policy discourse, small town development has

always been regarded as an “alternative model” or “third way” to differentiate China from other developing countries during the course of urbanisation, since most developing nations’ urbanisation processes have centred on mass migration to existing metropolises. The Chinese government would not accept this approach, since it would be regarded as a failure of control and planning. Thus, small town development became a viable option for the Chinese government because it gave China hope of becoming urbanised without experiencing uncontrolled mass migration to the major cities.

An important element of the historical background to the growth of small towns in China is the economic transition allowed by the state and the newly introduced market force operating within the framework of the centrally planned economic system – known as “gradualism” and “experimentalism” - in contrast to the “Big Bang” approach adopted by the former Soviet Union. However, the ongoing market-oriented reform should mean that the market, rather than the state, would increasingly play the major role in allocating resources spatially. Therefore, the existing cities should be in a more advantageous position to develop modern industries than small towns scattered in rural areas. So, does small town development really provide an alternative way for Chinese urbanisation other than the metropolis-based urbanisation model commonly found in other developing countries? Or is small town development a somewhat “transitional” phenomenon or even an anachronism, which will eventually fade away within the ongoing market-oriented reform?

In recent years, the effectiveness of the small town development program has been hotly debated in both the policy arena and academia. Studies claim that China has artificially suppressed the development of large cities and over-developed its small

cities and towns, which lack the support of scale economies and population (Li and Chen 2001, Xia and Yu, 2002). Zhou (2000) pointed out that most small towns would be unable to achieve a sustainable development mode in the future, because of the absence of free market forces and excessive state intervention. Wen (2002) argued that small town development actually reduces the pace of China's urbanisation and the government should re-evaluate it. However, several others consider that urbanisation in China needs to be firmly based on the small town development model, because of its capacity to narrow rural-urban income differentials and most importantly, to relieve the pressures of a large scale rural-urban migration to mega cities (Ma, 1987; Wang, 2000; Wang, 2003). Officially, the Chinese government is still in favour of the latter point and has proffered the small town development strategy as a key solution to increase China's level of urbanisation.

Although the debates cast doubt on the justification of the small town development program, very little empirical research, especially studies at the national level, had been conducted until 2002. In 2002, in order to gain a good understanding of small town development, a national level study conducted by the Statistical Bureau set out to construct a rank table of the 1000 most successful towns in terms of socioeconomic development¹. The results of this survey revealed that the distribution of successful small towns across China is highly uneven. Over 80% of those towns are located in Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang and Guangdong Provinces, which means that the majority of economically successful towns are located in the extended areas of China's major metropolises or in areas

¹ The research design has considered both economic and social variables, such as the GDP, income per capita, and hospital beds per thousand people, number of schools etc. The details can be accessed through the following link: http://www.sannong.gov.cn/qwfb/qyjj_200502180108.htm

with close connections to those metropolises. The result of this research seems to imply that the spatial and topographic advantages of small towns, especially in the form of "closeness" to the existing cities, are perhaps the most crucial factor contributing to the success of small towns.

If the above observation is justified, then the so-called small town development program actually has little policy value. There is nothing new about it because it is perhaps only a form of suburban development rather than something truly unique. With the ongoing economic transition, the small towns would either be included in the existing cities system or keep their own independent status in the cities' extended regions. Thus the application of the small town development program to the whole of China, especially those regions without highly urbanised metropolises, is problematic. Its effectiveness should be questioned and the subsequent policies should be revised or abolished.

The reality is that, apart from those towns located close to the major metropolis regions, some towns in those provinces with fewer big cities and relatively high levels of agricultural activities are still achieving successful economic development. The meaning of those towns seems to be more in accord with the original purpose of the small town development program, whose aim is to resolve the rural redundant labour problems locally by developing more successful small towns in rural areas.

Here, a kind of paradox is created regarding the effect of "urban proximity". I would like to elaborate a bit more on the concept of "urban proximity". It is a term to describe the spatial relationships between cities and small towns. In a quantitative sense, urban proximity is a measure of the proximity of the community to urban

centres weighted by the urban population (Naughton, 1995; Jin and Qian, 1998). In this thesis, I also consider some qualitative meanings associated with it, such as administrative rank, political control, social and cultural influences, because those influences are important to small towns, but are more difficult to quantify than concrete measures such as population, GDP, educational level etc.

The effect of urban proximity is paradoxical to small town development. On the one hand, urban proximity seems very important in deciding the prosperity of small towns, as evidenced by the fact that the majority of the 1,000 most successful towns are located in close proximity to the major metropolises. On the other hand, some towns, although comparably small in number, still manage to achieve successful economic development without the strong presence of urban proximity. How such a unique phenomenon can be understood will be the main focus of the following research.

1.3 Statement of Research Questions

As section 1.2 reported, a paradox regarding the effect of urban proximity exists when we consider the spatial distribution of small towns at the national level. In order to resolve this paradox, the logical first step should be ask some clear questions to further guide the research in this thesis.

Broadly speaking, this thesis aims to study the relationships between urban proximity and small town development within the framework of ongoing state-led, market-oriented economic reform. Although at national level, it appears that small towns located within the range of metropolitan regions grow more robust, we can

not assert that urban proximity is a **decisive** and **exclusive** factor for small town development, since there are still a handful of towns that develop flourishing economies with relatively weak influences from the major metropolises. Thus, we could ask the following set of questions:

How have the evolving policy frameworks provided the institutional context to enable the initialisation of rural industries in the rural China? How did the policies remove the various restrictions on developing small towns? And how have those national policies been interpreted and enforced in local areas by local actors, especially those areas with different local socioeconomic conditions?

If urban proximity – a variable that can be regarded as a measure of spatial and topographic advantages for industrial development - has positive influences on the development of small towns, what exactly are these positive influences? How did those towns respond to the changes of national policies? How did they utilise various local resources to achieve economic development? Does proximity have an impact on the local government, firms, people and more generally, the local society of small towns?

How do we explain the successful stories of small towns with relatively distant relationships with the existing cities? What is the driving force for the growth of this kind of town? How did those towns respond to the changes of national policies? How did they utilize their local resources to achieve various developmental goals? What is the impact of their disadvantageous location on their governments, firms, people and more generally, local society?

Only when those questions can be thoroughly answered will we be in a position to say that we have some genuine understanding of small town development in China. Based on this, effective policies could possibly be designed and implemented.

1.4 Organisation of the Thesis

This thesis regards small town development as a holistic concept, which embodies not only economic development but also human and social development. In this respect, it differs from previous research, which has either focused on rural industry or town-level statistics at an aggregative level. This thesis treats the small town as a multi-faceted entity. To break it down into its constituent parts, its development involves the operation of local government, the dynamics of local firms and local residents' livelihoods, and more generally, the changing social structures/orders of local community. All these concerns have guided the research design and structure of this thesis. Government, firms and people constitute the three basic analytical components of the thesis. After each component has been studied, the thesis will also produce a concluding chapter to synthesise the research findings and look at the interrelationships among them, with the aim of reflecting the fundamental characteristics of local society result from two decades' market reform.

The thesis is comprised of 7 chapters. Apart from this chapter, they are as follows:

Chapter 2 reviews the literature related to the research problems. There are three major parts to this chapter. The first part is a review of the evolving policy frameworks governing small town development since 1978. Seven major policy areas are reviewed in this section to highlight how the institutional changes that have occurred at national level shape the essential context for small town

development. The second part reviews theories related to urbanisation/regional development from economic perspectives, as those theories emphasise the role of markets and the rational choices of individuals and firms. The third part reviews the theories from institutional economics, economic sociology, and classic rural/urban sociology. In contrast to the mainstream economic theories, these theories pay more attention to institutions (both formal and informal), social structures/orders and their impact on economic outcomes. Particular emphasis has also been given to the limited applicability of such theories to China's current economic development because of the China's unique institutional context and political system.

Chapter 3 focuses on the research designs and methods used to approach the research problems. The research design adopted in this thesis is the "comparative case method", which has been chosen for its strength in combining both ethnographical depth and explanatory power with regard to causal complexity. Two small towns – Xihongmen Town in Beijing and Zhulin Town in Henan Province - have been chosen to conduct fieldwork. Multiple sources of data have been gathered and both qualitative and quantitative methods have been used. Some of the author's self-reflections and experiences on the fieldwork will also be reported in this section.

Chapter 4 is the first empirical analysis chapter, with its focus on the local government. The chapter compares the socioeconomic environment of both towns and their impact on the organisational structure of local government. The role of local leadership will also be examined in this chapter. Through systematic comparisons, this chapter discusses how evolving policy frameworks and urban proximity affect the operation of local government and what kinds of role the local governments play in developing their local economies.

Chapter 5 studies the firms in both towns. The analysis focuses on how these firms have been set up and developed in the two towns with contrasting location-settings. It examines how firms are organised and interlinked and how each local industrial structure has changed over time, and attempts are also made to assess the prospects for industrial development in the two towns in the long run.

Chapter 6 moves on to study the local people in both towns. The comparative analysis mainly focuses on the livelihoods of local residents, and attention has also been paid to local residents' attitudes towards migrants, government, changing lifestyles and the construction of urban identity.

Chapter 7 synthesises the research findings generated in chapters 4, 5 and 6, and also moves further to explore the connections among the government, firms and people. Two models are constructed to characterise the key features of local society in the two towns, and the relationships between social structures/orders and economic development are also discussed in this chapter. The chapter also summarizes the main contributions of this thesis to the theories, methodology and current debates of small town development strategy and policy at national level.

Chapter 2: Literature Review

2.1 Introduction

This Chapter reviews the evolving policy frameworks regarding small towns in the post-1978 era and examines theoretical thinking on urbanisation and regional development in both the western and the Chinese context. In many ways, small town development describes the unique style of urbanisation in China. Thus, the unique political context of China should be the most important factor to look at, because the changing institutional context and subsequent policy reform provide the essential context for the development of small towns. As market forces play an increasingly dominant role in the spatial allocation of resources, theories related to urbanisation derived from the western context will also be reviewed in this chapter. The literature review reveals that the majority of theories attempting to explain the causes of urbanisation come from the field of economics, and particularly development economics, where great emphasis is placed on rural-urban differences in wages, costs and economic efficiency. By contrast, Sociology utilises a different approach, paying great attention to the impact of urbanisation on social structures/orders and the distinction between rural and urban ways of life. There are also theories deriving from the field of institutional economics, economic sociology and regional development, which attempt to explain the process of regional economic development by emphasising the role of institutions. This line of work could also be important for our understanding of the phenomenon of Chinese small town development.

This chapter is organised into five main sections to reflect the above concerns. Section 2.2 reviews the evolving policy framework towards small town development

since 1978. Seven key policy areas are given particular attention to highlight how such an evolving policy framework has been set up by the central government to shape the wider institutional context for small town development. Section 2.3 reviews the theories of urbanisation, drawn mainly from the field of development economics. Section 2.4 reviews theories about the rural-urban distinction, with a special focus on the distinction between contrasting urban and rural social structures/orders. Following this line, this section also reviews the recent theoretical developments from the economic sociology, institutional economics and regional development literature to look at the connections between institutions, social structures and economic development. Section 2.5 concludes that research on small town development needs to take into account both the unique institutional context of China and the theories derived in the mainstream social science disciplines.

2.2 The Evolving Policy Frameworks for Chinese Small Town Development

Although most countries share some similarities in the process of urbanisation during modern times, the development of Chinese small towns in the post-1978 era is a much more complex phenomenon, which can only be thoroughly understood in light of the wider changes occurring as a result of the national economic development strategy since 1978. Followed the death of Mao in 1976 and the rise of Deng Xiao Ping as the *de facto* leader of the CCP in 1978, a series of reforms were initiated, which completely reversed the trajectory of Chinese socio-economic development. Deng had a very pragmatic view on the nature of socialism and his famous dictum - "socialism is not shared poverty" - signalled that the top priority of the country had shifted from the "ideological debates" and "class struggles", which

Mao was very keen to address, to economic development and the elimination of poverty. This philosophy set the basic tone for Chinese economic reform and its key characteristics are widely described as “pragmatism” and “gradualism” in the research literature (Naughton, 1995; Nolan and Ash, 1995; Boisot and Child, 1996; Walder, 1996; Sachs and Woo, 1997). In principle, the ways in which China’s economy were reformed were not the results of a grand strategy, but immediate responses to pressing problems that emerged through rapid transition. The criteria for success were determined by experiment rather than by ideology. The typical method of reform can be captured by another of Deng’s famous quotes - “crossing the river by feeling the stones”. It means that the process of implementing the new reform measures is not to announce and implement a unified and comprehensive national program; rather, an idea is implemented locally or in a particular economic sector, and if successful, it is gradually adopted piecemeal throughout the nation.

This general approach also reflects on the various policies that affect small town development. Likewise, Chinese small town development is not a result of careful planning and grand strategy; it is a somewhat “unexpected” outcome of rapid rural industrialisation following the relaxation of a series of existing policies. It was clear that the central government had not formulated a unified and coherent policy framework for small town development at the beginning of the reform. The whole policy framework in use today is a result of gradual evolution and adjustment of previous policies based on the concerns of both national and local economic interests. Thus, a thorough understanding of this evolving policy framework is central to understanding why small towns have become a viable national urbanisation strategy for China today. This section aims to systematically review the policy changes that have impacted on small town development since 1978.

As stated earlier, a comprehensive and coherent policy framework has never been formulated at central government level; thus my efforts to review the policy changes need to focus on a “basket” of policies that are mostly relevant to small town development. To sum up, the evolution of seven key policy areas has been crucial to small town development: they are entrepreneurship, local government, urban planning, land use, housing, employment and labour mobility and the hukou (Household Registration) system. One critical feature of policy changes in those areas is the dynamics between local responses and national policy-making. In most cases, newly introduced national policies possess high levels of ambiguity and flexibility in spirit (*jingshen*), direction (*fangxiang*) and opinion (*yijian*). Local governments can always interpret them in innovative ways to fit specific local needs and conditions. Thus, the policy frameworks have evolved through constant interactions between local experiments and national adjustment and reappraisal of existing policies. This means that the diversified outcomes of policy implementation in different regions are also important outcomes of such evolving policy frameworks. In the following review, particular attentions will also be given to how various policies introduced by central government were further interpreted and implemented by local actors under the different locations and contexts, e.g. rural and suburban locations, since the impact of urban proximity is a major concern of this thesis. Finally, we also need to bear in mind that the seven policy areas reviewed here are highly interlinked and overlapping in both content and implications. For example, some policies referring to rural industry are also key policies for the local government, since there was no clear-cut divide between local industry and local government at the beginning of the reform. New policies on urban planning and housing reform are always associated with reforms of land use. The various restrictions and relaxations of labour market policies are achieved through the adjustment and enrichment of the existing hukou system.

Entrepreneurship

The rise or, to use a more precise term, revival of rural entrepreneurship constitutes the foundation for the growth of small towns because its key function is to generate non-farming jobs and significant contributions to the income of local government. In retrospect, small town development based on rural industrialisation is not an entirely new concept, since this idea can be traced back to several influential books written by the prominent Chinese sociologist Fei Xiaotong (1939, 1986). In those books, Fei described the advantages of rural craft-based industrialisation and regarded it as a promising way for China to get industrialised and urbanised. However, a sequence of radical collectivisation movements since 1949 significantly weakened the foundation of such entrepreneurship, and subsequently, any type of private business was strictly prohibited until 1978.

The only exception during the period of rural collectivisation (1956-1978) was the establishment of the Commune and Brigade Enterprises (CBEs). The CBEs were allowed to operate since 1966 for the purpose of "supporting farming activities". They did not begin to obtain the freedom to seek profits in industries other than those related to agriculture until after the reform. In July 1979, the State Council issued the "Regulation on Some Questions Concerning the Development of Enterprises Run by People's Communes and Production Brigades," which allowed provinces to grant tax holidays of 2-3 years to new commune and brigade enterprises. They were no longer restricted to industries that served agriculture, such as producing chemical fertilizer and farm tools, and they were allowed to enter into most industries unrelated to agriculture, to which only state enterprises had previously had access. They also no longer used only local resources and could sell beyond local markets. The industrial structure of rural enterprises became more diversified (Qian, 2000). Because light and consumer goods industries were

characterized by huge profit margins and short supply, commune and brigade enterprises chose to enter these industries. The share of light industry rose from 44% in 1979 to 52% in 1984. Among the fastest growing industries were food processing, textiles, garments, building materials and coal mining (Wong, 1988).

Apart from the revival of collectively owned rural industry, the most significant phenomenon observed in the rural area was the rise of private and family-based entrepreneurship. Credit should be given to the adoption of the Household Responsibility System (HRS), which essentially restored land use rights (normally 10-30 years) to farmers (for detailed explanations of the HRS, see Lin, 1988, 1992; Oi, 1999). Built on this fundamental institutional change, the HRS also promoted a sense of property rights, and thus injected a strong incentive to the rural masses to pursue economic gains through sideline businesses, crafts and small-scale production. Many of today's successful private enterprises were developed through such sideline businesses during this stage. As a result of these institutional changes, China's countryside became a fertile breeding ground for economic reforms, a source of entrepreneurship and resources that could create alternatives to the existing state system (Naughton, 1995: 137).

At a very early stage, private businesses only allowed small-scale operation, with a maximum of seven employees, in both urban and rural areas. It was not until 1984 that private enterprises employing more than seven people became legal. In rural areas, the "Central Committee Circular on Agricultural Work" of January 1, 1984 was enforced, in which the government "encourages peasants to invest in or buy shares of all types of enterprises and encourages collectives and peasants to pool their funds and jointly set up various kinds of enterprises by following the principle of voluntary participation and mutual benefits." In March 1984, the former

commune and brigade enterprises (CBEs) were renamed as "township and village enterprises" (TVEs), and the whole rural enterprise sector included collective and private enterprises. A high level of liberalization was applied to rural enterprises, and previous administrative restrictions against rural enterprise entry and expansion were removed from almost all industries.

The sources of capital for TVEs can be roughly divided into three broad categories: private capital, community capital and enterprise capital. Private capital consists of funds invested directly in enterprises by households or individuals. It includes investment by partners or proprietors, informal loans to private entrepreneurs (usually by friends or relatives of the lenders) and the purchase of bonds issued by community enterprises as provision of capital in return for jobs etc. The community government regulates the terms and conditions under which individuals can invest in community enterprises (normally local residents only). TVEs can gain access to larger amounts of household capital by issuing short-term bonds with the support of the community government. Community capital consists of investment funds, the allocation and use of which are determined or at least strongly influenced by local governments, particularly at the town/township level. This capital includes local government budgetary funds for TVE investment, loans of fiscal revolving funds to TVEs, profits from community enterprises pooled by local government or village industrial corporations, and loans from the Agricultural Bank of China (ABC) and the Rural Credit Cooperative (RCC). The Agricultural Bank of China (ABC) is a monolithic state institution with a well-defined headquarters-branch structure and an extensive system of top-down credit planning. The RCCs, although supposedly community-based cooperative institutions, have been subject to administrative supervision by the ABC (Byrd, 1990: 199-200). These financial institutions share numerous similarities with other state-owned enterprises and were subject to

centralized management and economic planning. Loans to government-owned firms were soft. Although TVEs typically faced much tighter budget constraints than SOEs, local governments could still use their political power to influence local banks' lending decisions (Che and Qian, 1998). The share of total rural lending by state financial institutions to TVEs expanded steadily from 17 percent in 1985 to 32 percent in 1994 (Park and Shen, 2003). During the 1980s, the government still played a very important role in helping TVEs to obtain loans; higher levels of government ownership were more advantageous in securing loans and private enterprises tended to find it difficult to gain access to credit. However, this situation saw significant changes during the 1990s; bank reforms initiated in the early 1990s put more emphasis on loan screening and credit control, while the accumulated long-term bad loans of TVEs have made banks very cautious about lending money to these collective enterprises. Instead, some studies have observed that banks are more willing to lend to private firms (Bramdt and Li, 2003), which are usually more profitable. Throughout the developmental history of TVEs, we can clearly observe that the collective ownership of TVEs has seen great diversity in different regions. Many private enterprises pretend to be TVEs and hope to use the power of local government to beat the imperfect market: this is described as wearing a "red hat". Such ambiguous property rights are often more efficient than unambiguously defined private property rights during periods of economic transition (Li, 1996).

The successful development of the private sector has also triggered the government to give more legitimacy and autonomy to this particular sector. As Christiansen (1989) noted, private enterprises were officially legitimated on 31 March 1988, when the State Constitution was amended, but a secret legitimisation can be traced back to 1983. Article 11 of the amended State Constitution in 1988 was enlarged to include the following statement:

"The State allows the existence and development of private economy (siying jingji) within the limits set out in laws and regulations. Private economy is a supplement to the economy of socialist ownership. The state protects the legitimate rights and interests of private economy and directs, supervises and administrates private economy"

In 1993, the Communist Party's Economics and Finance Leading Group, headed by Party Secretary General Jiang Zemin, worked together with economists to prepare a grand strategy for transition to a market system. Several research teams were formed to study various aspects of transition, ranging from taxation, the fiscal system, the financial system and enterprises to foreign trade. The final output was the "Decision on Issues Concerning the Establishment of a Socialist Market Economic Structure" adopted by the Third Plenum of the Fourteenth Party Congress in November 1993 with the objective of a market system in mind. This landmark document made four major advances in the areas of reform strategy, a rule-based system, building market-supporting institutions, and property rights and ownership respectively. It was the turning point on China's road to markets.

In the "Decision" of November 1993, state ownership was still regarded as a "principal component of the economy" while private ownership was a "supplementary component of the economy." The Fifteenth Party Congress, held in September 1997, made a major breakthrough on ownership issues: State ownership was downgraded to a "pillar of the economy" and private ownership was elevated to an "important component of the economy." In Chinese politics, these subtle changes of rhetoric mean big changes in ideology. Later, private ownership and the rule of law were incorporated into the Chinese Constitution in March 1999.

An amendment of Article 11 of the Constitution placed private businesses on an equal footing with the public sector by changing the original clause "the private economy is a supplement to public ownership" to "the non-public sector, including individual and private businesses, is an important component of the socialist market economy". Immediately after the amendment, local governments started to relax local restrictions on private enterprises. During 1998-2000, rural industry experienced fundamental changes in terms of property right restructuring. Most TVEs were privatised, and the reform outcome has stimulated further growth of the TVEs. Nowadays, the term TVE has changed its original meaning from an emphasis on ownership (owned by Townships and Villages) to a geographical term (located in towns, townships and villages). As many TVEs obtained full autonomy through ownership restructuring, they also became more geographically mobile than ever before. The relocation of TVEs from rural and inland areas to urban and coastal areas to gain access to better infrastructures, financial capital and skilled labour markets has become a common practice.

Although the broader changes of policy frameworks are supposed to have universal effects and influences on all the regions, in reality, most regions show different responses to such changes based on their own local conditions. For example, the household responsibility system, the key institutional change in the Chinese economic reform, is not universally adopted, and even where it is adopted, the local government still has ample scope to manoeuvre through the re-distribution and re-classification of land. Even today, some rural communities still stick to collective farming. As regards the ownership of TVEs, there was a debate on the desirability of the Sunan model and the Wenzhou model, which represent two fundamentally different approaches (Collective ownership Vs. Private Ownership), in the early 1990s. The reasons for such diversified forms and local responses to national

policies are complicated: as Whiting (2001: 3-4) suggested, "Central state institutions in place at the beginning of the reform era created strong positive incentives for local state officials to promote rural industry. However, the choices of local officials concerning what forms of property rights to support were constrained by distinct local resource endowments inherited from the Maoist period as well as by incompleteness in the national market and legal institutions in the post-Mao era. Dependence on local resource endowments on the one hand, and complementarities between the nature of market and legal institutions and the form of property rights on the other, combined to create apparent path dependence in the trajectories of rural industrial development". Thus, the diversity of rural industrialisation should be understood by focusing on the specific local social, cultural, political and various historical factors and how those factors co-evolve with the general frameworks of economic reform initiated at national level. One of the aims of this thesis is to discover the dynamism and interplay between local and national during the process of rural industrialisation.

Local government

According to the 1982 constitution, China has three levels of local government (see Appendix 1). In reality, however, four levels of local government exist for most of the country. County and Town/township government are administratively the lowest levels of government in China. In 2003 there were 38,000 townships and towns, of which 19,600 were towns (PRC, SSB 2004). The differences between townships and towns lie in the size of the urban population and importance of the locale (See Appendix 2 for detailed criteria). Since the mid-1980s, there has been a tremendous growth of towns, due primarily to the rapid industrialisation and urbanisation. This phenomenon can also be interpreted as the central government favouring small town development as the major urbanisation strategy; thus, the

standards used to elevate townships to town status have been significantly relaxed during the reform era.

Prior to the reform, town/township governments in rural China were only part of the highly rigid administrative system, their main function being to implement various national strategies and policies of central government. Take the People's Commune as an example: this was a highly unified organisation, which integrated political, social and economic functions into a single, military style organisation. Thus, the People's Commune was merely a central government control mechanism. Economic reform altered the nature of local governments and gradually made them carriers of major functional responsibilities, from economic development to social welfare provision at local level. The Chinese central government is currently seeking to transform local government as part of its market liberalization strategy. This includes 'privatising' local enterprises (a process that was begun during the 1990s) and a rationalisation of local bureaucracy. Although still a highly centralized administration, there has been a significant move away from a uniform approach to local government: now, differentiation between regions and localities is actively encouraged. Due to the huge regional variations, the structures of local governments are also transformed in different directions, with some of them having fully-fledged functional units which mirror upper level governments, while others have simple and hybrid structures derived from the practical needs of the local community. Reflecting on the governmental behaviour, local governments play a wide range of roles in developing the local economy. Saich (2002) summarised four major types of the Chinese local government: entrepreneurial, developmental, predatory, and various forms of corporatism. However, the categorisation can be somewhat problematic and ambiguous, since a local government can be both entrepreneurial and developmental and there are no clear-cut criteria to distinguish

one category from another. But, the classifications are still helpful to capture some key characteristics of the dynamic behaviour of local governments. There are two major causes of such diversified governmental roles: the first is the central-local fiscal reform introduced by the central government and the second is how local governments respond to this institutional change by utilising their own resources to achieve developmental goals.

The town/township fiscal system was established in 1983, based on the principle that "each level of government has its own budget." The national fiscal system has undergone various reforms since the 1980s, including the "fiscal contracting system" in 1988, the "tax sharing system" in 1994 and the "tax-for-fees" policy in 1998, which have left some local governments financially worse off than before because each successive reform took away certain powers from local governments. Detailed accounts of central-local fiscal reforms are well documented in the literature (see Wong 1991, 1992, 1997). To put it simply, the revenue of a town/township government was divided into within-budget and extra-budgetary revenues until 1994. The most important within-budget revenues were the four agriculture-related taxes, some portion of the local industrial commercial tax (sales and income tax) and a small portion of the national industrial commercial tax (the value added and enterprise income tax). The most important extra-budgetary revenues included the original township unified levy (*tongchou*), administrative fees such as the village house fee (*zhaijidi shouxufei*), fines, such as those for people who exceeded the family planning limits, and special funds from different agencies. After the implementation of the tax-for-fee reform, the existing agricultural taxes and surcharges were abolished and replaced with just two taxes on peasant households: a reformulated agricultural tax and a surcharge on the new agricultural tax. Instead of paying a village retained fee (*tiliu*) and a township unified levy

(*tongchou*), a land contract fee and various other *ad hoc* surcharges, peasant households are assessed for only one tax, either the agricultural or the special agricultural products tax, and its associated surcharge. In 2005, the central government took a further step and announced that by the end of 2006, peasants would no longer have to pay the newly adjusted agricultural tax or surcharge. The majority of peasants in China are now totally free from these taxes and fees. These policies have had a far-reaching impact on the revenue of town/township governments, and thus affect the financial capacity of local governments by tightening the various expenditures. Town/Township expenditures normally fall into two major categories: basic operating costs – personnel and administration, which include wages and basic administrative expenditures; and costs for public goods and services. Locals refer to the first category as “food money” (*chifanqian*), that is, money for the basic survival of the local government; the latter is called “project” or “work money” (*banshiqian*) (Oi and Zhao, 2007). Because the town/township government cannot charge extra fees and the abolishment of agricultural tax, local government budget crises are widespread in China. The fiscal capacity of local governments now depends mainly on the level of industrial development at each locality. Since there is tremendous variation in the resources and wealth of townships and villages across China’s countryside, this variation is naturally mirrored in the services that are provided in these different localities and thus in the quality of governance. Some townships and villages are serving their peasants well. A large and evidently growing number, however, are providing nothing in terms of public goods, or even worse, they are trying to squeeze funds from the peasants in whatever ways they can to cover the basic operational cost of local governments.

From an organisational point of view, the size and structure of local government has also experienced some significant changes in the last two decades. The overall trend is that the size of local governments have increased dramatically; more staff and more functional units have been added to the existing systems, although national reforms of personnel systems have tried to achieve exactly the opposite: as the approach can be summarised as “Decide the number of personnel in each government agency; decide the number of positions in each government agency; and decide who is in what position (*dingbian dinggang*)”. Although local governments are expected to follow the examples set by central or provincial governments to cut personnel, county and town/township governments respond to orders by cutting personnel from their payrolls, but this is done only on the books, by moving the personnel from one category to another. In principle, local governments in rural areas are very much autonomous in terms of deciding on their personnel systems and administrative structures. For some regions, the expansion and enlargement of local governments is mainly due to the increasing workload that accompanies the rapid industrialisation and urbanisation. This is especially evident in areas that have better economic conditions and are experiencing a rapid influx of migrants and businesses, which require local governments to offer more public goods and better economic infrastructures. In some poor areas, the function of local government might be reduced only to very basic tasks, such as maintaining social stability and the enforcement of birth control quotas. Thus, the functions of local governments in China are very difficult to generalise, because the distinctive resource endowment of each locality, various local path-dependant factors and specific local social structures and inter-governmental politics all contribute to their diversified roles and functions.

Urban Planning

The characteristics of a nation's urban planning system generally reflect the overall socioeconomic and political environment within which it operates. Put in another way, the political economy of the society defines the necessity of urban planning and delineates the measures to which urban planning can possibly resort. In a market-driven society, the necessity of urban planning stems from the existence of externalities and the need to provide public goods. In a planned economy, urban planning is perceived as a tool to realize the socialist ideology of planned development and to 'translate' the goal of economic planning into urban space (Wu and Yeh, 1999).

Chinese urban planning during the pre-economic reform period was characterized by a lack of appropriate legislation (Khakee, 1996). Work units (danwei) had the major power to use the land. As a well-known doggerel says, "Planning, planning, drawn on the paper, hung on the wall, is not more useful than a commanding officer's word". Although land is owned by the public in the name of state ownership, control over land was decentralized, and thus, production interests showed little regard for carefully prepared master plans. Although urban planning did play a role in urban development, its role was subservient to that of economic planning. Very often, urban planning was required to stimulate industrial growth, rather than to control undesirable development. Under the dominant control of the central government, compared to economic planning, urban planning was not a policy-making process. It was more like a site selection practice, which allocated proposed projects by economic planning into the urban space. As a result, city development was far from well programmed. Industrial development was always the top priority, but some critical urban functions, such as recreation and public services, were relatively overlooked. However, this system has undergone some

substantial changes during the economic reform era, since many new problems have emerged as the more market-oriented system has taken shape.

In 1978, The Third Meeting on National Urban Affairs, which was held by the State Council, required cities to restore the urban planning system to meet the needs of foreseeable rapid economic growth. As a result, urban planning institutions were re-established in many cities. At the beginning of 1984 the State Council promulgated the City Planning Ordinance, which established basic norms for planning and specified the requirement that all municipal and county governments should have master plans to guide their physical development. The restoration of planning as a local government function was indeed rapid. Within the year, nearly 83 percent of all cities and more than one half of all counties had completed plans (Xie and Costa, 1993:104). By the end of 1985, virtually every city and all counties had plans to guide their development. Simultaneously, urban planning institutes were established at the level of each of the 29 provincial governments. In 1986, the Land Administration Act was enacted. In 1989, the City Planning Act was enacted: this was the major milestone in the history of urban planning in China (Yeh and Wu, 1999). The 1989 City Planning Act set up a comprehensive urban planning system by law for the first time in China. It dictated that a master plan should indicate the target size, the economic orientation and the spatial structure of the city. The central task of these master plans was the organisation of urban space around state projects allocated to the cities. According to the Act, the detailed urban plan should be based on the urban master plan or urban district plan and should stipulate a detailed plan for the various construction projects within the short-term development of the city. Urban detailed plans should include indices such as building density and building height, general layout plans, utility engineering plans and three-dimensional site plans.

The development of master planning has necessarily relied upon a formulaic approach, based upon a quantitative assessment of existing conditions in comparison to the ostensible requirements of five-year economic development plans as interpreted for each locality. Local inputs come only with the formulation of detailed plans, which are intended as the locality-specific interpretations of the land use and density stipulations of the master plan. With the use of detail plans, local officials are expected to guide the development of the city, including the determination of the basic parameters of major construction projects and the management of local land leasing systems. In practice, especially in smaller cities, even the detailed plans may be formulated by outsiders, either through contracts with provincial planning institutes or through consultancy agreements with the planning departments of universities (Abramson, 1997). The results of such planning practice are sometimes not as desirable as planned on paper. The local governments can be instrumental in determining the fate of concrete construction projects. The plan could be overridden by the short-term economic incentives of the local government rather than the long-term sustainability of the local community.

In the early 1990s, there was an explosive boom of development zones in Chinese cities. From big cities to small towns and from inland areas to coastal harbours, local governments set up numerous development zones with all kinds of fancy titles, such as Economic and Technological Development Zone (ETDZ), High Technology Development Zone (HTDZ), and so on. According to the State Land Administration, there were 2,700 development zones at the end of 1992 compared to only 117 at the end of 1991 (Liang and Zhou, 1993). Their sizes vary from a medium-sized city to several parcels of land. They also have different levels of judicial approval, from central government, province and city to county and town. Many even exist without

approval from higher levels of government. Local governments have invested heavily in these zones to provide public services and urban infrastructure such as land grading, electricity, gas, water and roads. In the mid-1990s, the central government began to clean up the mess of about 1,200 development zones (Tang, 2000). In general, national development zones are better planned and managed, while provincial and unapproved ones have more problems. Although the first wave of development zones subsided in the mid-1990s, they continue to emerge whenever there is some government initiative for economic development. In recent years, many new development zones have been officially approved by the central government in the face of a new national strategy to develop Western China (Peng, 2002). The number of development zones below the provincial level has also exploded again. According to the Ministry of Land Resources, there are now 3,837 development zones, among which only 6% are approved by the State Council and 26.6% approved by the provincial governments. Most of them, 2,586 in total, are below the provincial level without official approval. Many newly established development zones are also much bigger than before. It is not surprising, then, that the central government issued two new decrees in the summer of 2003 to stop approving any new development zones and clean up the existing ones (Deng and Huang, 2003).

With the exception of some high-tech zones and small zones, most development zones are separate from built-up areas (Tang, 2000) and located on the urban fringes, where land has to be expropriated from peasants and local governments need to invest in basic infrastructure, including industrial, commercial, and residential land use, and occupying large amounts of farmland. The consequence of such "zone fever" is the waste of valuable land resources and the creation of problems for the local communities since many farmers have lost land during this

process. The compensation for land-loss farmers always intensifies the conflict between local governments and people. Such conflict is especially evident in the suburban areas of major cities. One key feature of urban planning practice in China is that planning power is decreased along the lines of the core and periphery of cities. The urban planning function has been reinforced, primarily in the inner city and suburban areas, with strategic plans and the division of land into farming land and government-used land and the establishment of a land transaction market. For most small towns in rural areas, urban/town planning is poor, and the small towns are normally labelled as *sibuxiang*, which means neither a city nor countryside. Some common urban functions, such as recreational and educational facilities, are missing in those areas and rural industries scatter rather than cluster in a designated locality, which could badly damage the soil and water quality and threaten the ecological system. In addition, due to the administrative divide and vested interests of each level of government, the different towns and villages within the same county often try to build their own public facilities without the essential coordination with others. The whole process is lacking in economies of scale and efficiency. The central government has realised this and started to take some steps to resolve this problem, but so far the outcome is far from desirable. However, urban/town planning has become increasingly important for those localities with better economic conditions, and local authorities have put more effort into planning issues because appropriate planning is critical to the further development of their localities.

Land

Land use in China is characterised as a "dual land system". The land is divided into two basic categories: farmland and construction land. Construction land can be further divided into another two categories: state-owned construction land and

collective construction land. Farmland can be converted into state-owned land through state exploitation, wherein compensation is paid to farmers and their registered status can be converted into urban hukou. However, it is much more difficult for farmland to be converted into collectively owned land. After going through the same conversion process as state-owned land, one critical difference is that collective land cannot enter the market and can only be used for the purpose of collective activities.

China's rural land reform started in 1978 when the 'Household Responsibility System' was introduced. Under this system, farmland owned by the former communes was allocated to each peasant family. This was the first important step in China's economic reform, but it has also been the only significant one for rural land in the past two decades. China's current constitution states that rural land belongs to peasant collectives such as villages and towns. Each peasant has the right to use farmland and the land for his house, but cannot give away these rights. Only administrative allocation once every 10 or 15 years can adjust land use among peasants. Land Administration Law clearly stipulates that 'for peasant collective-owned land, land use rights cannot be sold, transferred or leased for non-agricultural construction' (Pu and Li, 1998: 176). Although there have been voices calling for further reform in the rural land system, several obstacles remain. The biggest obstacle is concerns as to political stability and equity. A traditional belief is that private property rights in the countryside will inevitably lead to land concentration, and inequality and poverty will follow. Liu *et al* (1998) demonstrated the state's fear of granting peasants more rights to the land. The official explanation for why rural land cannot be transacted for non-agricultural use is because of 'zone fever has resulted in large amounts of vacant urban land' (Pu and

Li, 1998:176) and, therefore, allowing transactions of farming land would shake the foundations of China's rural society.

The conversion of rural land into urban land is completely controlled by local governments. Village leaders play an important role in the whole process. But, because rural land is 'officially owned by three levels of peasant collectives (Pu and Li, 1998), it is not clear which level of the collectives really owns the land: the natural village, the administrative village or the town? Since these leaders are appointed and paid by the local government, they are not independent and behave more in the interest of the local government than of the peasants (Ho, 2001). Individual peasants have only a passive role in many important decisions that will affect their lives forever. Furthermore, the compensation paid to peasants is very low. For example, land administration law stipulates that, in addition to compensation for attachments, crops and vegetables, compensation for farmland should be 2-6 times (later raised to 6-10 times) the previous three years' average annual agricultural production value (Pu and Li, 1998). Given the fact that agricultural prices have historically been very low in China, this standard of compensation is very low, particularly when compared against soaring urban land prices. This principle for compensation also makes no sense in a market economy. While village leaders might bargain over compensation, no one knows how much of the benefits end up in their own pockets instead of those of the peasants. Numerous scandals and peasant upheavals reported in the media offer clear evidence of inequity in land conversion processes.

The conversion of land from farming to non-farming use is a direct consequence of urbanisation. With ambiguous collective ownership and individual use rights, the ownership issue will be further complicated during rapid industrialisation, with

various actors contesting entitlement to land because it is relevant to the basic livelihoods of local inhabitants. Yeh (2005: 61-65) summarised a number of ways of transacting land in both urban and rural area; here I list three major transaction methods that are particularly relevant to small towns and urban fringe areas.

Acquisition of rural land by danwei for project-specific development: This is the dominant sources of land supply for urban development in China. The typical way to acquire this type of land is through project-specific development. A danwei that needs land for development can apply for a land acquisition permit from the municipality. It can then acquire rural land by paying a standard compensation fee to the farmers. According to the Land Administration Act 1986, compensation amounts to three to six times the average annual agricultural production of the rural land in the last three years before land acquisition. In addition, payments have to be made on buildings and agricultural products attached to the rural land at the time of acquisition. Compensation will be paid if acquisition involves the relocation of people. The principle of this type of land supply is that only state work units, usually large industrial enterprises, can acquire land through the administrative allocation method and that such type of land cannot be leased to foreign investors.

Acquisition of rural land by the municipal government for comprehensive development: Municipalities play important roles in this type of land transaction because they acquire land directly from farmers, develop it comprehensively, and then allocate it to users. This type of transaction was mainly initiated after 1978. The purpose of comprehensive development is to deal with land acquisition more efficiently and quickly because the municipality, instead of the users, acquires land directly from farmers for a standard compensation fee. Comprehensive

development, when first introduced in the late 1970s, did not involve much commercial consideration (Yeh and Wu, 1999). Most of the land was supplied to danwei. But later, some land was also supplied to housing development companies for building commercial houses. These development companies usually belong to the municipal housing bureau or construction bureau. In the early stages of housing commercialisation, most commercial housing was on this type of land because land could be obtained cheaply compared to land obtained from urban redevelopment that involved heavy compensation. By obtaining land from the municipality, the price of housing could be kept relatively low because the development companies only needed to pay the farmers compensation for agricultural land rather than land prices for residential land, which is more expensive. However, users could use the land but could not transfer it freely to other users, especially foreign buyers.

Acquisition of rural land by the municipal government for land leasing: This is the most recent type of land transaction and is becoming increasingly popular. Rural land is acquired by the municipality and then leased to other users through the market mechanism of negotiation, tender and auction. Because the municipality monopolizes the right of supply of this type of land, it can acquire rural land at monopoly price from farmers and sell it to developers at market price. Considerable profit can be made by the municipality because of the great difference in land acquisition and land lease prices. The current customers of this type of land transaction are mainly estate developers and foreign investors. The purpose of development is mainly for commercial housing, offices, hotels and industrial buildings. However, it has been reported that municipalities are facing increasing resistance from farmers, who sometimes resort to violence when their land is acquired by the municipality, which will later lease it out in the land market. They

are demanding higher compensation because the municipality can obtain a higher price in the land market through land leasing.

The gradual changes to the rural land system have provided local governments with new sources of revenue and introduced market rationality; this newly emerged land market has introduced other complexities into the urban development process. Black markets have been created, for example, by the difference in price between land obtained virtually free through an administrative process and land leased to the private sector upon payment of fees. Work units have undertaken developments incompatible with municipal plans, and urban sprawl has arisen in the special development zones that have proliferated in the rush to attract foreign investment. To address these problems, the 1999 New Land Administration Law (which amended the 1988 Land Administration Law) was adopted to protect farmland, manage urban growth, promote market development, and encourage citizen involvement in the legislative process. Besides strengthening property rights, the law mandates no net loss of cultivated land. It stipulates that, "overall plans and annual plans for land utilisation take measures to ensure that the total amount of cultivated land within their administrative areas remains unreduced." This means that land development cannot take place on farmland unless the same amount of agricultural land is reclaimed elsewhere. As reclaimable land is depleted, urban land supplies will diminish, the cost of land reclamation will rise and ultimately that cost will be passed on to consumers. Since its implementation, the law has drawn widespread criticism for stressing farmland protection over urban development. Due to rising incomes and larger populations, the demand for land will continue to increase. Given the fixed amount of land, development costs will certainly rise and gradually slow the pace of urban development.

It is evident that the land conversion problem is more severe in the suburban areas of cities, especially those near the major cities in China: thus the problems there are more pressing and challenging to the local governments. Due to the incomplete reform and institutional divide between urban and rural land, black markets exist in the rural areas at the city suburbs. In the urban fringe where rural land is facing immediate urban expansion, farmers prefer to rent their land to either foreign or domestic investors directly, because the price is higher than the compensation paid by the municipal government. As a consequence, development in the urban fringe is chaotic and some so-called "farming land" only exists on paper, the actual land plots having been secretly leased out for various other commercial uses. The loss of arable land is connected to many important issues affecting farmers' lives. The local governments need to figure out a solution to support farmers when their land is expropriated. Some innovative approaches to resolve this problem have already been trialled in many regions and a better policy framework regulating the rural land market is expected to be produced by central government in the near future.

Housing

The socialization of housing was an important element of the communist transformation. But because the communist party took a more gradual approach in urban areas, private ownership remained the dominant form of housing tenure in Chinese cities through the mid-1950s. Over the next two decades, little private housing was constructed because the state owned all the land, imposed strict ceilings on rents and generally discouraged speculative building. By the end of the Cultural Revolution in 1976, privately owned housing had virtually disappeared in urban China. In the absence of private housing markets, shelter became part of the social wage provided by the state. Housing was not provided directly by the government but through the danwei, a state-owned enterprise that serves as a

vehicle for structuring economic activity and social organisation. The main defining feature of a danwei is its multi-functionality as a place of employment, residence, education and commerce. A danwei worker acquires housing "according to his work," a fundamental socialist allocation principle. In this system the allocation of housing is determined by social status and length of employment, not prices and incomes.

While serving to promote socialist ideology and minimizing social unrest, the danwei system had serious constraints. The combination of negligible rent and excessive housing demand placed heavy financial burdens on the state. Housing allocations were based on criteria such as occupation, administrative rank, job performance, loyalty and political connections. The inadequate revenue generation from rents diminished the quality of housing management and maintenance and discouraged the construction of private rental housing or owner-occupied housing by private developers. When Deng Xiaoping came into power in 1978, he started to reform the state-controlled public housing system and introduced market forces into the housing policy arena. Subsequently, the government initiated a reform program with privatisation as a major component. The privatisation of the state-controlled housing sector included several elements: (1) increases in rent to market levels; (2) sales of public housing to private individuals; (3) encouragement of private and foreign investments in housing; (4) less construction of new public housing; (5) encouragement and protection of private home ownership; (6) construction of commercial housing by profit-making developers; and (7) promotion of self-build housing in cities (Ding and Knapp, 2003). The dismantling of the danwei housing system and the commercialisation of housing, though far from complete, has produced rapid growth in the construction industry and a substantial expansion of the housing stock. By 1992, the government share of investments in

housing had fallen to 10 percent—less than the share of investment from foreign sources. In the wake of an extended housing boom, per capita living space rose from 4.2 square meters in 1978 to 7.9 in 1995 (Ding, 2003).

In the last decade, sources of building capital have been significantly diversified in constructing urban housing. Instead of being solely reliant upon the allocation from the state budget to the work units through state and local social and economic planning, work units were encouraged to maximize their internal resources for housing construction in the initial stage of the housing reform (Wang and Murie, 1996; Wu, 1996). Subsequently, as the housing reform advances, proceeds from the sale of the housing stock either in the market or through the government's sale programs, deposits of the housing provident fund, proceeds from the sale of housing bonds, and the deposits of new tenancies generate new housing capital. Furthermore, preferential treatment such as discounted land prices is granted by some local district governments to attract foreign investment to redevelop old urban areas through the "Comfortable Housing Program" or other residential development projects. Loans from state banks have also been available to development companies for housing construction. However, even during the property boom a few years ago, the loan size only amounted to one-third of the construction costs. The approval of loan applications is stringent and applicants' financial conditions and past performance are crucial. Banks in China are still owned by the state, and are not as actively involved in the property sector as in the market economies. Therefore, bank loans represent only one of the major sources of investment for financing housing construction. On the whole, investment for housing has been tapped from multiple sources since the reform: work units, individual households, foreign investors and banks all actively involve in urban housing construction.

A key feature of housing reform has been local variation within the broad framework set out by the central government (Chiu, 1996, 2001). The size and decentralised element in decision-making provides more opportunities to experiment. The urban property development boom of the 1990s posed another threat to good quality farming land, especially in suburban areas. Land loss was caused mainly by rural housing construction and urban expansion. In the suburban areas of all major cities, commercial property development took over entire villages' land to build housing estates for urban residents. In more economically advanced regions, even the county engaged in commercial property development. Many villages located in these areas took advantage of this opportunity to make short-term financial gains by releasing their land for development, but it also brought risks and uncertainty to the livelihoods of landless farmers in the longer term.

The demand for housing from rural-to-urban migrants inevitably leads to the emergence of rent markets in urban fringe areas. As a result of the private provision of housing and the needs of farming activities, farmers' houses are usually more spacious but of inferior quality. With a high demand for housing and the lack of private rental housing in cities, rural villages on the urban fringe naturally become the ideal destination for migrants as well as some urban people who are in desperate need of cheap housing. For those farmers with less skill, utilising their own property as a vehicle to enter the land rent market becomes a very handy opportunity. In some suburban countries and towns, migrants outnumber local residents and the localities have become known for outsiders, using their native hometowns' names: for example, in Beijing, there are areas called Zhejiang Village, Xinjiang Village, Henan Village etc. However, farmers alone

cannot effectively provide the necessary supply in response to the rising market demand, as shown by the low construction density in these villages. In general, farmers have two types of response to the housing demand. First, in addition to subleasing their spare rooms, farmers may crowd themselves into more limited spaces to maximize the space for rent. Thus, migrants and landlords often live in similar housing conditions (Xiang, 1999). Second, many farmers build shacks next to their houses or along roads. These so-called illegal buildings are mostly for rent for commercial purposes, but they encroach on public space and weaken the general living conditions in the villages. Apparently peasants are constrained in 'urbanising' the villages by the lack of legal property rights and capital. Even when official rural collectives, such as natural or administrative villages, build rental houses, they are not regarded as legal constructions by the city government (Liu and Wei, 1997).

Employment and Labour Mobility

Prior to 1978, only an administered labour system existed in China and virtually no labour markets operated in either urban or rural areas (Meng, 2000; Knight and Song, 2005). Since 1978, the newly introduced market-oriented reform has facilitated the growth of labour markets in China, but a fully functional labour market is yet to be seen. For years, the labour market in China has been characterised as a fragmented, two-tier system and the inter-sectional transfer of labour is greatly constrained by various regulations and policies (such as the hukou system). The main characteristics of the country's labour arrangements before reform, namely the segregation of the rural and urban labour markets and the extreme immobility of labour, resulted in serious problems of hidden unemployment and low productivities.

In rural areas, since the adoption of the household registration system in the early 1980s, labour productivity in the agriculture sector has increased dramatically (Lin, 1998; McMillan, Whalley and Zhu 1989). Rural households can decide who works on which plot of land or which off-farm activities according to individual members' abilities as long as they fulfil their state production quota for certain agricultural products. Many new self-employment opportunities and private enterprises are growing through the pursuit of off-farm activities at this stage, such as food processing, construction and transportation services. However, the decisive force facilitating the establishment of the labour market in rural areas is the rapid development of TVEs. In 1983, the production responsibility system was introduced to most TVEs. This meant that TVEs had more power over managerial decision-making. The majority of TVEs switched to a monthly cash wage system. This system linked an individual's work effort and payment more directly than the work points system, providing more incentives to work hard (Meng, 2000: 38). However, the jobs offered by rural industry were mainly provided to local residents. Up until 1985, the situation saw little change in most rural areas of China. According to a survey conducted by the World Bank in 1986-7 in four counties of rural China, about 60 percent of the sampled rural industrial sectors' employees reported that they were directly or indirectly assigned to their jobs by local authorities. In addition to this rigid labour allocation process, labour mobility across townships and villages was also very limited. The same survey showed that about 70 percent of rural industrial sector employees were from the same village or township, and that around 90 percent were from the same county. The World Bank survey suggested that workers who were employed in 1978 had been mostly assigned to their jobs, while among those who were employed in 1985, 50 percent had found their jobs through a market mechanism, while the authorities had assigned only 17 percent. This suggests that the importance of the market mechanisms in labour allocation

had grown substantially since the introduction of the reforms (Gregory and Meng, 1995). In contrast to its rural counterparts, urban labour market reform was politically sensitive because workers should have the right to full and lifetime employment under the socialist ideology. Labour market reforms did not begin until as late as the mid-1980s, and even then, reforms were implemented with great caution. A labour contract system was formally introduced in 1984-6, and by 1995, involved about 39 percent of the state sector workforce. The real driving force for urban labour market formation has come from the private sector. Initially, as Christensen (1993) noted, two types of business emerged outside the planning system in urban areas: private entrepreneurs (*getihu*) and the so-called "labour services enterprises" (*laodong fuwu gongsi*). The private sector was eventually legitimised and enlarged to include many other types of business, such as joint-venture companies and foreign direct investment companies. They share the similarity that their recruitment practices are mainly controlled by market mechanisms rather than by the state allocation system, and thus contribute significantly to the formation of the urban labour market.

Rural-urban migration has made an enormous contribution to the formation of labour markets in the last two decades. The government has reacted passively to this movement, but the controls on migration have gradually been loosened. China's rural-urban migration has two unusual features. The first is the labour market segregation between rural migrants and urban residents. As a result of the lengthy separation of the rural and urban sectors, urban residentship entitled city dwellers to generous subsidies and benefits that were not available to rural residents. Although rural residents are now allowed to work in the cities, they are excluded from the welfare benefits of urban jobs. The jobs that rural migrants take pay less and have no job tenure and other benefits; more importantly, rural

migrants are not entitled to jobs in the formal sector, such as state-owned enterprises. The second feature arises from the existing institutional constraints on rural-urban migration, including the household registration system and the compulsory agricultural production quota. Analysis indicates that rural migrants are almost exclusively employed as trade, service and manual workers, while more than 30 percent of urban employees are professional, managerial and office workers (Meng, 2000: 206). The government has successfully implemented its general policies of severely restricting the permanent urban settlement of rural people and ensuring preferential access to urban jobs for urban residents. Evidence also indicates that governments at various levels have also restricted the employment of 'floating' migrants by imposing controls on enterprises.

Rural communities on the fringes of China's large cities experienced great changes during the reform decade from 1979-89. These communities are unique in the sense that they form the borderline between the urban and the rural economies. Rural and urban China has been divided into two distinct sectors, following their own paths of development and being governed by different political and economic systems. Placed at the junction between these systems, suburban areas have been exposed to conflicting trends of the reform policies that started after the Third Plenum in December 1978. At the same time, they have been increasingly integrated into the urban economy as a result of urban expansion. This has created an ambiguous economic, social and political configuration, which is partly collective in nature, but which also reflects, perhaps in the most radical form, the formation of a quasi-market economy. Thus, the urban fringes of major cities in China are always a strong base for rural industrialisation. Rural industries initially only use the labour from their own communities. Job allocations in the rural economic sector are strongly dependent on the decisions of rural public authorities. Because rural

collective enterprises are considered communal property, there is a tendency towards local protectionism. This means that the rural labour market in this sector is, by default, closed to non-locals, and migrant labourers are only taken in when local demand exceeds the availability of labour. Most pay is piece-rate, and there are no attached welfare benefits. Many workers have little training, meaning that the products are low in technology. When the industry grows, the local people have moved away from the factory and migrants start to fill the void of the labour shortage. The labour market begins to cross the geographical constraints of the local community. This phenomenon is especially evident in the three major metropolitan regions and coastal provinces, as they are now the net recipients of migrants. This unique feature is different from the situation in other developing countries, where migrants form slums or shantytowns in the city centre, as the migrants in China are kept outside city boundaries. The persistence of imbalances in the economy, based on institutional boundaries, has created an environment in which growth and labour transfer could take place (Christensen, 1992). Reflected spatially, small towns with good economic conditions normally become places where migrants can find jobs and settle down but for those one with poor economic conditions, limited jobs are only available for local residents.

Household Registration (hukou) System

One of the most important institutions in PRC is the household registration (hukou) system. The various national policies and regulations that affect people's lives are fundamentally defined, constrained and enabled by their hukou status. Contrary to some common perceptions, in which hukou is regarded as an invention of the post-1949 Communist party's regime, the household registration system has actually existed in China for almost two thousand years and has evolved through the imperial era in various forms (Wang, 2005: 32-60). However, only under the

communist party's rule did the hukou system become a powerful mechanism, which decisively shaped China's collectivist socialism by creating a spatial hierarchy of urban places and prioritising the city over the countryside.

Throughout the 1950s, China implemented a code of laws, regulations and programmes whose effects were to formally differentiate residential groups as a means to control population movement and mobility and to shape state developmental priorities. The hukou system, which came to prominence over the course of a decade, was integral to the collective transformation of the countryside, to a demographic strategy and restricted urbanisation, and to the re-definition of city-countryside and state-society relations. A number of excellent studies (Christiansen, 1992; Teng and Selden, 1994) have detailed how the hukou system was initiated and examined its economic and social impact on the current socioeconomic development in China. Thus, this section will not repeat this established line of work; instead, it will focus on the evolution of the hukou system since 1978, with a particular emphasis on the regional variations of enforcement of the hukou system.

Under the Household Registration System, every Chinese household is issued one hukou booklet containing the names of every family member, and each individual must be registered at birth with the local hukou authorities. Each citizen can have only one permanent hukou, at only one hukou zone. Each town and city issues its own hukou, which entitles only its registered residents to complete access to the social benefits associated with that particular hukou. A person's hukou registration record usually includes residential address, religion and employment information, as well as birth, death and migration details. Until the 1978 reforms, the system

strictly prohibited population movement, and people could not change residence unless the changes were part of the state's socioeconomic plan.

In the first PRC constitution of 1954, before the completion of the national hukou system in 1958, people were constitutionally guaranteed the right of free migration. This right was taken away in the PRC constitution of 1974: hukou-based institutional exclusion finally became constitutional many years after its implementation. In the current PRC constitution of 1982 (amended in 1988, 1998, and 2004), the right of free internal migration was still absent. In fact, the hukou system is one of the major tools of social control employed by the state. Its functions go far beyond simply controlling population mobility (Chan and Zhang, 1999). The hukou system was not designed mainly as a system to block rural-urban migration, as commonly portrayed in the Western literature. Instead, it was part of a larger economic and political system set up to serve multiple state interests. The system alone is less effective in controlling rural-urban migration. This is true not only in the recent reform period but also in the pre-reform period. Since the hukou system links people's accessibility to state-provided benefits and opportunities, it significantly affects personal life in many aspects. Its power in controlling people's lives has declined in the reform era in the wake of enormous social and economic changes and increases in rural-urban mobility, despite the central government's continuing efforts to adjust the system to fit the new situation (Chan and Zhang, 1999).

Reform of the social and economic systems within which the hukou system operated was initiated in the late 1970s. The significant changes in the last two decades have put a lot of pressure on the pre-existing hukou system, leading to some important changes and the emergence of a number of new categories. With

the development of a market-oriented economy, more people tend to be found outside their place of formal hukou registration. It is widely noted that in the country there is a "floating population" of some 80-100 million people who "stay" outside their own hukou registration place (this includes short-term visitors and people on business trips), compared to only a few million in the late 1970s (Chan, 1994: 49-71) Many of these people are *de facto* urban residents for years but do not have proper urban or non-agricultural hukou registrations. This increased mobility has greatly challenged the very basis of the traditional hukou registration system and has forced the government to adjust its policies. It has introduced a series of measures in the hope of improving the population registration administration under new circumstances.

Temporary residence certificate (TRC): At least as early as 1983, a new set of regulations governing temporary residence for workers without local hukou registration was introduced in Wuhan. A similar nationwide system was publicised by the Ministry of Public Security (MPS) in 1985. Basically, it states that people aged 16 and over who intend to stay in urban areas other than their place of hukou registration for more than three months are required to apply for a temporary residence certificate (TRC) (*zanzhu zheng*). Formerly, outsiders who stayed for three days or more were required to register with the local police station. If they stayed more than three months, then approval from the police was required. At that time, temporary work by rural labourers in cities had to be arranged between the recruiting urban work units and the supplying communes. No "spontaneous" labour migration of any sort from the countryside was permitted. Therefore, the new stipulation differed in an important way from the past, in that "spontaneous" migration to jobs in urban centres was tacitly allowed. The measure also granted

powers to local authorities to regulate flows of the temporary population through the issuance of residence permits.

The 1985 stipulation extended the TRC requirement to all urban areas, including towns. In 1995, it was also extended to rural areas, and the length of stay was lowered to only one month. A TRC is usually valid for one year and is renewable. In Shenzhen, non-work temporary residence permits can be issued for two years at a time. Two types of urban temporary residents are differentiated, both required to have a TRC: "conventional" temporary residents (*changgui zanzhu renkou*), who are outside people providing domestic services, studying, visiting relatives and friends, seeking medical services, sight-seeing, and on business trips; and job-seeking temporary residents (*mousheng zanzhu renkou*), defined as people doing business and working in the manufacturing and service sectors. Urban registered temporary residents are not entitled to urban benefits. Since the mid-1980s, almost all provincial and city governments have drawn up their own stipulations for the administration of the temporary population residing within their jurisdictions. Most of those applying for a TRC are peasant migrant workers. In order to be able to work in urban areas, they are often required to complete other cumbersome registration and documentation paperwork (such as for work permits and family planning permits) and pay administration fees (Solinger, 1999). According to the MPS, it is estimated that there was a floating population of some 80 million people in the country in 1995, of whom 44 million were registered as temporary residents (*Renmin Ribao*, 9th July 1995). There were also peasant migrants who simply circumvented the rules and did not register with the MPS after their arrival.

Citizen identity card (IDC): Another major device introduced by the MPS to deal with the new situation was the establishment of photo citizen identity cards (IDC).

Proposed in 1983, and tried first in Beijing in 1984, the IDC system was applied nationwide in 1985. Its use has also changed the unit of administration of registration from one book per household in cities and towns and one book per village in the countryside to one card per person. This new approach, entailing both individuality and portability, is better suited to the new circumstance of population mobility. For peasant migrants, the IDC has essentially replaced the introduction letter from the home village and its specific grant of permission to go away (Solinger, 1999). The IDC is more counterfeit-proof and more widely accepted than other documents such as introduction letters and hukou, which could be easily faked or bought on the black market. In China today, anyone applying for a job or opening a bank account is often required to provide an IDC.

Changes in nongzhuanfei (transfer from rural to urban hukou) policy: In the pre-reform era, *nongzhuanfei* was the core of any formal rural-urban migration. This remains so in the reform period except that in the last two to three years, there have been some measures to merge the hukou “place of registration” and the hukou “status” into one single classification. The dual channel and dual control mechanisms have been relaxed substantially, particularly in the late 1970s and early 1980s, to cope with the many problems inherited from the pre-reform era, along with reforms of the centrally planned economic systems. This has been achieved through opening a special channel and allowing an increased quota of *nongzhuanfei* in this channel. According to Yuan Congwu, the former Minister of Public Security, in 1993 there were 23 policy provisions (*kouzi*, or “openings”) for *nongzhuanfei*, compared to only nine in the 1950s. Mainly because of the relaxation of the *nongzhuanfei* policy, from 1979 to 1995 the non-agricultural hukou population grew at an average of 7.8 million per year, or 3.7 per cent. This is about

twice as high as the average rate (2.5 million or 1.9 percent per year) in the period between 1963 and 1978 (Yin and Yu, 1996).

Households with "self-supplied food grain" in towns: With decollectivisation in the early 1980s, it became obvious that China needed to deal with the rapidly growing surplus rural labour. Many locales had begun to ease the (often temporary) migration of peasants to small towns. Finally, in November 1984, the State Council endorsed a conditional opening of market towns to peasants. Peasants were allowed a new type of urban hukou, called the "self-supplied food grain" (*zilikouliang*) hukou, in market towns, provided that they satisfied a number of requirements. The main requirements were that they must either run businesses or be employed in enterprises, and must have their own accommodation in the market towns. They must also make their own food grain arrangements. The State Council stipulated that people with this kind of hukou should be counted as non-agricultural population, although they were different from the non-agricultural hukou population in several respects. "Self-supplied food grain" town hukou conferred more symbolic than practical value in terms of actual benefits received. It formally legitimated the right of some peasants to break their ties to the land and move to urban areas. However, this kind of "urban" hukou was not the same as *nongzhuanfei*. Holders were not eligible for state-subsidised benefits.

The enforcement of the hukou system is very different in different regions. The breakthrough was first introduced in the small cities and towns. Based on the 1993 general reform plans, on June 10, 1997, the PRC State Council approved the MPS's "Experimental Plans on Reforming the hukou System in Small Cities and Towns and Suggestions on Improving Rural Hukou Management". These two documents allow rural migrants who have been in small cities or towns for more than two years and

who have a stable income and permanent residence to automatically get a local urban hukou, without being subjected to any quota limit. Further additional directives and documents relaxed migration controls for certain selected groups of people such as elderly parents, newborns (who can now adopt the father's as well as the mother's hukou), and highly educated, talented and skilled workers. But the migration quota system is still maintained, especially in large cities. These gradual and controlled reforms have relaxed the hukou-based regulation of internal migration at the level of small cities and towns, while keeping quota-based migration restrictions largely intact for large cities (Wang, 2005: 187).

On March 30, 2001, the State Council approved the MPS's Suggestions on Promoting Reforms of the Management of the hukou System in Small Cities and Towns. The directive set October 1, 2001, as the starting date for a national reform of internal-migration regulations by abolishing the migration-quota system in all small cities and towns (defined as county-level cities, county seats and established towns). Anyone who has a stable non-agricultural income and a permanent residence in a small city or town for two years will automatically qualify to have a local urban hukou and become a permanent local resident, along with his immediate family members. This includes rural migrants. Some medium and even large cities were also authorized to do the same, although in these cases, qualification requirements entailed higher incomes and more specific types of employment as well as residence. While these historical reforms have occurred in small cities and towns, major urban centres retain their migration quotas and openly set high prices for their much sought-after hukou. The most attractive cities, such as Beijing and Shanghai, have repackaged and polished their quota-based migration restrictions and have created ways to selectively grant certain migrants local urban hukou (the so-called blue-seal hukou) in a scheme commonly known as

“Using hukou in Exchange for Talent and Investment”. All blue-seal hukou holders, however, are still subject to the limits set by the citywide annual quota. Elsewhere in China, many cities have replaced their migration quotas with entry-permitting conditions that are area-specific. Hence, attractive urban centres such as the major cities of provinces have established much higher entry conditions than the small cities and towns, but lower standards in comparison with Beijing and Shanghai. So far, these improvements have basically been enhanced efforts to allow the rich and the talented, educated or skilled to move in permanently while keeping the poor, unskilled or uneducated out of China’s major urban centres. The municipal governments in the urban centres are authorized to set and adjust their ever-changing standards and criteria for measuring a migrant’s net worth and skills. For the much-needed manual labour and workers in specialised industries such as restaurants, hotels and the entertainment businesses, the temporary resident certificate (*zanzhuzheng*) remains the tool of hukou management.

In Beijing, a new sort of selective migration scheme took effect on October 1, 2001. Any outsider can now apply for Beijing’s urban hukou but must meet a few very restrictive conditions and have a crime-free record. For a set of three urban hukou (self, spouse, and one child) in one of the eight central districts of Beijing, one must be private entrepreneur who pays local taxes of more than 800,000 Yuan a year for at least three years (or a total three-year tax payment that exceeds three million Yuan) and must hire at least a hundred local workers (or at least 90 percent of the employees must be local hukou holders). If applying for the same set of three Beijing urban hukou in the rest of the city outside the eight central districts, the tax payments and employment requirements are halved (400,000 Yuan a year and fifty workers or 50 percent local hires). Such a requirement essentially means that qualified applicants must be multimillionaires, still a tiny minority in China.

Therefore, in the first week after the long-anticipated implementation of this reformed policy, not even one applicant emerged. The alternative is the housing-purchasing scheme first adopted in the mid-1990s. Any migrant may obtain a set of three Beijing urban hukou by purchasing a commercial housing unit, in a designated area, at a designated market price (at minimum, a 100-square-meter apartment that costs at least 500,000 Yuan, about fifty times the average annual income in Beijing), still subject to the available migration quota. A purchase of such high-end housing must be made with cash, since only local hukou holders can apply for mortgage loans and borrow from their pension plans to make the down payment. In order to improve the international image of the hukou system, Beijing's municipal government ordered all local employers to stop stating "Beijing Hukou" as a requirement in job advertisements in mid-2001. However, all relevant Beijing regulations limiting the hiring of non-local residents still apply completely. Essentially, this is a reform in name only. Furthermore, the Chinese capital decided to offer its permanent urban hukou to any Chinese newcomer (along with spouse and any number of children under 18) who had earned a bachelors degree or higher from any recognized foreign college.

The overall trend of development of the hukou system in the last two decades has weakened in terms of political control but survived and become enriched in terms of function. The hukou system's long-established and much-examined function of resource allocation and subsidization to the urbanites has now been reduced and eventually replaced by the market forces, as the urban rations of food and many other supplies have now either disappeared or become insignificant. The administration of the well-known function of internal-migration control is now increasingly localized, with clear regional characteristics. Regional variations, distortions, exceptions and lapses have developed in the hukou system in various

parts of China, giving rise to increased mobility of the population in general and rural labourers in particular. All those incremental institutional changes laid a foundation for the growth of small towns.

2.3 Theories of Urbanisation

Urbanisation, in the modern period, has entailed a process of profound social and economic transformation (Roberts, 1978). The causes of urbanisation can be understood through many approaches. This section reviews several theories related to the causes of urbanisation, known as the "push-pull" model (Williamson, 1988), the "dual economy" model (Lewis, 1954; 1979), the "expected income" model (Todaro, 1969), the "Urban bias" model (Lipton, 1977), new economic geography and spatial clusters of firms (Porter, 1994; Krugman, 1995).

The "Push-pull" model of urbanisation can be understood from two sides: the pushing force from rural areas and the pulling force from urban areas. Regarding the pushing force, agricultural intensification has been an important "push" factor in the process of urbanisation in the last half century. Agriculture has intensified and yields per hectare have been rising dramatically worldwide. Intensification has allowed for a reversal of the destruction of land. It thus provides more spaces for human activities, which will be a very essential condition for the contemporary urban sprawl.

Technological innovation is a further important factor in agricultural intensification. It has been a key aspect of higher productivity in agriculture. In terms of a "green revolution", innovations such as tractors, seeds, chemicals, irrigation measures, fertilisers, pesticides and genetic engineering have played a major role in raising

yields. Many countries have tripled or even quadrupled the amount of grain they produce. This increased productivity in agriculture, which could reduce labour requirements for farming activities, may also have the effect of stimulating city growth. Events such as the "Green Revolution", which intensify agricultural production, mean that a larger yield can be produced with fewer workers, hence reducing the ability of the rural sector to absorb excess labour and increasing the incentives for urban migration. Therefore, agriculture has become a less direct source of livelihood and a steadily decreasing proportion of the population in both developed and underdeveloped countries is employed on the land (Roberts, 1978).

Rapid population growth in rural areas also pushes rural residents to migrate to cities in search of employment. Along with the increase in the population, there are also more people on earth who are living longer lives because the application of new medical technology reduces the mortality rate. The global population boom has coincided with the improvement of health, and of productivity, around the world. On average, the human population today lives longer, eats better, produces more, and consumes more than at any other time period in the past. Although migration is not the main source of urban population growth in many developing countries today, the young age of migrants increases the rate of natural increase of the urban population, bringing more births and fewer deaths. In developing countries, urbanisation tends to begin with an initial "push" of surplus rural labour into urban locations. A reduction in mortality rates after World War II, while fertility remained high, led to unprecedented rural population growth.

Because the rural sector could not absorb this surplus population, urbanisation and city growth both proceeded rapidly. Cities were not yet capable of employing this influx of labour, and migrants often lived in poverty. Most economists believe that

today's migrants are actually "pulled" into the city by economic forces, moving there in search of improved employment opportunities. In theory, then, the determinants of migration are found in the forces that determine the location of employment - the nature and pattern of industrialisation, the pace of agricultural development, and the growth of transportation and communications networks. Simply put, it is not the migrants who determine the rate and extent of urbanisation, but rather the location and rates of growth of industry and agriculture, and the resulting availability of employment in these sectors. In this sense, the pulling forces from cities are also tremendous for the growth of cities in developing countries.

The above "push-pull" models are illustrative in nature and lack the rigour needed for theory building. In the 1950s, Lewis (1954) set forth his "dual economy" model of economic development; this model was later modified and extended by Ranis and Fei (1961). The dual economy model views the economy of developing countries as consisting of two sectors: the traditional, agricultural sector, characterized by low productivity and surplus labour, and the modern, non-agricultural (industrial) sector, characterized by high productivity and higher wages. With economic development, labour would be gradually transferred from the traditional agricultural to the modern non-agricultural sector. Such transfer has obvious spatial implications, the notable example being urbanisation (Williamson 1988). It is assumed that rational economic choices are involved in labour transfer: migrants move because they expect to find better jobs and higher wages in the urban sector. The model also suggests that the level of wages in the urban sector will be constant while surplus labour persists, and will be determined in the long run by labour supply from rural areas.

The migration model developed by Todaro (1969) outlines four basic characteristics of migration in developing countries: 1) Migration is stimulated primarily by rational economic considerations of relative benefits and costs, mostly financial but also psychological. 2) The decision to migrate depends on expected rather than actual urban-rural real wage differentials where the expected differential is determined by the interaction of two variables, the actual urban-rural wage differential and the probability of successfully obtaining employment in the urban sector. 3) The probability of obtaining an urban job is directly related to the urban employment rate and thus inversely related to the urban unemployment rate. 4) Migration rates in excess of urban job opportunities are not only possible but also rational and even likely in the face of wide urban-rural expected income differentials. High rates of urban unemployment are therefore inevitable outcomes of the serious imbalance of economic opportunities between urban and rural areas in most underdeveloped countries.

In many developing countries, public resources are often skewed in favour of urban areas, despite the fact that urban residents make up only a small portion of the total population. Numerous studies show the existence of 'urban bias' in resource allocation; the term "urban bias" was first coined by Michael Lipton (1977) in his classic work on urbanisation in developing countries. A number of studies have generated evidence consistent with the above observation of an urban bias in developing countries. Oi (1993) report large disparities in public resources allocated between rural and urban areas in regions of China, while Fay and Opal (2000) report similar evidence for Africa. Also, the annual report of the World Bank (1991) points to a continuing decline in the share of public investment devoted to agriculture in developing countries.

An urban bias in governmental resource allocation can arise because of the preferences of the ruling elite and/or the political imperatives of governments. Lipton's original argument was that a disproportionate amount of resources might be allocated to urban areas because they are in line with the preferences of the political elite, who are typically based in urban areas. In addition, in an important study of urbanisation, Ades and Glaeser (1995) emphasise that political elites fearing a coup (restricted, by assumption, to potentially occur only in urban areas) make concessions and allocate resources in a way that further propels urbanisation.

The above theories explain the functions of structural changes in the economy in the process of urbanisation, but they still do not fully reveal the mechanism of urbanisation, because "agglomeration economies can provide an endogenous explanation for the rate of urban productivities' growth and on the basis alone deserve investigation" (Montgomery 1988). Thus, a full explanation of urbanisation has to incorporate the phenomenon of agglomeration economies. Agglomeration economies are connected with the minimisation of transport, information, and communication costs. In recent years, there have been some new developments within mainstream economics, with great attention being paid to the distribution of economic activities across the regions, known as new economic geography. The new endogenous growth theory acknowledges the economic externalities and increasing returns to scale associated with spatial clustering and specialisation (Porter, 1994; Krugman, 1995). Places specialising in given industries and their upstream and downstream linkages benefit from the scale economies of agglomeration and advantages associated with specialisation. The contention of Krugman and Porter is that spatial clustering of interrelated industries, skilled labour and technological innovations offers some of the key elements of growth and competitiveness. These include increasing returns, reduced transaction costs and

economies associated with proximity and inter-firm exchange, as well as specialised know-how, skills and technological advancement. This body of literature, although its empirical observations are derived mainly from the advanced capitalist countries, also has great relevance for the urbanisation process in developing countries, since the major cities in developing countries always possess high levels of clusters of firms in comparison with their impoverished rural counterparts. Thus, it is theoretically understandable why the role of large cities in the newly industrialised nations and developing countries is so vital to their economic development.

2.4 Institutions, Social Structures and Economic Development

The theories reviewed in section 2.3 are largely derived from the field of economics, with less attention being paid to the rural-urban distinction in terms of social organisation. On the contrary, sociologists have long been concerned with the effects of urbanisation and industrialisation on the social fabric of communities (Reissman, 1970; Short, 1971; Warren, 1968). One basic stance of this body of literature asserts that the distinctive differences of social life do exist between urban and rural areas. Those theories, although initially not connected to the theories of economic development, have recently been rediscovered to explain regional development. Similarly, some theories developed from the burgeoning fields such as institutional economics, economical sociology and regional development all stress the important role of institutions and social structures to the economic development. This section will also review some selected work in those areas.

The origin of this line of work can be dated back to Ferdinand Tönnies, a German sociologist who coined the terms *Gemeinschaft* (community) and *Gesellschaft* (society). It has been further inherited and enriched by the Chicago school of sociology (see Bulmer (1984) for a detailed review). The core of this school's thoughts is try to figure out how rural and urban areas are differentiated in terms of social organisation, and how such different social organisations have impacts on people and society. This section tries to sketch some of the most important thinking on the investigation of the rural-urban distinction in terms of social organisation.

Gemeinschaft/Gesellschaft and Regional development

Ferdinand Tönnies is a sociologist who was influenced by Karl Marx and who, in turn, influenced Max Weber. In 1887, Tönnies published his classic text *Gemeinschaft and Gesellschaft*, which has "proved to be one of the discipline's most enduring and fruitful concepts for studying social change" (Bender, 1978). He described two contrasting systems of collective social order. One is based essentially on concord, on the fundamental harmony of wills, and is developed and cultivated by religion and custom. The other is based on convention, on a convergence or pooling of rational desires; it is guaranteed and protected by political legislation, while its policies and their ratification are derived from public opinion. The first system was defined by Tönnies as traditional communities - *Gemeinschaft*, in terms of strong social network of friends and relatives with close emotional ties developed through frequent face-to-face contact. The concept of *Gemeinschaft* starts from the assumption of a unity of wills as an original or natural condition found pre-eminently in the nature of the relationship between individuals who are related to one another. The second system was defined as urban societies or associations - *Gesellschaft*. The relationships among people in *Gesellschaft* are rationalistic in

structure, instrumental in form, individualistic in motivation, and exploitive in consequences. Social interaction is a construct stimulated by modern industrial production and a money economy.

Tönnies also regarded *Gemeinschaft* and *Gesellschaft* as *normal types*; he considered them a matter of pure Sociology, whereas in Applied Sociology, on doing empirical research, he expected to find nothing else than a mix of them. Tönnies also implicitly stated that the degree of two such social orders can be various in different places with different degrees of urbanisation; *Gemeinschaft* has much in common with the village, in contrast to the family character of the household. But both retain many characteristics of the family, the village more so, the town less. Only when the town or city develops into a big city are the two forms almost entirely lost. Individual persons and even families become separated from one another, and share the location only as a place of residence, whether chosen accidentally or deliberately. Expansion from a small town into a great city, however, creates a sharp contrast—those basic activities coming to be viewed and used only as means and instruments for the city's purposes. The big city is the archetype of pure *Gesellschaft* in Tönnies' view. It is essentially a commercial centre and, to the extent that commerce controls its productive labour, a manufacturing town. Its wealth is capital wealth—that is, the increase of money through its use in the form of commercial, financial or industrial capital. Capital is the means for acquiring the products of labour or for extracting profit from labourers. In addition, the big city is also a centre of science and culture, which invariably go hand in hand with trade and industry. Ideas and opinions are produced and exchanged with great rapidity. Mass dissemination of the spoken and written word becomes a channel for the spread of mass communication.

In a similar vein, Emile Durkheim (1984) found elements of both dependence and interdependence in traditional and also in modern societal forms. He describes social relationships in local, agricultural societies with little differentiation of labour in terms of mechanical solidarity. According to Durkheim, such societies have both a high degree of uniformity, which leads to independence in terms of economic activities (such as subsistence farming), and strong interdependence based on collective conscience. In contrast, he describes modern, urban societies in terms of organic solidarity where social relationships are highly differentiated and interdependence results from specialisation. In an attempt to use empirical data to examine critically these assumed differences between rural and urban societies, Redfield (1941) compared isolated homogeneous societies and mobile heterogeneous societies based on four case studies in the Yucatan. In these case studies of an Indian tribe, peasant village, town and city, each case progressively demonstrates increased disorganisation, individualisation and secularisation. Tönnies' classification of *Gemeinschaft* and *Gesellschaft* has been inherited and greatly elaborated in the later work done by the Chicago school of sociology. The writing of Louis Wirth gave strong impetus to contemporary formulations of this approach. In "Urbanism as a Way of Life," Wirth (1938) saw the essential character of urban society resulting from (a) an increased number of population (b) density of settlement, and (c) heterogeneity of inhabitants and group life. The outcomes of these variables were said to include a substitution of secondary for primary contacts, a weakening of the bonds of kinship, and a declining social significance of the local community.

In much nineteenth-century sociology, it was argued that there was a definite contrast between urban and rural societies. It gradually became clear that a dichotomy of this kind was too simple; there were graduations of urban and rural.

Redfield (1930), for example, constructed a continuum from small rural villages (or folk society) to large cities, the more urban being more secular, more individualistic, and with a great division of labour and consequent social and cultural disorganisation. There have been many similar attempts by investigators of rural and urban communities. Frankenberg (1966) differentiated rural from urban by means of the concept of role and network. In urban areas there is much greater differentiation of roles and the network of social relationships is less dense. Those theories can be regarded as the further extension and modification of the original thoughts about rural-urban distinction.

The above paragraphs review the rural-urban distinction and later development of this school of thought in sociology. Nowadays, the rural-urban dichotomy in terms of life has been largely rejected in the advanced capitalist countries (Gans, 1968; Giddens, 1981) because of the development of modern transportation systems and penetration of the mass media to every corner of society in these developed countries. But, for most developing countries, which are currently experiencing rapid industrialisation and urbanisation, the distinction between rural and urban ways of life is still much alive and relevant, since it contains important insights into the nature of life in modern cities (Savage and Warde, 1993). For the pre-1978's China, over 90% of the population still lived in rural areas at the beginning of the 1980s, so to ignore the rural-urban distinction in terms of social organisation would be inappropriate in attempting to understand social change in contemporary China. Thus, insights from the theories reviewed in this section should be also given great attention when we consider the urbanisation process in China. The shortcomings of this school of thoughts lie in its reluctant attitude towards building connections with the theories of economic development, but this has been altered in recent years. The recent theoretical contributions from institutional economics, economic

sociology and regional development start to bridge the gap between economics and other disciplines in order to better theorize the economic development in a real world setting.

In recent years, the gap between the economics and other social sciences disciplines has been bridged by the development of some new theoretical thoughts. In Economics, a group of scholars working under the framework of new institutional economics are attempting to correct the mainstream neo-classical school. In sociology, the revival of economic sociology has been the most predominant phenomenon in recent years; it can be defined as the application of the sociological perspective to economic phenomena (Smelser and Swedberg, 1994; 2005). Meanwhile, in the field of regional development, there is also a significant paradigm shift termed by Ash Amin (1999) as "the institutionalist turn" which has generated significant influences. Here, I have no intention to explore the sea of literature, but will focus on the useful elements, which could potentially provide new theoretical insights for our understanding of Chinese small town development. To summarize, three schools of thought need to be mentioned here, since they all influence my research in the following chapters.

Gemeinschaft and Gesellschaft and Regional Development

The concepts of Gemeinschaft and Gesellschaft represent contrasting social orders in the interaction among people. Although Tönnies implicitly mentioned the impact of such orders to human behaviour, the connections between the social orders and economic development have not been discussed at any length. This theory, in recent years, has also been rediscovered to explain some paradoxical phenomena that occur in regional development.

Storper (2004) noticed studies of economic development and economic history have long been concerned with relationships between the transparent and supposedly anonymous forces of markets, states and bureaucracies (societal forces), on the one hand, and particular local and national forms of social organisation in which actors' daily lives are embedded (communitarian forces). He argues that the importance of societal and communitarian forces to economic development are to think about institutions. "Institutions" refer not only to the formal private and public sector organisations and rules that influence how agents interact, but also to the relatively stable collective routines, habits, or conventions that can be overused in any economy.

Giddens (1990) and other sociologists extend the field of potential positive effects of community in the modern economy. They start from a general point that contemporary modernisation cannot be merely bureaucratic, because this tends to downplay individual autonomy and responsibility. Giddens comes to the conclusion that in order to avoid the pitfalls of a rigid, administered society and economy, on the one hand, and a chaotic "jungle" on the other, intermediate levels of association are critical. Giddens and others specifically refer to communities as means to improve the functioning of labour markets, generate entrepreneurship and organize the provision of public goods, which alleviate both private and state burdens in creating prosperity and social integration. Along these lines, success in small-firm based industrial clusters or districts, ranging from the most famous cases of Italy to examples drawn from Taiwan, Denmark, Mexico or Germany, are also said to depend critically on the existence of communities which regulate complex inter-firm and firm-worker relationship through shared norms, reputation effects, and mutually-aligned expectations (for extensive reviews, see Storper, 1997; Storper and Salais, 1997). In the final conclusion of his 2004 paper, Michael

Storper argues that the interaction of both types of social order is essential for long-term economic growth.

Institutional Economics and Local development

Institutional economics, no matter whether old or new, differs from mainstream economics in its emphasis on the role of institutions in economic development. The basic notion of institutional economics firmly asserts that institutions matter for economic performance because they reduce uncertainty and lower the costs of transactions and production (e.g. Coase 1960; Williamson 1985; North 1990). For instance, North and Thomas (1973) attribute the rise of the Western world to the creation and evolution of an efficient property rights institution that, supported by a central state, brought the private rates of return close to the social rates of return.

Institutions can be either formal or informal. A large part of our social and economic life is governed by informal norms (North 1994; Ellickson 1991; Posner 2000). Criticizing Coase's exclusive focus on formal laws of property rights, Ellickson (1991) argues that informal norms in everyday life interactions subsume a large part of the costs of formal policing and enforcement. North (1994) emphasises that informal rules provide legitimacy to formal rules. Whether a formal institution can achieve desirable results depends to a large extent on whether it is supported by informal institutions such as customs, traditions, and codes of behaviours. Studies of economic development should pay particular attention to informal institutions because - unlike formal institutions, which are deliberately designed and can be transformed relatively rapidly - informal norms are much more impervious to deliberate designing and take time to change (Peng, 2004). However, the tradition of economics is less concerned with informal institutions, such as norms, beliefs and various social institutions; those areas, instead, are the

central concerns for sociologists. Thus, a further synthesis of thoughts developed in sociology should be central to unpack the interaction between economic outcomes and institutions. In this sense, informal institutions are synonymous with the term - social structures discussed in sociology.

Social Capital and Economic Development

Undoubtedly, the concept of social capital, with its intellectual roots derived from social network analysis, has become a powerful concept in the social sciences. The conceptualisation as well as the ultimate contribution of social capital to development remains a contentious issue in social science (Bourdieu, 1986; Coleman, 1988; Fine, 2001; Loury, 1977; Portes, 1998) and public policy (Harriss, 2001; Lin, 2001; Mansuri and Rao, 2004). The literature reveals two dominant conceptualisations of social capital. The first defines social capital in terms of social networks and contacts, and the second defines it in terms of relationships based on reciprocal exchange and trust. For example, Pierre Bourdieu (1986, 1990) emphasises the importance of an individual's social networks and connections, such as those made through one's family, marriage and group membership. In contrast, Putnam (1993) and Coleman (1990) focus on both social networks and the quality of social relationships between actors.

Coleman (1990) identifies three specific conditions associated with the presence of social capital: closure, stability and the presence of communitarian ideology. According to Coleman, closure is when all the actors in a social system have the power to place pressure (such as sanctions) on each other regarding events of mutual interest (Coleman, 1990: 314). Closure is expected to be more prevalent in rural areas, where residents are presumed to be more sedentary and thus to have more intimate knowledge of each other's extended families and personal histories.

The second condition Coleman identifies as integral to social capital is stability; individual mobility has the potential to weaken social structure and thus imperil social capital (Coleman, 1990: 320). Stability, too, is considered endemic to rural areas, where social and economic mobility are limited. The third condition that Coleman identifies is the presence of a communitarian ideology. He states:

"An ideology can create social capital by imposing on an individual who holds it the demand that he act in the interest of something or someone other than himself".

It is precisely this characteristic, which is associated with a good supply of social capital at aggregate level – usually the by-product of non-economic relations in a territory – which also explains why several studies, such as those by Putnam (1993) and Fukuyama (1996), tend to identify social capital with a co-operative culture and to highlight its path-dependent character, its rootedness in the past history of a territory. Economic activities, as a unique process embedded in the local social structures, could be heavily benefited or constrained by the social structures/orders of territory. As for the case of China, rural community based on lineage networks are a distinctive and prominent feature of Chinese village life. Whyte (1995) observes that despite tremendous changes, such as the shift from the extended to the nuclear family and the phasing out of prearranged marriages, some features of Chinese familism persisted, such as loyalty to the larger kin groups and sacrifice of personal interest for the sake of the family. Whyte believes that the familism and kinship loyalty are “the social roots of economic development” that distinguished the successful reform path from the unsuccessful Soviet reform experiences.

2.5 Discussion and Conclusion

The literature reviewed in this section is diverse and multi-disciplinary in nature, and demonstrates that urbanisation in general and small town development in particular are complicated subjects, which require the incorporation of various theoretical strands. In terms of the evolving policy framework since 1978, the top priority has been given to the political economy of small town development. The rationale for this is that the institutional changes in the early 1980s were the original impetus for small town development and their evolution continues to provide essential context to shape the further development of small towns. The review shows that several key policy areas, while reformed, still retain the basic structure in many aspects. The policies on the hukou and the land system restrict people's freedom of movement, especially to the major cities, while in the national policy towards entrepreneurship, local governments offer more economic incentives to empower rural localities, thus making the "rush to cities" less attractive. The evolving policy frameworks are fundamental in explaining the small town phenomenon.

The chapter also reviewed theories drawn from the field of economics, which normally treat individual persons and firms as analytical units and theorize urbanisation based on the concerns of rational actors pursuing economic interests, with little concern for the social-cultural dimension of urbanisation and the rural-urban distinction in terms of social organisation. Sociology, however, pays great attention to the different social structures/social orders of urban and rural areas and seldom links those factors to economic development. In recent years, the institutional economics, economic sociology and regional development literatures

have attempted to link the theoretical thinking from both schools and emphasise the roles of institutions and social structures in the process of economic development. All of this theoretical thinking derived from the western context has great relevance to my research topic, since small town development, in essence, can be treated as one form of regional development or a unique approach to urbanisation. This chapter also emphasises the unique institutional context of Chinese urbanisation and small town development, concluding that Chinese urbanisation used to be a pure state-led model but economic reform has gradually enabled market forces to play a role. This chapter also suggests that apart from the wider institutional changes and market forces, the social context of Chinese rural society, especially its kinship networks and clan-like organisation, are also important ingredients of widespread rural industrialisation, providing an effective organisational mechanism for successful economic development.

Chapter 3: Research Design and Methods

3.1 Introduction

This chapter explains the research design and methods used in carrying out the study. It should be noted at the outset that the methodology was to a certain extent an evolving one that took shape as the study progressed. It is also necessary to revisit the core research question at the beginning of this chapter, since it forms the groundwork to guide the research design and the selection of specific methods. Broadly speaking, this thesis aims to examine the relationship between urban proximity and small town development in contemporary China following the 1978 economic reform. This is a quite general question to some extent; thus, the research design also serves as an instrument to narrow down the scope of the research problem to a manageable level. In general, the research design of this thesis involves comparative case methods and the methodology embodies both a quantitative and a qualitative perspective.

Before detailing the rationale for using “comparative case methods” as a research design, this chapter will map out some alternative designs to approach the research problem. The ideal scenario to address the research problem would be something like the following: To obtain a large sample of small towns in China, construct an index of urban proximity as the key independent variable and use each town’s socio-economic indicators as variables to run various statistical analysis. Although this design would ensure a high level of generality of the inferences, this kind of research design is problematic for three reasons. The first is the data availability problem: to obtain such a dataset would be extremely costly and only a

government agency could afford to do so. My 2003 visit to the National Small Town Development Centre in the state council confirmed that such a comprehensive dataset is not available at the moment. Second, a very important dimension of my research is that it seeks to look at the changes in a longitudinal and evolving manner; thus, the data need to cover a long time span and ideally start from the beginning of the economic reform in 1978. Such historical data with great details are scarce and fragmented in the official archival sources. Third, although small town development has been widely studied in Chinese academia, the main focus of these studies has mostly been policy-oriented and small town development is mainly discussed at the national level as a type of developmental strategy and program. The specific local dimensions are often not the primary focus, which simply means that exactly what has happened in most small towns remains under-researched, especially in the last ten years. Thus, the research aim of this thesis is not solely about the causal analysis of the relationship between urban proximity and small town development. Another important dimension is to explore and discover some basic facts about the multi-faceted nature of small town development (e.g. it will not only focus on GDP and income levels at aggregate sense, but other aspects as well). Only after this has been done is it possible for a causal analysis to be conducted. Therefore, case studies based on ethnography should be a desirable approach to explore the research problem, which will mean that the researcher is not preoccupied with theories and designs generated before entry to the field. However, the case study approach also has its own deficiencies and needs to be further strengthened in the context of this study. Therefore, the final design chosen for this research is the "**comparative case method**" (Yin, 2003; Pettigrew, 1990), since it is an improvement upon single case design in many aspects but also retains the intrinsic value of the single case study.

The research methods employed in the case-oriented analysis are predominantly qualitative, but quantitative analysis is also incorporated when specific requirements emerge from the research (e.g. the analysis of local industrial changes based on firm-level data in Chapter 5). Having selected the comparative case method as the research design, the two towns - Xihongmen Town in Beijing and Zhulin Town in Henan Province - were selected based on careful considerations. The research question was further modified into a more specific problem: "Why can the economic development of the two selected towns be achieved under different degrees of urban proximity?" The process of data collection involved 3 months' fieldwork at two towns; the data obtained through the fieldwork consist of semi-structured interviews (16 interviews at each town and 32 interviews in total), participant observations, governmental documents and statistics, firm-level financial data etc. The data analysis was mainly based on the concerns of the research objective as well as the availability of data in corresponding contexts.

The above introduction sketches the main content of this chapter and detailed explanations of the key procedures will be further elaborated in the following sections. The structure of this chapter is organised as follows. Section 3.2 discusses the comparative method by tracing its intellectual roots in sociology and other social science disciplines and also explains why it is a justifiable choice for research in this thesis. Section 3.3 reports the rationale for selecting the two cases and the basic profiles of the two selected towns. Section 3.4 reports the process of fieldwork and how multiple sources of data were collected from the fieldwork, and outlines the underlying principles to guide this process. Section 3.5 presents some key issues related to the data analysis. Section 3.6 documents some main reflections about the research process from the researcher's point of view.

3.2 Comparative Case Method

The comparative case method, or in more general terms, the comparative method is perhaps the most widely used method in the social sciences. It has a long history, and can even be dated back to the work done by Plato and Aristotle. In the discourse of social sciences, when we talk about comparative methods, we normally mean comparisons from an international perspective. In the Cold War era, people liked to make comparisons between the USA and the USSR. In recent years, China and Indian have been frequently compared in the discussion of so-called new international labour division and globalisation. Comparison, in essence, is a very basic instinct of human nature that we use every day, but academia has firmly established it as a fundamental approach to theorize the social world. In sociology, Max Weber was a pioneer of the historical-comparative method. By utilising this method, he managed to produce some of the most enduring classic works, such as *The Protestant Ethic and Spirit of Capitalism* (1992). In other academic disciplines, comparative politics has been firmly established as a sub-discipline of the political sciences and comparative methods are also widely used in psychology, management and education research. All these applications have shown that the comparative method is a very powerful approach to generate new theoretical insights or to test existing theories.

In any attempts to use comparative methods, researchers seek to formulate historical (or, in Nagel's 1961 terminology, "genetic") explanations of specific historical outcomes or historically defined categories of empirical phenomena. Instances of such phenomena are intrinsically interesting to social scientist as cases, in part because they embody certain values (Weber, 1949, 1975, 1977) but also because they are finite and enumerable (Ragin 1987). It is their particularity - the

fact that they are instances of significant events or phenomena – that attracts the attention of the investigator. Sometimes, there is only one or two or a small handful of such instances. The purposes of comparative methods can also be diverse. Various case-oriented research strategies have emerged to accommodate this interest in specific cases and specific historical chronologies. Present-day followers of Weber, for example, employ a comparative strategy centred on the extensive use of ideal types and other theoretical devices to guide the interpretation of empirical cases (Bonnell 1980; Ragin and Zaret 1984). Others use comparative materials to conduct “parallel demonstrations of theory” or to analyse causal mechanisms across sets of comparable cases (Skocpol and Somers 1980). Still others use “universalizing,” “encompassing,” or “variation-finding” strategies (Tilly, 1984) to aid comprehension of diverse historical trajectories. Charles C. Ragin (1994) summarized the three main goals of comparative research as 1) Exploring Diversity 2) Interpreting Cultural or Historical Significance 3) Advancing Theory. These three goals are all reflected in this thesis.

The discussion of the merits of comparative method should also not forget that it is a further extension of the traditional single case study (Yin, 2003); thus, all the advantages of the single case study can be retained and articulated in the comparative case method. Normally, case studies have a useful explanatory role to play. As Eisenhardt (1989) suggests, they represent a research strategy, ‘which focuses on understanding the dynamics present within single settings’. Cases are selected from a population of interest based on their theoretical usefulness. Evidence is triangulated through the use of multiple data collection methods (Yin, 1994). The case study approach is renowned for its clear focus and in-depth exploration of the specific social entity. It is the social research equivalent of the spotlight or the microscope; it is widely used in regional development, community

studies, organisation or institution analysis (Hakim, 1992), and thus is very well suited to the research purpose of this thesis. Here, I would like to further discuss why the topic of my thesis can be ideally addressed by adopting the comparative case method. There are two distinctive reasons why this method can achieve the aims of the research problem put forward in Chapter One.

First, some of the most important theories regarding Chinese rural development have been developed through the case study approach. In the literature review section, many of the influential works reviewed have used the case study approach, ranging from the earliest work, *Peasants in China (1939)*, by Fei Xiaotong in a village in Jiangsu Province, to *Chen Village Under Mao and Deng (Chan et al 1992)*, *Local State Corporatism (Oi 1995)*, Andrew Walder's work at the Zouping village (1998) in Shandong Province and *Local Market Socialism (1999)* by Nan Lin and Chih-jou Jay Chen, based on a case study in Daquizhuang, Tianjin. All of these single case studies contribute significantly to our knowledge of rural development in China. However, they have also been constrained by the intrinsic deficiencies of the single case study. As Robert Yin (2003) pointed out, the case study approach could be very limited in terms of making generalizations; thus, a kind of "invalid part-to-whole mapping" (Snyder, 2001) situation could be created. The academic arguments have failed to reach any common ground, since different scholars put forward their arguments based on their own case studies. Although a large-scale survey could certainly defeat such deficiency, the in-depth familiarity with the individual case could also be lost in survey-based research. Based on this concern, what I have found is that the comparative case method provides a kind of middle ground solution to the dilemma of choices between a single case study and a large-scale survey. The comparative case method can probe deeply into the specific local dimensions of small towns by retaining the in-depth quality of a single case study.

Second, the comparative method can be regarded as a kind of shifted paradigm in social sciences research in China. In the last two decades, research has sometimes treated China as a country with very limited variations; thus, some of the conclusions drawn about China based on the aggregative level statistics actually bear little resemblance to the subnational reality. However, considering that China is a vast country with 4 provincial status cities, 93 big cities² and 370 county-level cities, 1,461 counties and 20,312 small towns by 2001, it would be entirely inappropriate to draw any conclusions based either on a single case study or on samples that only cover parts of regions. Moreover, the calculation of average GDP, income per capita and many other national averages have always generated very distorted pictures, since the gaps between urban and rural, coastal area and hinterland, metropolitan and rural towns are hugely different; thus, in statistical terms, the degree of dispersion is huge and the various national averages give little practical information because they are heavily skewed by this dispersion. For this reason, Knight and Song (1999: 322) pointed out that, "The study of the consequences of economic reforms in China typically treats China as a homogeneous entity and disregards enormous regional variations". Their study on the urban-rural divide can be regarded as a reasonable first step towards this shifted paradigm, which is to pay more attention to the sub-national variations. The shift from nationwide characteristics to sub-national variations could be very important for the future of social science research in China. When we look forward, there are certainly strong needs not only to make rural-urban comparisons but also to make comparisons in more detailed empirically and theoretically meaningful categories. In this study, I repeatedly emphasize that the issue of urban proximity,

² The term 'big cities' refers to cities with a population size of over 10 million people in China

based on concerns about the adjacent cities' size and levels of socio-economic development, can be an important indicator to classify the vast amount of small towns into two distinctive groups. Empirical work based on these newly classified categories would be more appropriate to generate new theories and empirical evidence to guide our understanding of the process of small town development.

3.3 Case Selection and Profile

Having chosen the comparative case method as the research design for this study, the next crucial step is to decide two things: 1) How many cases will be included in the study? 2) What kind of cases will be chosen and based on what kind of criteria? Only after these two tasks have been accomplished can the data collection process commence. These two questions also constitute the basic content of this section, which aims to explain the rationales behind the selection of the two cases (Xihongmen Town in Beijing and Zhulin Town in Henan Province) and their basic geographical, demographical, social and economic features.

There is also another dimension to this section – to further narrow the scope of the research question. The nature of the research question is “broad” in terms of its coverage; thus, a more specific scope needs to be worked out, as it is extremely important to approach the research problem in a manageable way. This can be done when suitable cases have been selected. As stated previously, due to the constraints of time and finance, some comprehensive research designs, such as large-scale surveys, are excluded from the research design and the “**comparative case method**” has been selected as the key research design for this thesis. This thesis has decided that the number of cases that are going to be compared is **two**.

The comparison of two cases is also termed pairwise comparison in the literature. The advantage of this approach is it can ensure in-depth familiarity with each case, while maintaining explanatory power with regard to casual complexity.

To serve the purpose of this study, the cases selected need to be typical. Considering that the broad research objective of this thesis is to study the relationship between urban proximity and small town development, logic dictates that we need to include one town that is in close proximity to a city and another that is not. We also need to bear in mind that the towns selected need to be similar in terms of economic development level. If one town is prosperous and the other is impoverished, there is little meaning in comparing them, since this could only prove again that proximity is the decisive factor for the development of small towns. Thus, the “paradox of urban proximity” mentioned in Chapter One could not be answered. Therefore, the selection of two towns needs to be placed under certain criteria to ensure that it can maximise the potential to approach the research objective set out at the beginning of the thesis. Based on the above concerns, certain key criteria need to be established to guide the selection of cases from a pool of candidate cases. In this section, two key criteria, **Comparability** and **Typicality**, are the most important guiding principles on the selection of cases:

- 1) **Comparability**: Both towns should be similar and equal in many aspects. This means that the cases selected need to be comparable and to share membership in a meaningful, empirically defined category (Ragin, 1994). To be specific, the two towns need to be equal in some aspects, such as historical status, administrative rank and economic development. Among these characteristics, successful economic development is considered as the basic analytic framework which accommodates the two towns in a meaningful category, although they

reach this end through quite different means, as later analysis shows. The comparisons of the two cases are also characterised by a technique termed by Charles Tilly (1984) as “variation-finding” strategies, which place their primary emphasis on the detection of diversity.

2) **Typicality:** Since urban proximity is the key factor under examination in this research, one town selected here needs to be close to a major city in China, since its development can reflect how mega-cities’ expansions influence the development of adjacent towns. The other town needs to be relatively remote and isolated from big cities, because this can reflect a different model, mainly based on local indigenous development. Here, we also need to provide some caveats on the selection of the second type of case - the choice of a relatively remote and isolated town. In reality, there is no such thing as an absolutely remote or isolated town, since almost every small town in China is somewhat linked with other cities, but these links might vary in terms of the absolute physical distance, the size of the nearest city and the number of cities within the range. Based on this concern, I intend to choose a small town out of the three major urban regions mentioned in Chapter One, namely the Beijing-Tianjin-Tangshan urban zone, the Shanghai-Hangzhou-Suzhou urban zone and the Hongkong-Shenzhen-Guangzhou urban zone. The small towns within those regions, as discussed in Chapter One, might be better understood as examples of suburban industrialisation rather than rural indigenous industrialisation.

Case Selection

After careful consideration, the two towns selected for this study are Xihongmen Town in Beijing and Zhulin Town in Henan Province. Each town possesses some

distinctive characteristics, which make them ideal for the research needs in this thesis. First, regarding comparability, both are designated towns (jianzhizheng) with urban administrative ranks, and both of them have achieved rapid economic development in the last two decades. Both towns were named as "**experimental towns of sustainable development**" by the UNDP (United Nation Development Program) in 2001, along with other 14 towns, while the Chinese government named these two towns as "**national models of successful small town development**" in an aim to encourage other towns to emulate their successful experiences. All these facts demonstrate that the two towns are comparable in many aspects but the crucial baseline for the comparison is their successful economic development. Second, although both towns share the similarities mentioned above, they are very different in many regards: a primary difference is their different geographical proximities to the city. Xihongmen town is a southern suburb of Beijing and enjoys good access to the city, and the local government is good at utilising the advantages of its location to develop the local economy, being famous for its preferable policies to attract investors from outside the local community and also for developing a flourish real estate business in recent years. By contrast, Zhulin town is located in a rural area with surrounding villages, all of which are engaging in farming. Although Zhenzhou and Luoyang (two largest cities in Henan provinces) are still accessible within 2-4 hours' driving, the influences of these two cities can not be comparable to Beijing in terms of population size and urban spillover effect. Zhulin's success rests on its visionary leadership, unified community and the strong performance of the local collective industry. The distinctions with regard to the degree of proximity to the cities make each town representative of its own category. Xihongmen town represents one type of town, which has achieved economic development mainly based on its close proximity to the city, while in contrast, and Zhulin town can be used as an example of economic

development that has been achieved mainly based on its indigenous forces. As the two towns can represent the two different categories and are typical of their own types, we can safely conclude that the selection of these two examples fulfils the principle of typicality as well. The basic profiles of the two towns will be introduced in the following part to provide an informative grounding for the comparative analysis carried out in the next few chapters.

Xihongmen Town: Xihongmen has now become an integral part of Beijing, both administratively and geographically. It gained its town status in 1987, from its previous village status. It is located in southern Beijing and is under the jurisdiction of Daxing district, just over 30 minutes' drive from *Tiananmen Square*, which can be regarded as the city centre of Beijing, and less than 20 minutes from West Beijing Railway Station, which links the main railway lines to all parts of China. To the north is the Hua Township of Fengtai District, to the east is the Nanyuan Airport, and to the south is the Huangcun satellite town of Beijing. Xihongmen Town has experienced two major structural changes in industry since the economic reform. From a predominantly agricultural economy during most of the 1970s and early 1980s, it developed a flourishing manufacturing industry until the early 1990s, and then switched to a service/commerce-focused pattern of production with a great proportion of real estate development (which largely benefited from Beijing's rapid expansion). Xihongmen town has increasingly become an urbanised town and agriculture contributed only 3% of its GDP in 2002.

Zhulin Town: Zhulin was formerly an administrative village, and it has only been promoted to town status since 1994. It is located in a mountainous region, with two hours' drive to the nearest big city - Zhengzhou, the Capital City of Henan province. Prior to 1978, Zhulin purely relied on agriculture, but the farming conditions of

Zhulin are extremely poor. During 1949-1980, Zhulin was a backward rural village and its people suffered extreme poverty. In 1980, the local GDP was less than 1 million RMB and annual income per household was only 87 RMB. Zhulin has developed rapidly since the local government began to establish local firms and promote the development of non-agricultural activities. Zhulin has experienced two structural changes in industry in the last two decades. During the first period (1980-1994), Zhulin mainly used its mining resources to produce fire-resistant material products, and in the meantime, people were encouraged to develop sideline businesses to increase their income. During the second period (1994-present), Zhulin started to adjust its products from raw material production to a more capital-intensive industry – medicine products. The table 3.1 presents some basic statistics for both towns:

Table 3.1: Summary of the key social-economic indicators of two towns in 2001

	Zhulin Town	Xihongmen Town
Number of Villages/Neighbourhood Committees	21 Villages	4 Neighbourhood Committees
Population	6450	22585
Land size	7.5 km ²	32 km ²
Farming land (Chinese mu)	2130 Chinese <i>mu</i>	19520 Chinese <i>mu</i>
Number of local firms	58	526
GNP (2001) (million RMB Yuan)	160 Million (Yuan)	252 Million (Yuan)
Income per capita (2001) (Yuan)	6400 (Yuan)	9600 (Yuan)
Tax paid to government (2001) (Million RMB Yuan)	5 Million (Yuan)	11.8 million (Yuan)

Notes: Population refer the local non-temporary residents (stay period>1 year) provided by local public security office

Source: Compiled by author based on Daxing District Yearbook (2001), Annual Report of Xiongmen Town Government (2002), Gongyi City Yearbook (2001) and Zhulin's Road: 10 years in retrospect (2004)

Having reported the basic profiles of the two selected towns, the general research question about the relationship between urban proximity and small town development can be further narrowed and revised as “Why can two towns with different degrees of urban proximity both achieve prosperous economic development? The analysis of next four chapters will be centred on this question.

3.4 Fieldwork and Data Collection

The principal method used in this thesis is fieldwork conducted at both towns. I visited Xihongmen town twice, in 2004 (without government coordination) and 2005 (with government coordination). I visited Zhulin town once in 2005 (with government coordination). The first visit to Xihongmen town was a pilot visit, combined with visits to the National Small Town Centre (NSTC) in the state council. During this period, I also had the opportunity to discuss issues of small town development with experts at the NSTC and collect basic documents, reports and statistics on the two selected towns.

With the assistance of the Ministry of Labour and Social Security, my comprehensive fieldwork started in April 2005 and lasted about two months. I stayed at both towns for almost equal interval (35 days). Although the time was relatively short in comparison with some anthropologists’ fieldwork, considering that I had already carried out extensive reading of the two towns’ documents and reports, the length of stay was still reasonable for producing some in-depth observations and interviews. During my fieldwork, I arranged to live in a guest room owned by the local government at Xihongmen Town. This guest room was located on the third storey of a town government building and I also arranged to

have breakfast, lunch and dinner in the dining hall on the first floor. The dining hall provides three meals a day for the local governmental officials from Monday to Friday, thus enabling me to mix with them in an informal manner. The very convenient social distance to these governmental officials turned out to be an excellent opportunity to talk about my research. I had two opportunities to have dinner with the town's party secretary and asked several questions regarding local issues, such as public security and administrative reform, and I also had chances to make friends with governmental officials of my age. All of these discussions, although not recorded, proved to be useful in understanding various local issues. At Zhulin town, I also had similar experiences. I arranged to live in a town-owned hotel only 2 minutes' walk from the local government building. The dining hall of this hotel also provides food for local governmental officials, thus enable me to have some chats with them on a regular basis during my stay. I was welcomed by the local governments of both towns and my research has been greatly assisted by local officials. The fieldwork proved to be fruitful in many regards.

Data were collected in various formats. Some of these were quite organised and structured, such as the 16 semi-structured interviews that I conducted in each town; some were not, such as the informal chats with local governmental officials and observations. The data were well preserved and managed during the process of fieldwork. To sum up, data was gathered from three main sources during the fieldwork.

a) Documental Sources: Various documents were firstly obtained in 2004, based on my pilot visit to the NSTC. The materials mainly consisted of some reports, documents and local statistics about the two towns. Further documents were subsequently obtained during my fieldwork in 2005. I gathered several types of

documents. First, there were some published books and documents. Since both towns enjoy somewhat “celebrated” status among Chinese small towns, some research has already been conducted, either by people working in the towns themselves or by external governmental agencies. However, all those documents seem to only be interested in propaganda-style stories, with very little information regarding the livelihoods of local residents and in-depth descriptions of the operations of local government. The second category of documents was from the annual speeches delivered by the head of town in the local peoples’ congress. These speeches are very important summaries of each year’s governmental work and also put forward some plans for the next year; they are thus very informative about the socioeconomic changes to the local area. For example, at the end of each speech, there is a fixed section to report the major problems faced by local government, such as worsening public security, stagnant industrial development, land right disputes etc., and plans to resolve those problems are also proposed. The annual speech manuscripts are excellent sources to trace the local development and I was very fortunate to obtain such manuscripts for both towns from 1996 to 2003, which provided a good time interval for me to trace the major developmental issues of the two towns. The third category of sources included certain internal records, minutes and reports that are available at the local government but are not for public use. During my fieldwork, I was given access to the internal documents section (*ziliaoshi*) within the administrative office to read some old documents and records kept by the government as memos. I made notes on some important documents, since they are not allowed to be photocopied. These documents are useful to understand the governmental operations and local major events in a longitudinal manner: the oldest document can be dated to the early 1950s. Apart from the documental sources, I also managed to obtain access to a dataset containing firm-level financial data at Xihongmen town from 1996 to 2001. This

dataset was useful in examining the industrial changes that have occurred in the local town. This data will be discussed in detail before the multivariate analysis in Chapter 5.

b) Interviews: Interviews are an extremely popular research tool within the field of sociology. They provide a flexible strategy for sociological enquiry, ranging from the tightly structured question format to a more conversational line of questioning. Interviews are though to be beneficial to social research as they enable the researcher to tap into the views of the respondent in order to gain an insight into their personal views and experiences, including descriptions, narratives and accounts of a particular social phenomenon. Interviews constitute the most important element of the data collection in my research. Interviews can be broadly classified into two categories, informal and formal interviews, based on the approach used to collect and manage the data.

Informal interviews: Apart from the 16 semi-structured interviews conducted at each town, literally all the chat and talk during the fieldwork can be classified in this category. The interviews with local government officials, tax drivers, and random encounters with local people I exchanged words with can be all put into this category. These informal interviews, although not guided by the pre-designed guidelines, are very useful to my research. Those interactions, from a different perspective, provided alternative rich sources of information to aid my understanding of local residents' life. The subtle information gained through those informal channels has proved to be very useful in assisting the analysis of interview data in the later stage, helping me to build a "panorama" of local society rather than just focus on the designated "talking individuals". This is very much a reflection of the essence of qualitative research, which requires researchers to

always deploy a wide range of interconnected interpretive practices to gain a better understanding of the social world, and there is frequently a commitment to using more than one interpretive practice in any study (Denzin & Lincoln, 2000). At the end of each day of research in the field, the informal interviews, along with the observations, were all carefully recorded in my research diary for use in the next stage of data analysis.

Formal Interviews: The term “formal interviews” refers to the 32 interviews conducted in the two towns (16 interviews in each town). All the interviews had approximately the same duration (normally 60-80 minutes) with pre-set guidelines, and were focused on the livelihoods of local residents (see Appendix 5 for interview guidelines). The guidelines were semi-structured, which means that they only provided some basic themes to guide the interviews, such as income, spending, work and views on the local community. At each town, the interview questions were also modified according to the specific local problems. For example, we talked a lot about the issues of land use and self-employment at Xihongmen, but at Zhulin, the talks focused more on the daily jobs at the local factory and the unity of the local community. The data were reordered with the permission of the respondents and transcribed into detailed notes after the fieldwork.

The first task in setting up interviews was to recruit interviewees; this was done with the assistance of local government officials. Gaining access to potential interviewees is the first step. It is often fraught with difficulties in terms of refusal and on-going negotiations (Bryman and Burgess, 1999). It is likely to be even more difficult in China when you are not introduced or helped by the locals. I was very fortunate to be assisted by local government during the whole process; thus, the entire interview process progressed quite smoothly.

Regarding the selection of interviewees, this study adopted a purposive sampling strategy, which was guided by research questions and pragmatism (Miles and Huberman, 1994; Silverman, 2001). This differs from the sampling technique used in the quantitative method, which is widely known as probability-based sampling. The purposive sampling strategy is a non-probability sampling technique. These samples can be chosen for convenience or on the basis of systematically employed criteria. Non-probability sampling actually comprises a collection of sampling approaches that have the distinguishing characteristic that subjective judgements play a role in sample selection (Henry, 1990). The table below summarizes some of the main techniques of this kind of sampling strategy and their characteristics:

Table 3.2: A list of non-probability sampling techniques

Type of Sampling	Selection Strategy
Convenience	Select cases based on their availability for the study
Most Similar/Dissimilar	Select cases that are judged to represent similar condition or alternatively, very different conditions
Typical cases	Select cases that are known beforehand to be useful and not to be extreme
Critical cases	Select cases that are key or essential for overall acceptance or assessment
Snowball	Group members identify additional members to be included in sample
Quota	Interviewers select sample that yields the same proportion as in the population on easily identified variables

Source: Practical Sampling (Henry, 1990)

My initial plan to sample the interviewees was to use "quota" sampling to select people, which can represent local residents at large. My plan was to use the main occupations as the criteria to select the interviewees, e.g. farmers, factory workers, self-employers, public sector workers etc. This initial plan proved to be unworkable in reality. For example, local residents' work in the farm and factory has largely diminished in Xihongmen town. If there are any, it is difficult to get access to them, since they are either living scattered around the fringes of the town (farming land is only available in those areas) or busy with work. At Zhulin town, the situation is totally different: very few people are being self-employed and most of them work in the local factories. Thus, the occupation-based quota sampling strategy was abandoned after discussions with local governmental officials. The method used to recruit interviewees combined several of the principles mentioned in Table 7.3, namely concerns with convenience, typical cases and critical cases. Another practical concern relates to the respondents' age: the ages of the respondents chosen ranged from 30-60, but the majority of them were over 45. Although I also planned to interview some young people, I later found they could provide little information regarding issues related to my research interest. There were also practical concerns with convenience, since most people over 50, especially women, stay at home and are willing to talk about things in detail, such as family budgets and income. Over 70% of interviews were recorded with the permission of the respondents. For those that could not be recorded, I took notes during the interviews. All data were well maintained for the later stage of analysis.

c) Participant Observations: As stated above, the observations played a fundamental role in the development of the fieldwork and were conducted in line with ethnographic principles. According to the ethnographic tradition, observations are regarded as a means of "immersing" oneself in the field and observing social

practice as it naturally occurs, including the setting itself, the behaviour occurring within it, the overall context and the interactions and relationships (Mason, 1996). Observational data is often seen to be committed to holism, as it strives to explore the various aspects of the environment to ultimately represent the realities of the social setting. I did not make a detailed plan to conduct structured observation, as some researchers suggest; rather, I treated the observation as an organic and supplementary process to assist the interpretation of the interview data. Several observations were conducted in the factories of both towns, the working environment and assembly lines were recorded in a diary, and if the conditions allowed, photos were also taken (See appendix for a collection of photos taken in the field).

3.5 Data Analysis

As research employing a field study, the data analysis process actually started during the fieldwork. I conducted some analysis directly in the research diary during the fieldwork in an informal manner. The documents I read also generated a large volume of notes related to my research interests in preparation for the next stage of analysis. Apart from the analysis of firm-level data, which will be detailed in Chapter 6, this section reports on how the data were analysed, with a focus on the use of documents and interviews. At the end of the section, a summary of the data and research methods used in each chapter will also be given in table format.

Analysis of interview data: All the interviews were recorded unless the respondents refused to be taped. In addition, interview notes, focusing on fundamental moods, describing the atmosphere, and my reflections upon the

interactions, were made as soon as each interview was over. This was because during the data collection, I needed to pay attention to many contextual factors, which did not get onto the tapes. These included the crucial non-verbal data of postures, gestures, voice intonation, facial expressions or eye contact (Jones, 1985) and emotional content such as laughing, crying or sighing. These paralinguistic and linguistic features helped not only to build rapport between the researcher and those being researched but also to obtain good quality data. All recorded interviews were fully transcribed by the researcher because the production and use of transcripts was very important (Atkinson and Heritage, 1984). In order to both familiarise myself with the data and to get a fuller sense of what the data was about, I transcribed the interview tapes personally, although it was a time-consuming process.

Analytical induction was the major method used in the analysis. Then the translated interview transcripts were coded. Coding is the starting point and an essential part of most forms of qualitative data analysis. According to Strauss and Corbin (1998), coding is the 'analytic processes through which data are fractured, conceptualised, and integrated to form theory' (p 3). Rubin and Rubin (1995) pointed out that 'coding is the process of grouping interviewees' responses into categories that bring together similar ideas, concepts, or themes you have discovered, or steps and stages in a process' (p.238). These definitions lend support to the assumption that during the coding process, new understandings and themes will emerge (Marshall and Rossman, 1999; Fielding and Thomas, 2001) and 'hearing the meaning in the data' will be encouraged (Rubin and Rubin, 1995, p.240). The process of coding data is an analytically demanding process. Given that all the interviews were conducted in Chinese and I am also a native Chinese speaker, I decided not to translate all the interview content into English; rather, I coded interviews based

directly on the Chinese content. The process started from careful listening to all the recorded interviews at least 4 times, meanwhile, I read the diaries corresponding to the interviews, seeking thematic categories and writing down the key sentences and words corresponding to each thematic category. Apart from the quotes directly obtained from the recorded interviews, I also wrote down the corresponding analysis, which I termed the "analytical memo". In the analytical memo, I wrote down my analysis of the data. The example below demonstrates this process. One theme of my interviews is the local residents' attitude towards outsiders. At Xihongmen town, those outsiders are mainly migrants from outside the local community. During the interviews, people talked about migrants in different ways, but mainly in a rational manner, since many migrants are their tenants and are living with them under the same roof. Their attitudes towards this group of people can be roughly divided into two levels: namely individual level and community level, as shown in the text boxes below.

Theme-Migrants-XHM-Quotes:

Individual level: *They are just workers...rent payers...diligent people trying to make living...we get along very well...they are busy - we seldom see them...no hard feelings about their presence...*

Community level: *Too many migrants...too many thieves,*

Theme-Migrants-XHM-Analytical Memo:

It appears that people view migrants in two different levels. Due to the tenant-landlord relationship and arm-length social distance, they don't have hard feelings towards this group of people at individual level; rather, they praised them a lot... At the community level, they link public security issues with the appearance of migrants, but put the blame mainly on the local

The above two text boxes give some examples of how the analysis has been conducted through several rounds of data-coding and analysis. All of the thematic categories and the related analytical memos were carefully managed for use when writing up.

Documentary Analysis: The analysis of documents shares some similar aspects with the analysis of interviews. For example, one key task of the documentary analysis used in Chapter 4 (Government) is to trace the changes of organisational structure in local government. I wanted to know what and when new functional units were added or dismissed in the local government and what was the rationale behind the changes. By reading the administrative reform records edited by the local government, I obtained information about the governmental structure and changes in functional units in a longitudinal manner. The shortcoming of this type of document is that it tends to report little information on why such reform happened. This type of information can be matched by reading the Annual Speeches made by the head of town. At the end of each speech, there is a fixed segment where urgent problems faced by local government are discussed, and the solutions are normally offered either in the form of designing a new policy or setting up a new functional unit to deal with the problems, or a combination of both. It is also worthwhile to look at the national policy change during the same period because many adjustment of local administrative system also reflect on the top-down pressures from central government. An interesting example is the setting up of the Letter and Visit Office (*xinfang bangongshi*) in an effort to accept complaints and mediate in various conflicts between local residents. The clues as to why this office was set up can be traced through several documents. The annual speeches delivered by the head of the town in 2001 and 2002 both mentioned "*problems of communicating with local residents on some most concerning issues*" and stated

that *"a proper working attitude towards local people should be promoted"*. In another document, which contains the minutes for a recorded meeting, it was discussed that *"it is necessary to establish a channel for people to pour their bitter water (meaning complaints), and also keep it confidential..."* Through this matched information, the reasons behind the setting up of a new office can be obtained.

To sum up, multiple sources of data and various research methods have been employed in each chapter of this thesis. These can be summarised by the following table.

Table 3.3: A list of research methods used in each chapter

	Xihongmen Town	Zhulin Town
Government	Documentary Analysis Informal interviews with local government officials Fieldwork	Documentary Analysis Informal interviews with local government officials Fieldwork
Firms	Fieldwork Informal interviews Multivariate analysis of firm-level data Participant observation	Fieldwork Informal interviews Documentary Analysis Participant observation
People	Semi-structured interviews Participant Observation	Semi-structured interviews Participant Observation

3.6 The Research Process: Self-Reflections

So far, the rationales of the research design, the selection of cases, data collection and analysis have been explained in this chapter. As a chapter whose main aim is to introduce methodological issues, it seems inappropriate to draw conclusions. Instead, I would like to report some self-reflections on the experiences and lessons learnt during the process of fieldwork and later analysis. In the qualitative research

literature, there is a strong calling for the inclusion of the researcher him/herself into the research to show its social nature. Here, I would like report my three major reflections on this research.

Reflection on the fieldwork: The initial problem for me was how to enter the two towns and gain the acceptance of the local people so that the interviews could proceed. My initial thoughts were to enter the two towns as a complete stranger, encounter people and become familiar with them, thus enabling interviews to be conducted. I was confident that being Chinese, I would have no language or cultural barriers to prevent effective communication with people. I tried this approach when I visited Xihongmen town for the first time in 2003. Soon after I entered the field, my plan proved to be very naïve when I spent one week in the town. Although I managed to interview some people in a random manner, I found that I had almost no opportunities to gain access to the real local people, to enter their households and talk about their livelihoods. In a rapidly urbanised area, the local residents seemed extremely cautious to engage in conversation with strangers. This “failed” attempt has taught me a lesson about how to gain access to people. One should either seek a social connection in the local area using the snowballing technique or ask for local government help with the selection of interviewees. Assistance from the local government is a great advantage for this type of research, since no one else can have the resources and contact that the local government has.

Reflection on the Comparative Method: The comparative method is much more effective than the single case study approach. During my fieldwork, I visited Zhulin town immediately after the fieldwork had been done at Xihongmen Town. There was such a stark contrast when I visit the second town. During the whole research process, I constantly used the first town as a baseline to make comparisons

between the two. I thoroughly understand merits of the comparative case method, as Ragin (1987) emphasized: "Each case is examined as a whole, as a total situation resulting from a combination of conditions; the cases are compared with each other as wholes. The approach stimulates a rich dialogue between ideas and evidence". By drawing upon multiple sources of data, the research problems are not only examined by analysis of data only but are also placed in a comparative perspective, which generates more insights into the casual mechanism of urban proximity and small town development.

Reflection on ethical issues: Like all social research, this study incorporated many ethical considerations when both planning and implementing the research strategies. The first issue to arise was the consideration of the interviewees. Before the interviews, my routine was to introduce myself, my affiliated institute and the objective of my research. In the analysis, I only used the interviewees' surnames, age and occupation to identify them and kept their true identity confidential. I also promised all interviewees that the interview data would be used only by the author himself. The second issue is related to the data analysis stage. Care and attention were paid to ensure that I accurately represented the respondents' views, as misrepresentation of information is not only unethical, but is also of detriment to the validity and reliability of the overall research and thesis.

Chapter 4: Government

4.1 Introduction

“Let a hundred flowers bloom” – this famous quote from Mao Zedong is perhaps the best portrayal of the current status of Chinese local government, especially at the lower levels such as county, town and township governments. The source of such great diversity comes from the “gradualist” style economic reform adopted by the central government, which grants local authorities a high degree of autonomy, while the various local specific socio-economic conditions further complicate the role and function of local government. The differences can be observed in almost every facet of local government, such as leadership, organisational structure, financial revenue, public spending, local policies and relationships between people and the state. All these forms of diversity have been subject to intensive study in the last two decades and many “models” have emerged to typify Chinese local government, but no consensus has been reached so far on what can be called a typical local government in China. Thus, Tony Saich, in his 2002 review article, likened the research into the Chinese local state to the story of the blind men and the elephant, for what we observe in some specific cases might not always be the whole picture of the Chinese local government. In the same article, he outlined four major forms of local government in rural China, namely entrepreneurial, developmental, predatory and various forms of corporatism, to show the different roles played by local government in local development.

The above statement is relevant to this chapter for several reasons. This chapter, as the first chapter to present empirical evidence, aims to compare the local governments in two towns with contrasting location-settings (suburban Vs. rural).

In this chapter, I argue that shift of national policies and urban proximity are two important factors that affects the local socio-economic environment and thus influences the roles and structures of the local government. Based on historical documents and interviews, changes to local governmental structure and leadership will be examined in this chapter. The central idea that I want to argue in this chapter is that diversity in local government is not only a product of large-scale institutional shifts but is also subject to specific local environmental forces. Among the various specific local factors, proximity to existing cities can be an important factor affecting the magnitude and extent of change in the local socioeconomic environment. The strong presence of urban proximity plays a key role in determining and shaping the environmental complexity of small towns and thus affects the local government's structure and leadership. On the contrary, isolation and remoteness from cities makes small towns socially intact, and thus results in the persistence of traditional rural social orders and structures, such as family, kinship, shared identity, local values and norms, which play a key role in governing the local community.

The scope of this chapter mainly focuses on the local government as one form of organisation and concentrates on environment-organisation interaction. By using this approach, the research certainly omits some important dimensions of local government, such as the changing central-local fiscal relations and their impact on the local government (Wong 1997; Zhao & Zhang; 1999; Qian *et al*, 1999), local tax systems and budget arrangements (Wong, 1991; Zhang, 1999) and the horizontal and vertical (*tiaotiao kuaikuai*) separations in the power distributions between country-level government and town/township-level government (Zhong 2003). All those dimensions are important and relevant to my research, but this chapter will primarily focus on the study of local government from the

organisational point of view, since to the author's best knowledge, this is still an under-researched area in the study of Chinese local government.

This chapter is organised as follows. Section 4.2 documents and compares the changes to the local environment in both towns and outlines the main pressures to which local governments need to respond in the process of industrialisation and urbanisation. Section 4.3 reports the research findings on the evolution of organisational structure of both local governments and analyses the extent to which the changes of governmental structure respond to the changes of local environment outlined in the previous section. Section 4.4 studies the role of leadership at both local governments and explains why leadership is vital for Zhulin Town but is no longer as essential for Xihongmen town. Sections 4.5 and 4.6 discuss the findings and offer conclusions.

4.2 Local Socioeconomic Environment

The first step in studying a local government is to understand what kind of environment it is operating in. The aim of this section is to explore and compare the local environments at both towns, in order to construct a foundation for the further analysis of the internal features of local government, such as organisational structure and leadership, as well as outward actions, such as the implementation of various local policies and public goods provisions.

The idea of assessing the local environment comes from the theoretical link between environment and organisation, which has been the main endeavour of organisation theory in the last half century (see Scott, 1998, 2003). One basic stance of this organisation-environment interaction assumes that organisational

structures are contingent upon the environment and the best way to organise them depends on the nature of the environment to which the organisation relates, known as contingency theory (Lawrence and Lorsch, 1967). Here, "environment" is a highly abstract and multi-faceted concept, which refers to all the elements that could influence the organisation. Debate on the different dimensions of the environment is still ongoing, but one consensus is that it needs to be context-specific to the particular organisation under examination. For example, a plastic products manufacturer would face an entirely different environment in comparison with a travel agency, even if both of them were located in the same place. In this sense, each organisation possesses a specific "task environment" that is relevant to that organisation *per se*. In comparison with profit-seeking private organisations, the local government seems to have a clear and well-defined administrative realm. Thus, the "task environment" for local government can be easily identified as local socioeconomic environment under its jurisdiction and the local population within the boundary is its main target clients.

Consideration of 'environment' as a determinant of structure and function involves a two stage-process. The initial stage is to select the parts of the total environment that are considered to be important and which warrant further study. In the political science and public administration literature, the elements often considered are socioeconomic structure and wealth (Sharkansky, 1967). In the context of this study, if the element is the socioeconomic structure of the population served, then the dimension might be the heterogeneity/homogeneity or stability/volatility of those social structures in both selected towns. The social structures that exist in the local area would constitute the major pressures and challenges to the local government; thus, the local government needs to respond to those pressures in order to justify its governing capacity.

Based on the above concerns, we need to identify some essential environmental forces that Chinese local governments normally face. For a local government, the primary task is to provide public services to local residents, ensure a stable social environment and pursue economic prosperity. Those elements all come from the local level; thus, we can summarize them as horizontal environmental pressure. On the other hand, local government is also an essential part of the hierarchical political system and need to respond command and orders from upper level government; thus, I conclude that environmental characteristics can be divided into two dimensions: **Inside local town** and **beyond local town**. The table below summarizes the main features of the two types of environmental pressure:

Table 4.1: The Socioeconomic Environmental Characteristics of Chinese Small Towns

Inside local town	<ol style="list-style-type: none"> 1) Population size 2) Socioeconomic structure (Wealth, social stratification and social orders)
Beyond local town	<ol style="list-style-type: none"> 1) Governmental interdependence 2) Coverage and Transparency of Mass Media

A bit more elaboration of the above two dimensions is needed here. The first is the local dimension because it is purely about the local environment *per se*, which can vary in terms of the local historical, geographical and social conditions. In each locality, local government is supposed to be the principal organisation to respond to the various local socio-economic issues, according to the Chinese constitution. Due to geography, socio-cultural characteristics vary across the regions; so local governments' organisational structures, functions and roles should also be different

to reflect this variation. Apart from those "intrinsic" local features, such as natural endowment and local cultural traditions, which are important but difficult to quantify and specify, there are two features that can be well described and identified. The first is about population size, which is crucial for the operation of local government. If we view local government as the "producer" of public services, the size of demand for the public service is by no means decided by the population size of the territory that the local government governs. The large population size would create huge service demands, thus resulting in one consequence, well summarised by Max Weber (1948) as "the quantitative extension of administrative tasks" which in his view leads to the expansion of "rational bureaucracy" or, as contingency theory suggests, results in the differentiation and integration of organisational structure (Greenwood *et al*, 1975). The second feature regarding the local environment is the local socioeconomic structures, such as wealth, income distribution, social stratification and social order. Although population size is an important predictor for the environmental uncertainty that local governments need to deal with, if the local population is very socially homogeneous, the pressure on the local authority would be relatively small in comparison with the situation with a very socially heterogeneous population. The theories of urban and rural sociology suggest that urban areas always have high levels of social heterogeneity in comparison with their rural counterparts, which further complicates the operational environment of urban governments.

The other category of environmental pressure that local governments need to face comes from outside the local community, by which I mean political/administrative/top-down pressure from the upper levels of government or other forces outside of local community. This is something peculiar to China, since the multi-level Chinese local government exists in a multiple hierarchical system,

and needs to play some mediating role between the state and the masses. The role is described by official discourse in Chinese politics as "shangchuan xiada" which means to inform and enforce various party spirits, plans, policies, laws and regulations in the local area based on the requirements from the upper level government. This function is paramount to ensure that the whole nation can be organised in a uniform manner, which can be better governed by the communist party. The upper levels of government also actively monitor or supervise their subordinates. The system is powerful and effective. One good example is the implementation of the one-child policy, as many westerners wonder why it can work so effectively in China; this is because such a well-organised, hierarchical system can ensure that the arm of central government reaches each resident through all levels of local government. Although this kind of vertical pressure can be regarded as universal to all the local governments, there are still differences across the local governments according to their geographical locations. Normally, local governments within or near the big urban centres face more pressures from upper levels of government, while rural and geographically remote local governments have more autonomy on various local issues. In this category, I also add coverage and transparency of media as one type of environmental pressure because various signs show that media intervention can be an important variable for local governments, especially in the urban regions, which are always strongholds of the mass media.

Having briefly introduced the Chinese local governments and the elements of their "task environment", the following parts seek to explore and specify the local environment and its changes in both towns. The time span I am looking at is from 1978 to present. The year 1978 is marked as the starting point of the economic reform, when local governments partly regained autonomy. Both towns started

from the same starting point, with local socioeconomic environment that can be summarized as follows:

- A. Rural villages with farming as the mainstay of livelihood
- B. High levels of social homogeneity (local residents have resided in the local area for many generations, with dense kinship/social networks and shared norms and values based on the tradition of community)
- C. Relatively low population density (see Tables 4.2 and 4.3 for comparisons)

Although both towns started from almost the same circumstances, the industrialisation and urbanisation that have occurred at the two towns have not followed same route. Apart from the differences of political configurations in Beijing and Henan province, the one important reason for this is their different degrees of urban proximity to the existing cities, which result in very different local socioeconomic environments. Nowadays, Xihongmen town claims itself as the “pearl” of southern Beijing and Zhulin town has emerged as a newly industrialised rural town in Henan province, and both of them enjoy acclaimed status for being members of the group of 16 towns chosen by the UNDP as successful examples of sustainable town development. However, the following parts will show some sharp contrasts of two towns’ socioeconomic environments.

Xihongmen Town: The Xihongmen town’s socioeconomic environment has undergone some substantial changes in the last two decades. Before the 1978 economic reform, Xihongmen town was a rural village and the majority of local people worked in the farming sector. Although Beijing might be just few miles away, it seems that the only observable connection with the inner city was that the agricultural products produced by Xihongmen town mainly served the inner city

market; Xihongmen was famous for producing high quality vegetables for this market. Apart from this connection, the place was very rural and was no different to other rural places in China.

At the outset of the 1980s, rural industrialisation started to gather strength in Xihongmen town. The initial driver of industrial development came from local government, but this indigenous force was never truly transformational. By the end of the 1980s, the relaxation of the rural-urban migration policy started to bring migrants into Beijing, and Beijing's suburbs became natural choices for many migrants to settle in because of their relatively cheap rent and relaxed control over hukou certificates. Meanwhile, the expansion of the city also brought house-buyers and investors into town. The indigenous force eventually gave way to a more robust force – urban expansion. It is reasonable to say that these two forces - indigenous industrialisation and urban expansion - jointly transformed the economic landscape of the Xihongmen town, but the expansion of the city, in particular, provided strong impetus for the development of Xihongmen town. Three notable changes to the local environment occurred in the local town, and can be summarized as follows:

1) Population Size

The most dramatic change to occur in the local community in the last two decades has been the explosive growth of population size. The population size increased almost 30 fold from 1985 to 2005. This remarkable growth has greatly transformed the local community from a farming area to a highly “urbanised” suburban town. The table below presents this population change in Xihongmen town from 1978 to 2005:

Table 4.2: Population Change in Xihongmen Town

Year	Total Population	Local residents	Migrants	Others
1978	3356	3356	-	-
1985	4234	3489	320	423
1994	10424	4612	4680	1132
1995	14143	4666	7532	1945
1996	16998	5805	8963	2230
1997	18185	5980	9931	2274
1998	21242	6673	11000	3569
1999	34545	6842	23470	4233
2000	50666	14680	35230	7856
2001	80712	15675	59976	8521
2005	113894	15946	85643	12305

Notes: 1) The number of local residents in 2001 is 15675 refer only those with local hukou, exclude the non-temporary migrants living in the town, thus it is different from the figure presented in Table 3.1 (pp.52)

2) In 2002, Xihongmen town was merged with the nearby Jingxin County and this resulted in a sharp increase in the number of local residents

Source: 1) Daxing Yearbook (1996-2001) and various reports

2) The 1978, 1985, 2005 figures have been obtained through interviews with local government officials and the official documents

From the above table, we can observe that the local population has been experiencing a rapid increase in the last two decades. If we compare the figures from 2005 and 1978, the population size in Xihongmen town has increased 33 fold in 27 years. The trend of population growth was particularly strong in the late 1990s. From 1998 to 2005, the local population increased almost five-fold. Undoubtedly, this trend will carry on in the future and the whole of Xihongmen town will be transformed into a highly urbanised place with a high population density. The presence of such a sizable population indeed creates a huge demand for various public services, requiring the local government to respond effectively to the various problems associated with the booming population. If the population is a good proxy to predict the volume of public services that the government needs to provide and how many employees they need to hire, the number of public servants

and subsequent governmental size should be 30 times greater now than in 1978 in order to fit the changing local environment well.

2) Population Composition: Towards a new stratification order

Apart from the population growth at the aggregate level, table 4.2 also shows the composition of the local population by dividing it into three categories: **local residents**, **migrants** and **others**. The divisions of the population are still very crude because the actual composition can be more complicated than these three categories suggest. Taking the category of migrants as an example, at least two types could be readily identified in my fieldwork: one group of migrants have migrated into the local area for a long time and their family members have come with them, and another type are short-stay migrants with no family member joining them. The category of "others" could also be more detailed if we could identify the number of house buyers, investors and inner-city workers. Despite such a "rough" classification of the local population, the data still reflect a significant amount of information regarding the changing social structures of the local society.

By the end of 2005, there were 113,894 people living in Xihongmen Town, of whom 85,643 (75%) were from outside the town with only temporary residentship. They were mainly migrant workers working locally or in the city. There were also 12,305 (11%) people in the category of "others" according to the 2005 statistics provided by the town office. These "others" are those who live in the town with Beijing hukou: they are house-buyers living in the newly built housing estates. When we put these two types of people together, we find that more than 80% of the total population do not have local origins. In 1999, Xihongmen undertook what constitutes an experiment at the national level, allowing outsiders to apply for resident status. As

Xihongmen residents, hukou status will be recognised by the Beijing Municipality. This means that they should be entitled to all the benefits that Beijing residents receive. Among these benefits is the entitlement that children can study in Beijing and undertake university entrance examinations locally. Students undertaking examinations in Beijing are required to meet lower standards than those from outside Beijing, and usually enter better colleges or universities. The advantages of locality clearly provide a range of incentives for rich investors with non-Beijing hukou to move in. It is fair to say that the locality plus the favourable policies make Xihongmen town a “magnet” for population accumulation.

The above demographical transition of Xihongmen town can be better interpreted as a process constructing a new social stratification order if we view it in a sociological way. We can construct a table to show the three main groups of people and their major characteristics.

Table 4.3: The Major Social Groups and Their Characteristics in Xihongmen Town

Social Groups	Characteristics
Local residents	<ol style="list-style-type: none"> 1. Once dominant in number but now increasingly in the minority in the local population 2. Have various entitlements to local resources such as land, houses and welfare provided by the local government 3. Have a strong say in the local area by participating in village-level elections
Migrants (both long-term and temporary)	<ol style="list-style-type: none"> 1. Increasingly dominant in number but politically insignificant 2. Highly mobile: their major goal is to make a living 3. Have no entitlement to local resources such as hospitals and schools 4. Could be sources of local instability/crime
Others (including inner	Commuters from inner-city for housing purposes;

city house-buyers and investors from outside of Beijing)	thus care mostly about local security and quality of public services and living environment
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The above table sketches the three major social groups in the local area. The co-existence of those people with different socioeconomic status inevitably results in various conflicts and problems; thus, the local government needs to place itself in the right position to deal with these different social groups. Both local residents and other groups create a lot pressure for the local government in the provision of public service and policy-making, since they are very vocal in local affairs. Migrants, although significant in number, are weak in socio-economic status and have no rights to access various local public facilities, such as schools and hospitals. The growing size of this group has led them to show their determination to obtain fairer treatment and entitlement in the local area, especially those with families. The local government needs to be institutionally innovative in resolving those problems.

3) Beyond the Local Area

The local government also needs to face some challenges from outside the community. Normally, a pure rural community has a "self-reliant" nature in both production and consumption and shares loose connections outside the community. But for a suburban town outside a metropolis, increasing integration to the inner-city system creates new challenges for local government. Here, I list two major challenges, but we should also bear in mind that the actual changes that a city brings to the local community are much more extensive than these two. The two factors discussed here are not the only important factors that have influences on the local government. In fact, it is easy to raise a number of other issues that a

suburban town government has to deal with. The reason why I list these two is that they are the most acute issues reflected in my fieldwork and thus require extra attention.

First, the town's territory has gradually lost its autonomy regarding urban planning issues. As a part of Beijing, town planning needs to be included in the blueprint for Beijing's urban development. One consequence is that the local government needs to coordinate with upper levels of government and even the central government on some urban planning issues, such as land-use and strategic planning for economic activities. In many cases, local development plans cannot be made purely based on the local conditions; it is also necessary to consider the position of the local town in the city system of Beijing as a whole. The following example illustrates this problem. Road construction is good for the local economy but also occupies certain local resources, and the land exploited for this purposes is not controlled by the local government but also needs great efforts from local government to coordinate with the upper levels of administration.

Second, the town's proximity to Beijing also means great transparency and speed in terms of media coverage. Anything happening in the local area can be quickly exposed to the media, especially something bad, such as large-scale social unrest. Some issues, such as land exploration, compensation for land-loss to local residents and serious crimes need to be extremely carefully handled in the local area, since the local leaders' careers could be at risk from bad publicity.

The above three categories present radical changes that have occurred in the local environment which pose enormous challenges to the local government in various aspects. To sum up, there are three type of pressure that the local government

needs to face. The first relates to the provision of public services, in terms of both quantity and quality. The increasing population density has resulted in a great demand for various public services, such as education, medical care, secure public spaces for relaxing and recreation, convenient transportation, crime prevention and cultural activities. Second, the conflict among different social groups also means that the local government does not only have to represent the local residents, as was previously the case, but must also mediate between different social groups in a fair manner. Third, the ongoing integration with Beijing also means that the local government has lost some autonomy over issues such as town planning and land use. Closely coordinated relationships need to be built with upper levels of government. The close proximity to the city also means that some local issues can no longer be regarded as local, as mass media coverage also requires the local government to be highly alert to those bad publicities that could potentially damage local reputations.

Zhulin Town

If we look at the changes to the physical environment of Zhulin town, the last two decades have been a truly transformational period. The newly established residential area, parks, multi-functional halls, hotels and modern factories remind us that this is not a rural place in any sense. But if our concern is with the local society, the actual change is less dramatic in comparison with the town's appearance. The local residents remain more or less the same as before in terms of population size, stratification orders and local socio-cultural traditions.

1) Population Size

Table 4.4: Population Change in Zhulin Town

Year	Total Population	Local residents	Temporary Workers	Others
1978	2349	2349	-	-
1985	2972	2652	320	-
1994	8212	4612	3760	-
1998	9130	6230	4466	140
1999	10200	6125	4690	143
2000	10936	6270	4513	121
2001	11248	6450	4672	126
2005	11588	6923	4523	142

Source: Compiled by author based on Gongyi Yearbook (1994-2001), other figures were obtained from the General Office from town government

What we can observe from this table is that local residents are still the dominant group in the local population. The population from outside of town can hardly be defined as migrants, so I use the word 'temporary workers' to represent this group of people. According to the interviews with local government officials, these temporary labours are normally from the nearby villages, and work as temporary workers when the local factory faces heavy demand for labour. Since most of them are farmers and have land to take care of in their own villages, very few of them will convert their hukou to Zhulin residents. The people who are classified as "others" are mainly those people hired by the local government as technical experts at local factories. These people do not hold local residency and commute between home and Zhulin town; they only constitute a tiny part of the local population.

2) Population Composition: Old Wine in a New Bottle

One key feature of the local population of Zhulin town is its socially homogenous nature. Nearly 80% of local people share the same surname - "Li" - and almost all of them are connected by direct or indirect blood ties. The town's history can be

dated back to the later Ming Dynasty (1560–1644) when the first group of people settled here. The Li family has been the dominant group in the local area ever since. These dense kinship ties are still a major characteristic of the town. The social organisation of the local society still relies heavily on the old kinship-centred hierarchy and networks. This was also a common phenomenon in many rural parts of China before the communist regime took power in 1949. Before 1949, for more than two thousand years, China had no fully established levels of government at the town and village level. The emperor's power stopped at the county level (*huangquan bu xiaxian*). So, society was mainly governed by the elders based on kinship and seniority below the county level. As Fei (1992: 114) summarized, "In a rural area, government was very inactive and rural society was mainly governed through non-state institutions".

In the industrialisation era in Zhulin town, the local leaders actually act like parental figures, providing close support to local people. Although the industrial development has transformed the local community physically and the production mode has been shifted from farming to working in factories. The local residents are still living in a society with a tightly interwoven kinship and social network. Thus, the governance of the local community is largely based on kinship ties and local norms. In this sense, the local society can be better described as "old wine in a new bottle". The "wine" is the composition of the local population and social structures. The "bottle" is the changing nature of the production mode from agriculture to industry.

3) High Degree of Autonomy: Independent Kingdom

As an ancient Chinese proverb puts it, "mountain is high, emperor is far away." This sentence is used to describe those regions that are far away from the power centre and thus can enjoy more autonomy. This also seems partly true for Zhulin town at the beginning of the reform period because the town's territory is cut off by the mountains and it is also relatively isolated from the major urban centres.

So, what are the consequences of this isolation? One direct consequence might be poor communication and poverty, but it also brings another positive influence, which is that the local town is more like an "independent kingdom", as the local community is highly independent in managing various local affairs with very little intervention from the upper levels of government. In this environment, the local leaders can mobilise local resources to pursue economic development as long as the support of local residents can be sustained. This can also be a unique advantage for the development of the local economy.

Summary Comparison

From the above assessment of the two towns' socioeconomic environments, sharp contrasts can be identified. Starting approximately in the early 1980s, both towns shared similar environmental features, in that farming was the main business for local residents. During that period, both towns were still classified as rural villages. The local populations mainly consisted of residents whose families had lived in the local area for generations. In the same period, both towns also started to engage in some non-agricultural activities, which were the same as elsewhere in rural China due to the lift of various constraints of policies. The ongoing industrialisation kept drawing rural peasants into rural industry and the importance of farming to local

society diminished steadily. During this period, both towns were characterised as semi-urban regions with mixtures of both industrial and agricultural activities.

From the mid-1990s, the two towns' developmental paths started to diverge. Due to the proximity to Beijing and its expansion, Xihongmen town has been increasingly encompassed into the Beijing city system, and the urbanisation process has been greatly accelerated through the influx of rural-urban migrants and investors from other parts of China. The population size and density and its subsequent new stratification order have radically transformed the local society; meanwhile, the town's territory is also heavily influenced by inner-city urban planning and mass media coverage. These changes inevitably produce new challenges for local government, such as demand for public goods and prevention of negative urban externality such as crime prevention, public health and labour issues, all of which require the local government to reform its previous governmental functions and adapt to the more complex socioeconomic environment. For Zhulin town, the local physical environment has been transformed a great deal, but the local population remains the same in terms of size and composition. To examine this more closely, the local population is characterised by dense kinship/social ties and shared social norms and conventional social structures still play a crucial role in governing the local community. In essence, the local community retains conventional social structures, despite the production mode has been transformed from agriculture to industry. The local government also faces fewer pressures in dealing with environmental complexity since it has not changed much since the start of economic reform.

We can safely conclude from the above comparisons that the local contexts of the two towns are very different, but how did local government respond to these

environmental pressures? The next two sections will study the organisational structure and the role of leadership in both towns respectively. The impact of the contrasting environments on these elements will be the focus of the analysis.

4.3 The Evolution of Organisational Structure

Through the comparison of local environments in section 4.2, we can conclude that the local environment is indeed very different in both towns. So, the extent to which these environmental differences can affect or shape the organisational structure of local government is the main concern of this section. The official documents recorded at the time of each of the major administrative changes have helped me to trace the changes of local governmental structure, while the interviews conducted during the fieldwork and other related documents provide direct evidence for the rationales behind these adjustments to the organisational structure.

So, does an urbanised environment foster a more sophisticated and complex style of government? To what extent can environmental complexity be reflected in the adjustment of organisational structure? To answer these questions, this section focuses on the changes of organisational structure in both governments since 1978.

Xihongmen Town: After a close examination of Xihongmen town's local environment, what I strive to find is whether the organisational structure of the local government has responded to the environmental pressures mentioned in the previous section. Before I start to trace the evolution of the organisational structure over the last two decades, the first task is to look at the current status of local

government. The table below gives the full organisational components (departments and committees) of local government in 2004:

Table 4.5: The Departments and Committees of Xihongmen town Government in 2004

1) Departments	Civil Administration Office
General Office	Public Security Office
Industrial Management Office	Culture and Education Office
Merchant Promotion office	Office of Affairs concerning national living abroad
Agriculture office	Letter and Visit Office
Finance office	
Family Planning office	2) Committees
Statistic office	Ethnic Minority Committee
Labour and Social Security Office	Sports and recreation committee
Transport Office	Next Generation Care committee
Land Management office	Committee of Science and Technology
Environment Protection office	
Migrants Management office	3) Others
Highway Office	Environmental Hygiene Brigade
Villages Management office	Local Radio & TV station
Town Planning an Construction office	Public Safety Protection Brigade
Inner City Affair Office	

Sources: Compiled by author based on the Records of Administrative Reform and Change (1993; 1998; 2003) and interviews with governmental officials

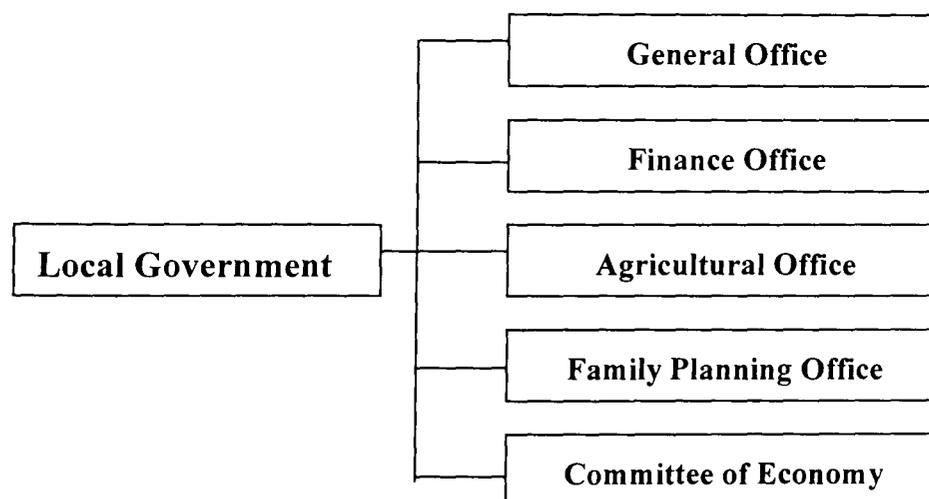
The above table presents all departments and committees of Xihongmen town in 2004. At a glance, the local government is organised like a "mini-state" and mirrors the structure of Chinese Central Government, which consists of multiple units geared towards various functions. This structure shows a very sophisticated nature of local government, but it is not a simple product of administrative reform at the national level, but rather a result of several waves of adjustment of local

administration. Through the analysis of historical documents, I have divided the changes of local government into three waves: each wave of change was characterised by some specific changes to the local environment that facilitated the establishment or adjustment of certain functional units of local government. The evidence strongly supports the changing organisational structure was a result of constant adaptation to the changes of local environment.

The Initial Setting of the local Government (1980-1984)

From 1980, Xihongmen town was initially called "Xihongmen farming range (*xihongmen nongchang*)", which reveals a great deal about the rural nature of the locality. The local government more or less remained the same as it was during the previous People's Commune period. The total number of local government employees was 26 in 1984. Figure 5.1 presents the basic organisational structure of local government during this era.

Figure 4.1: The Organisational Structure of Xihongmen Farming Range in 1985



The above figure shows a very basic form of local government. To some extent, it looks like a dysfunctional government with several important functions missing.

There are two distinctive characteristics to the organisational structure. First, each sub-governmental unit undertook multiple responsibilities, especially the General Office (*bangongshi*). This department was responsible for almost everything related to daily administrative tasks. Important issues such as the management of land resources, archives, personnel, labour, health, statistics etc were all under the jurisdiction of this department. This brought some negative effects for this department, since the division of labour between the various duties was very complex and unsettled. One retired staff member I interviewed told me that this department was extremely busy and that its staff's work mainly involved responding to various things that would "come to their door" rather than being coordinated and planned in advance. The second characteristic of this organisational structure is its rural nature. The agriculture office was the most important unit, being responsible for all issues related to farming. Other non-farming issues, such as the newly emerged rural industry, were managed by the Committee of Economy and key decisions were made by the local leaders. The organisational structures outlined above reflect a certain level of "fit" between organisation and environment, since a very rural village doesn't need a complicated organisational structure to make it governable.

First Wave of Change (1984-1990)

Some notable changes to the organisational structure started from 1984 when the Xihongmen farming range was renamed Xihongmen Township in recognition of the salient growth of its industrial sector by the upper level of government. The notable changes to the local government during this period were that four new offices were established; these were:

Industrial Management Office

Culture and Education Office

Transport Office

Villages Management Office

The industrial Management Office was mainly set up in response to the flourishing development of local collective enterprises. The number of these enterprises increased steadily during this period. The town leader used to manage those enterprises when the number was small. But the increasing number of enterprises resulted in a huge increase of managerial tasks, and some decision-making, such as shop floor management and daily operations of enterprises, could not be entirely left to the key leaders. The aim when establishing this office was for it to manage all those micro-level issues, also acting as a sort of “ambassador” when the firms needed to deal with issues relating to inner city or other regions’ firms. The office was important for its coordination role during that period, since the economic reform was still at an early stage and the immature factor market still required the government to act as guarantor to access some key resources.

The other three new offices, interestingly, had previously all been sub-functional divisions of the general office (*bangongshi*). They were separated from the general office for two reasons. First, the multiple responsibilities of the general office could not be sustained due to the increasing workload; thus, further divisions of the existing work were strongly needed. Second, some new changes occurred in the local area, which required active responses from the local government. In 1986, a new primary school and a high school were established, requiring lots of work by the local government; thus, the education division of the general office was expanded into a new office – the culture and education office. Meanwhile, the

construction of the Jinkai highway has been written into the blueprint of Beijing's government (the project actually started in 1989), and over 5 new roads needed to be built before 1990 in the town's territory: this required a specific department to deal with those issues. Thus, the transport office was established for this purpose. In addition, the previous 11 production brigades were converted to 11 villages under the jurisdiction of the town government and a special office had to be set up to deal with the grass-root level governance. For this purpose, the village management office was established to respond to this requirement.

Second Wave of Change (1990-1995)

From 1990 to 1995, the local industry of Xihongmen town gained substantial growth and the proportion of the rural population dropped quickly in comparison with the early 1980s. This change brought an increasing number of inward migrants from rural areas to the town territory and some of the main changes to the local environment were as follows:

- 1) **Public Security:** The deteriorating public security caused enormous complains to local government. Due to the fluid nature of offenders, coordination with other cities and regions was also needed. The annual governmental report in 1997 regarded public security as the biggest challenge faced by Xihongmen town at that time.
- 2) **Labour issues:** In 1994, a journalist reported that a private enterprise in Xihongmen town was hiring child labour, and this article turned out to be extremely damaging to the reputation of Xihongmen town. The local government decided to establish a database to keep records of every migrant worker in the local area. During the establishment of this database, the investigation of local enterprises also revealed some abuses of workers' rights,

such as delayed payment, long working hours and bad working conditions. All those issues pushed the local government to decide to take some tough measures to tackle such problems. Thus, a specialised department had to be established for this purpose.

- 3) **Rural Industry and Use of land resources:** One consequence of the booming rural industry was conflict over land use. Some rural entrepreneurs illegally exploited farming land, and this resulted in severe conflicts with farmers. Both industrial development and land use needed to be regulated and carefully planned. Local government could no longer be "hands-off" on those issues, as had been the case in the past.
- 4) **Urban Planning and Construction:** This period also marked the start of the official urban planning attempt by the local government. Due to the rapid expansion of the inner city, the local government placed more emphasis on the long-term planning of the local environment for the efficient and sustainable use of local resources. In 1995, the town government established a strategic partnership with the Beijing Academy of Architecture and Design, a national authority in the area of town planning, to enable town planning to function better and to improve the management of the local physical environment.

The above four aspects were the major challenges faced by local government during this period. In response, some new sub-governmental units were created to tackle those problems. In the meantime, more than 40 new staff members were employed during this period, bringing the total number of employees to 68. Several new offices and committees were established. They were:

Town Planning and Construction Office

Labour Office

Public Security Office

Land Management Office

Statistics Office

Ethnic Minority Committee

The above figure shows some corresponding changes to the local government as a result of creating new offices. The newly established town planning and construction office, labour office, public security office and land management office were the major responses from local government to deal with the emerging problems occurring in the local area. Apart from these four departments, the town's statistics office (which used to be a sub-division of the general office) also gained independent status in recognition of its increasingly important function and workload. Another committee – the Ethnic minority committee – was established for the purpose of bringing the voices of ethnic minority groups to local governance, since two villages within Xihongmen town are mainly inhabited by ethnic minority groups.

Third Wave of Changes (1996-Present)

This period has witnessed some of the most radical changes to local governmental structures and management. At the national level, there have been some major macroeconomic changes in China. The market-oriented reform has been deepened and the whole nation has become more open to foreign trade. China became the largest recipient of Foreign Direct Investment (FDI) in the world in 2003. The booming economy further boasts the expansion of the inner city of Beijing. Xihongmen town, with its suburban location, has increasingly become an integral part of the Beijing city system. Some notable changes have occurred in the local

area, requiring the local government to adjust its function and strategy, which also triggered a series of changes to organisational structures.

- 1) **Industrial Development:** One big change to the local town during this period was the rising power of the private sector. The entrepreneurs from the inner city and other parts of China began to dominate the local economic landscape. Correspondingly, the attraction of more foreign/domestic investment and further promotion of trade links between local firms with the international market became the major concerns of the local government, since the influx of investment can enlarge the local tax base and thus benefit the local economy as a whole. How to provide good service to local firms topped the local government agenda. One example is to assist local firms' Research and Development (R&D), although R&D is by and large a firm's behaviour. For most local small factories, R&D turns out to be very costly and they are unable to invest more on it. This shortcoming potentially damages local firms' competence and thus affects the tax income of the local government, and accordingly requires local government intervention.
- 2) **Environmental Quality:** This is the major consequence of rapid industrialisation. Most small businesses, workshops and factories in the local area neglect the problem of pollution. In 2000, a national assessment of environmental quality gave very low marks to Xihongmen town; the environmental problems also damage the rapidly rising housing market. Environmental protection is a problem too urgent to be ignored by local development.
- 3) **Coordination with the Inner city:** The expansion of the inner city also calls for the local town to coordinate with the city in various urban planning and transport issues. Any new construction plans need to be ratified by both the county government and the city urban planning bureau. There are also some

projects that have been set up by the inner city authority, such as constructing and maintaining the highway, which need assistance from local officials. Two “economic housing construction³” schemes for low-income families are also located in the town territory, and thus require the local government’s coordination in the supply of the various resources and services.

- 4) **Social Service and democratic governance:** This is a broad category, which covers various problems related to the changing nature of the local community. First, the local government cannot ignore the increasing number of rural-urban migrants. The attitude towards this group of people has also shifted from the previous monitor/control attitude to acceptance/inclusion. There are also some specific services that need to be provided to this group of people. Another important issue is the newly emerged non-governmental organisations, such as community organisations, and charities have also appeared in the local area, requiring local government coordination and supervision. Meanwhile, the various conflicts within the local community also need a certain organisation to play an intermediary role. The rapidly urbanising local environment also creates strong needs for the local media, sports and recreation facilities.

In response to the above-stated issues, the local government needs to create new strategies and policies, but first of all, the organisational structure needs to be further adjusted and expanded. The following departments and committees were established on the basis of the existing local governmental structure. Below is a full list of the new units that have been set up since 1996:

Merchant Promotion Office

³ Beijing Municipal government initiated this project to build affordable flats for low-income families.

Environment Protection Office

Migrants' Management Office

Highway office

Inner City Affairs Office

Civil Administration Office

Office of Affairs concerning nationals living abroad

Letter and visit office

Sports and Recreation committee

Committee of Science and Technology

Environmental Hygiene Brigade (Under the supervision of the Environment Protection Office)

Local Radio and TV Station (Under the supervision of the Culture and Education Office)

Public Safety Protection Brigade (Under the supervision of the public security office)

These newly added functional units within government clearly reflect the demands of local socioeconomic changes. Here, I would like to describe the functions of these newly established units and how they were set up to fulfil certain functions: First, in order to strengthen the region's capacity for industrial development, the local government set up the Merchant Promotion Office (1998) and the Committee of Science and Technology (1999). The Merchant Promotion Office currently has two major functions. The first is to be responsible for promoting various favourable policies and two existing industrial parks to attract more firms register in the local area. Another function is to promote small and medium high-tech enterprises in the local area. A twelve-storey mansion has been built to act as an "incubator" for this purpose. So far, more than 40 firms have settled in this building, all of which have

been given a three-year tax break by the local government. The Committee of Science and Technology was also set up partly to serve the local firms: one important function of this committee is to collaborate with the inner-city research institutes to popularise the application of new technology in the local area, and it also helps local firms to deal with issues related to patents and intellectual property protection.

Second, a number of offices were set up to strengthen the governmental capacity to manage the local physical environment. The Environmental Protection office (1998) is responsible for the supervision of the various pollution problems that occur in the local area. The Environment Hygiene Brigade was set up in 1999 under the management of the Environmental Protection office. The brigade employs 112 members of staff, whose main responsibilities involve cleaning and beautifying the local public sphere, including the central square, parks and main streets.

Third, two offices were set up mainly to deal with the increasing amount of work related to the inner city. They are the Inner-City Affairs Office and the Highways office. Both offices share close links with the inner-city government. For example, since 1997, town planning issues need to be supervised and ratified by the Beijing Urban Planning bureau. The annual plans for water and electricity consumption need to be submitted to the inner-city authority for approval. The Highways office was also set up to respond to the management of the two main highways running through the town's territory – the Jinkai and Jintang Highways.

Fourth, several offices and committees were set up to provide services for certain groups of people. A notable change is that the Migrants' Management Office was set up in 1997. Initially, this office was working closely with the local public security

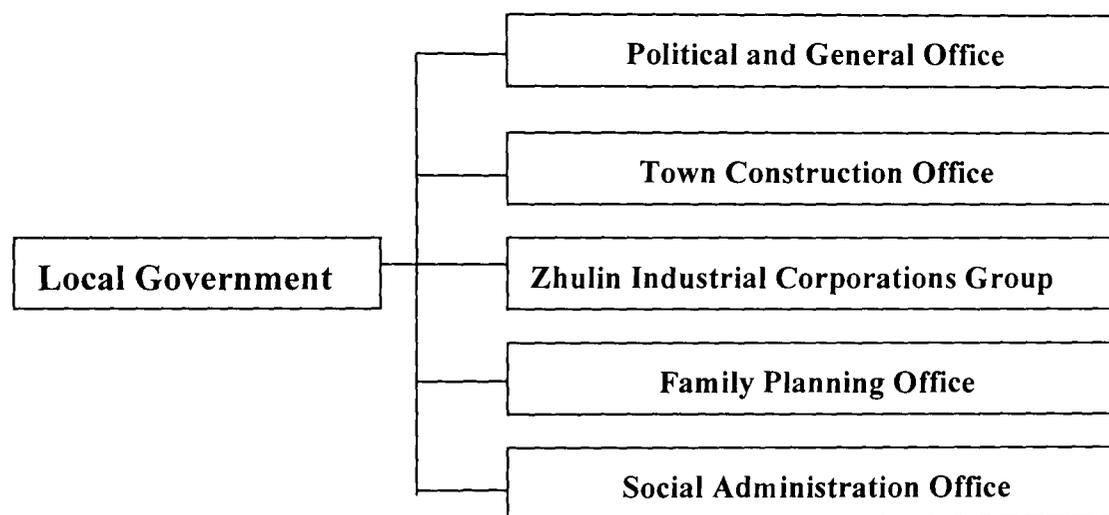
office in managing local migrants; its duties included issuing certificates and keeping registration records of migrants. With the increasing number of migrants in the local community, the office has now become the leading unit to provide various services to this group of people. In 2004, the office set up a hotline to help with wage disputes between migrant workers and local employers. This was the very first hotline targeted at migrants in the Beijing area and received wide coverage from the media. Another unit – the Civil Administration Office – was set up in 2000 to provide registration services for local non-governmental organisations, such as migrants’ self-organised schools, associations and international organisations. In order to respond to some acute conflicts that occurred in the local area, the Letter and Visit Office (*xinfang bangongshi*) was set up in 2002 to deal with local residents’ complaints. As its name suggests, residents who are dissatisfied with something can write a letter to this office to complain, or visit the office in person to report matters that they are not satisfied with. The principle of this office is to keep everything confidential and also to generate resolutions as soon as possible; it thus plays a vital role in interceding in conflicts. Apart from these service-oriented units, the town government also established the Sports and Recreation Committee and local TV and Radio Stations in order to strengthen the cultural life of the local community. All of these changes denote a fundamental shift of local government from the previous economic development-centred role to a more service-oriented one.

Zhulin Town

Zhulin town was upgraded from village to town status in 1994 as a result of the flourishing development of its local industry. The town government is organised with consideration for both efficiency and simplicity. As the town leader, Mr. Zhao,

remarked, the government should be an organisation to enable local residents to live better lives, but not to create a bureaucracy. The organisational structure strongly reflects this principle: the figure below shows the organisational structure of the local government in 2002.

Figure 4.2: Governmental Structure of Zhulin Town in 2002



At first glance, one may conclude that the Zhulin Town government looks like a dysfunctional local government, since many essential units are missing. In reality, this government is run in a very efficient manner. The five basic branches function effectively, enabling the local government to respond quickly to the various local issues. There are three distinctive reasons why such an organisational form is effective:

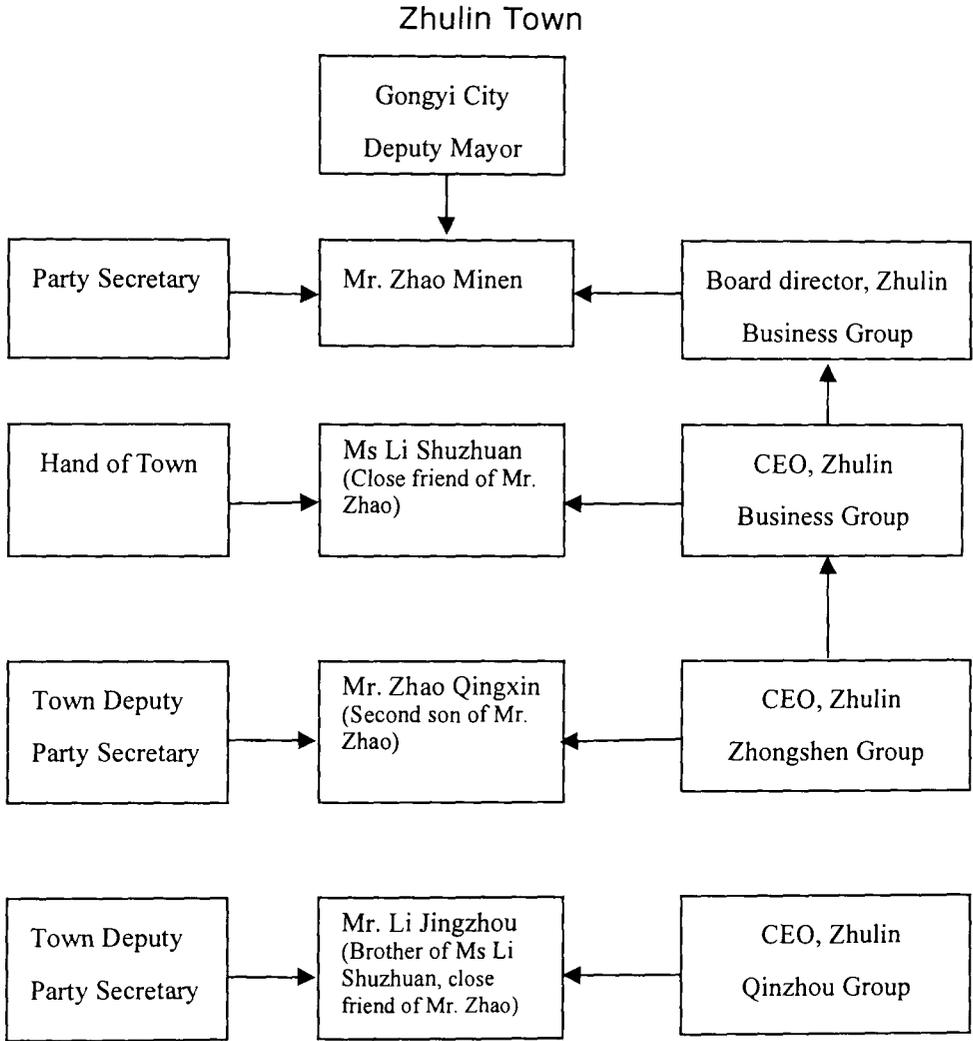
First and foremost, the traditional kinship-centred networks play a vital role in local governance, which makes "governance without a government" possible. Recall the description of the local environment in section 4.2: one distinctive feature of Zhulin town is its socially homogenous composition of the local population, with the whole town being organised more like an extended family. Interpersonal relationships are

thus governed by kinship and blood ties rather than by formal rules and regulations. The local community is bound together by the conventions, norms, loyalty, intimacy and sentiment. This kind of naturally emerging social order creates a high level of social cohesion and less social conflict, thus reducing the administrative tasks of local government. For many local residents, the public issues are similar to their family issues, and the various conflicts and problems can all be resolved in a family way. Bringing conflicts within the family or extended family to the local government would be considered as shameful behaviour, since it indicates weakness in the family. The socially homogenous environment constitutes a stable foundation for local governance, and thus requires fewer efforts from the local government to provide public services.

Second, one branch of the local government is labelled the Zhulin Industrial Corporation Group. This Corporation Group consists of 8 business groups, which represent 95% of the region's industrial output. The role of the business group is very important not only in terms of its economic function but also because it undertakes important social functions. In Zhulin town, the four natural villages have been replaced by four street offices (*jietao bangongshi*) under the management of the four largest business groups in the town's territory. Each business group manages a certain geographical area, and the majority of residents within this area also work for the enterprises of this business group. This unique arrangement means that the boundary between work and non-work life is very vague. This kind of institutional arrangement also further reduces the administrative workload of local government, since many issues can be resolved by the enterprises and business groups.

Third, none of the governmental officials in the Zhulin town government are only responsible for one job, especially those ones with key managerial responsibility. All the leaders and departmental managers in local government also have important roles to play in the business groups. These multiple roles of local leaders are also penetrated by the local kinship/social network and mean that local industry and government are tightly linked by either official duties or kinship/social ties. The table below shows a small fraction of this structure:

Figure 4.3 Multiple roles of key leaders and their social/kinship connections at



The actual structure and network is much more complex than the above figure. Nonetheless, we can still get some basic understanding of the local power structure through this figure. At the top of it, Mr. Zhao, the local “number one” figure, plays multiple roles in both local government and industry, and exerts absolute authority

at both local government level and in the business corporation. His main duty is acting as a "chief architect" of macro-level decisions regarding the Zhulin Town. His political influence also helps Zhulin to obtain some preferential policies, such as bank loans and special permission to produce certain types of product. The second figure is Ms Li Shu-zhuan, who has been a close friend of Zhao since 1978 and has claimed herself as the best person to assist him. Her main duty is as "commander" of operations, both within the town government and the business group. Mr. Zhao and Ms Li have been the leaders of Zhulin for over two decades and an "economic miracle" has been created under their leadership. Under the top management, there are seven business groups. Mr. Zhao Qinxin, the second son of Mr. Zhao, is the CEO of the most profitable business, Zhulin Zhongsheng Pharmaceutical Stock Co., Ltd, and one of the town's deputy party secretaries. Another deputy party secretary, Mr. Li Jingzhou, is the brother of Ms Li Shuzhan and a close friend of Mr. Zhao, and is responsible for another important business group - the Qingzhou Group, which is the earliest industrialisation attempt in Zhulin town and was started in 1974. The kinship/social network can be further extended downwards to the grass-roots level of local community. As a small community, the kinship/social network constitutes the basic social fabric to draw the local community together.

Summary Comparison: In this section, the changing organisational structure of the two towns' local governments has been detailed and the reasons for the formation of the different structures have also been explained. The contrasts in the organisational structures of the two towns are evident, with Xihongmen town having a very sophisticated structure and the Zhulin town featuring a simple and hybrid structure. The main reason for such a marked contrast is the two towns' contrasting local environments. In Xihongmen town, the increasingly urbanised environment and inward migration created huge challenges for the local

government, which needed to adjust it to fit the environmental complexity. One consequence of this adaptation process was the creation of an increasingly bureaucratized organisation with various specific offices and committees working on particular issues. On the contrary, the local environment of Zhulin town has not altered much during the industrialisation process. Local conventions, norms and dense kinship ties still play key roles in governing the local community, and thus the main function of the local government is to develop industry rather than acting as a pure public goods provider. The evidence shows a very simple governmental structure whose main functions are also interlinked with the key local business groups. The leaders of the local government are also key leaders in local industry. It is very difficult to distinguish the boundary between government and firms: the dense kinship/social ties serve as "glue" to create a high level of social cohesion to enable both government and local industry to function effectively.

4.4 Role of Leadership

Leadership is crucial for the local governments. Although the leaders at town level are still not democratically elected in China, the appointment of local leaders is still very much a locally based activity. Two criteria are always used to judge the quality of local leaders: one is the maintenance of good social order in the local area and the other is the ability to develop a flourishing local economy. Most local leaders need to be good at both, with administrative skills as well as visions and strategies for developing the local economy. In the two towns under investigation, at early stages of town development, the leaders have always had strong local backgrounds and know-how in industrial development.

Xihongmen Town:

The leadership of Xihongmen town at the current stage can be summarized as “institutionalised” leadership. The reason why it is described in this way is because the local government has been increasingly bureaucratized and institutionalised through the ongoing adaptation to the complex local socioeconomic environment described in section 4.3. The additional complexity of local governmental structure means that the decision-making process increasingly relies on formal processes (collective discussion, coordination and planning) rather than on key individuals. The perfection of legislation, regulation and policies also means that most of this work is based on reliable resources, thus reducing the direct involvement of key leaders. Since 1997, the privatisation of collective enterprises has also cut off the close connections between collective firms and the local government. The main duty of local leaders now should be as administrators of the local government *per se* rather than being directly involved in various practical issues, since the well-structured sub-units of local government can automatically deal with various local problems.

From 1978 to the present, Xihongmen town’s local leadership has undergone several changes. The role of town party secretary, normally regarded as the top leader of the town, has changed hands three times and the head of town, known as the person in charge of various practical issues, has changed four times since 1980. The current party secretary, Wang Hui, was appointed in 2004, and he used to be the director of the Labour and Social Security Bureau in Daxing County. He is the first party secretary of Xihongmen town without a local background. The other important figure, the head of town, is Mr. Ma Shigang. He was promoted from

deputy head of town to head of town in 2004; he was born in the local area and has worked in local government for over ten years.

In retrospect, the changes of local leadership in last two decades show some significant shifts in the selection criteria. Initially, the first party secretary of Xihongmen town was appointed based on his outstanding entrepreneurial ability. At the beginning of the 1980s, the town's main task was to develop non-agricultural activities. Mr. Wei Shenhe, the then manager of the Commune and Brigade firms during the Cultural Revolution period, was appointed as the party secretary as a result of his rich experiences in the industrial sector. Following his retirement in 1987, the deputy party secretary, Mr. Heng Huanru, was promoted to the top position, also based on the similar concerns, having attained a good reputation for managing industrial activities. This ability is crucial for local development, since the top local leader needs to be experienced in the operation of local collective firms. All the collective firms' top-level strategies and decisions need to be made by the top local leader. Another characteristic of local leaders is their truly local nature. All of them were born in the local area and have rich experiences and close relationships with the local community, thus making them ideal representatives for the local town. These requirements were significantly altered in the later 1990s. A local leader does not need to be directly involved in the management of local firms any more, since most of the collective enterprises have been privatised. The function of local government has also changed, becoming more service-oriented. The major challenges for the local leadership are to manage and maintain the smooth running of the local government and improve the quality of public services. Meanwhile, the local town has been included as an integral part of the Beijing city, the local population composition has become increasingly diversified with the majority of local residents now being migrants and inner-city house buyers rather

than local people. Thus, the strong local nature of the leadership has also faded away. The current appointments of local leaders are less concerned with the candidates' local backgrounds and put more emphasis on their administrative skills. In a word, the leadership at Xihongmen town is now more concerned with the organisational context rather than the local context, since the running of the local government in an effective way also means that the public interests of the local area can be satisfied. The role of leadership is still important, but it is no longer vital for the success of local development.

Zhulin Town:

Leadership is perhaps the most crucial factor in explaining the successful development of Zhulin town. The leadership of Zhulin town can be best summarized as charismatic and versatile. According to House and Howell (1992), charisma matters most in start-ups, turnarounds, or whenever a business (or team) is going through rapid, unpredictable change. House believes that when conditions are uncertain, charismatic bosses spur subordinates to work above and beyond the call of duty. Charismatic leaders can be classified as corporate heroes capable of performing miracles. They are often responsible for orchestrating corporate turnarounds, launching new enterprises, inspiring organisational renewal, and influencing individuals to achieve maximum performance levels. This description is a good reflection of the leadership of Zhulin town. The leadership of Zhulin's local government has attained almost legendary status. Mr, Hu Wuqian, the current party secretary of Henan province, thinks that the most important factor leading to the successful development of the small town is the positive role of local leadership. The main evidence supporting his viewpoint is his observation of the development of Zhulin town over the last two decades. Mr. Zhao Minen, the party secretary of

Zhulin town, is such a leader, and is able to create miraculous economic development.

In Zhulin town, the roles that Mr. Zhao plays touch every aspect of local residents' lives. Apart from the flamboyant entrepreneurship that he has generated, he is also a strong moral character, able to unite the local community, and his political skills have also helped Zhulin town to earn celebrated status at national level. The reasons for the emergence of such leadership might be contingent and personal, but it should not be taken out of the local social context. The rising of such leadership, to some extent, is also a result of the longer-term community-based development. The success of Mr. Zhao's career has deep roots in the support of the local community. To summarize, his leadership has four distinctive characteristics.

Leadership as Parental figure

Mr. Zhao was born in 1943 in Zhulin village, so he is a native villager. He had 3 years' primary education and then dropped out because of his family's poverty. Although his road to formal education was terminated, the young Zhao Minhen became a diligent lifelong learner. He likes reading books, newspapers and journals, and also enjoys the traditional Henan opera (*yuju*). He has admitted that the characters in the opera have taught him a lot about how to face difficulties and deal with others, and most importantly, to love his hometown and take responsibility.

As section 4.2 stated, the whole of Zhulin town is organised like an extended family. To Mr. Zhao, his position as party secretary is not only a political or administrative post, but also a role as a parental figure for local people. He tries to put this principle first when he deals with various local issues. As he remarked, "think of

everything as your own family business, then you won't do things wrong". On a personal level, Mr. Zhao is regarded as a moral icon in the local area. His father died a long time ago and left his mother a widow. He has been living with his mother since then and shows a great filial piety towards her. Due to his good care, his mother was still very healthy at the age of 94 when I visited Zhulin town in 2005. Filial piety is considered the biggest virtue among the Chinese and means that Mr. Zhao is not only a talented leader, but also a respected person locally. Another good quality of his personality is that he is a very tolerant person. At the beginning of rural industrialisation, many local officials didn't want to join local collective industry and instead wanted to start their own private businesses. Mr. Zhao didn't get furious with those people; rather, he gave them permission and encouragement to carry out their plans.

Business talent

At an early stage of his career, Mr. Zhao Minen developed strong salesmanship and managerial ability. He led the first industrial attempt launched in the local area. After the products had been produced, he also travelled around cities to sell these products to strangers using his strong persuasive skills and sincere attitude. This business talent has been strongly evident during the last twenty decades. His continuous learning and travel to various parts of China have also broadened his vision. He is extremely good at making bold but correct decisions. In 1987, the development of rural industry was still in its golden age and many people were quite satisfied with what they had achieved in the production of building materials. Mr. Zhao noticed the limits and weakness of rural industry. He felt that the products produced by local industry were very low in terms of value-added and technology were rather backward. With millions of rural firms emerging in rural

China, he realised that competition in the future would be tough and that sooner or later, the building material industry would face a recession. He created two strategies to tackle this problem. The first was to upgrade the existing technology to produce advanced building materials, and to launch two chemical factories to produce more value-added products. The second was to launch a medicine factory to diversify the production lines. The decisions were proved to be very controversial in the local area, but Zhao convinced others that it was a risk worth taking. In 1989, the first medicine factory was launched, and it later developed into one of the pillars of Zhulin's industry. In 1997, Zhulin Joyson Pharmaceutical Stock Ltd became the first company listed in the Shanghai stock market exchange. This was an incredible achievement for a rural firm.

Political skills

Mr. Zhao is also good at using his political status to further enhance the reputation of Zhulin town. As a national example of small town development, Zhulin has attracted national leaders of two generations, and many from within the province. The emergence of this town is a miracle, created through a combination of strong leadership with a broad vision for economic development and the good fortune granted by two political regimes (Zhao Ziyang in the 1980s and subsequently Jiang Zemin in the later 1990s). Zhulin is good at utilising political resources in order to cover its vulnerabilities. Leaders in the town know well that it has exhausted its original homeland resources. When investing outside its territory, a great loss will occur in terms of tax retention. The most profitable company in Zhulin is the Zhongsheng Pharmaceutical Company, which is located in Zhengzhou, the provincial capital. It has expanded its investment to two remote rural areas for herb production outside its homeland and most taxes are paid to local governments

outside Zhulin Town. Zhulin government can only retain the rent from the land used by the company. In order to resolve this problem, Zhulin has requested a favour that any typical township would not dream of demanding. It has asked to be granted the entitlement to retain the taxes paid by its invested firms in "satellite" places – firms located outside Zhulin. As tax regulation, firms pay taxes to the governments in their localities. If the taxes have to be shared between the central government and local governments, the government accommodating the firms retains a share of the tax. As Zhulin has its leading industry (medicine production) located outside its homeland, it has lost a large share of taxes. If this could be granted for 5 years, as requested, Zhulin could safely pass its other potential crisis.

Summary Comparison: The roles of leadership in both towns are compared in this section. In Xihongmen town, because the organisation of local government has been institutionalised and bureaucratised, the requirements for local leadership have changed. Local leaders are not required to have exceptional ability to run local industry; instead, the ability to effectively run the local government has become their top priority. The top local leadership has also changed several times with no negative effects when these changes occur. On the contrary, the role of leadership in Zhulin town is vital and almost irreplaceable. It is clear that Zhulin could not have been so successful without its strong leaders. The roles they play are in many ways irreplaceable. Their insights for the strategic development of Zhulin have been well timed and they have shown solidarity when making policies. Their management has been harmonious and combined with fairness and a collectivist, uncorrupted work style. However, the lack of bureaucratic support from middle level management has reduced the chances of generating the second generation of leadership that will be a weakness for Zhulin's long-term development.

4.5 Discussion and Conclusion

In this chapter, two important elements of local government have been studied and compared in both towns. They are organisational structure and the role of leadership. The research findings suggest that there are huge variations between the two towns regarding these two crucial aspects. The differences can be explained, to a large extent, by the central government's newly introduced economic incentive and contrasting socio-economic environments of the two towns.

In Xihongmen town, radical changes to the local socioeconomic environment pose enormous new challenges to the local government because of its suburban location. The analysis of the local environment has revealed that the socioeconomic structures in the local area have been radically changed; thus the volume, quality and range of public services need to be provided and upgraded to facilitate the transition of local government from a former rural community governing body to a modern urban local government. With the ongoing integration with the nearby city, the local government also faces various pressures from the inner city to coordinate with other governmental agencies on issues such as urban planning, transportation and environmental protection. Based on this background, I moved forward to examine the changes to the organisational structure within the local government from 1978. The evidence suggests that the local government has experienced several waves of structural changes in an effort to improve the efficiency and delivery of public service in an increasingly uncertain and complex local environment. Various new functional units have been created to deal with the new challenges and the local government has experienced a series of bureaucratising, institutionalisation and routinisation processes in managing various local public

affairs. Regarding leadership, the local government has also experienced several leadership changes, with the initial entrepreneurship-oriented leaders being replaced by more administration-oriented leaders.

In Zhulin town, the last two decades have witnessed the rise of local industry and the traditional farming sector has been gradually replaced by this new sector. The physical environment of the local town has been greatly transformed, but with regard to the local population and social structures, little has changed. The population composition remains largely the same and the social structure is still characterised as a strong kinship/social network, and the whole town is organised as an extended family and bound together by strong moral obligations and intimacy. The industrialisation process has actually caused little change in the local society. Under this local context, what I have found is that the traditional informal governance based on local kinship/social networks and local norms play a key role in governing the local society, thus resulting in a local government that is somewhat dysfunctional and hybrid in its organisational structure. Since the major task of the local government is to develop local industrial activities and generate non-farming jobs for local residents, the town leader's entrepreneurial, political and administrative skills are extremely important. The leadership at Zhulin town has also remained very stable, without any changes in the last two decades.

So, how can we explain such variation between the two local governments? In this chapter, I argue that urban proximity can be an important factor in explaining the contrasting local government features in the two towns. The presence of urban proximity inevitably brings in investors, migrants and various actors to the local town, thus greatly increasing the environmental complexity, which necessitates organisational changes in local government. The consequence of this process is that

organisational structures have been institutionalised, standardized, and formalized. Leadership does not play a critical role, since this process creates a stable and governable organisation. In contrast, the absence of urban proximity means that the local community of Zhulin town is socially unaffected and remains intact. Local social structures, such as family, kinship and local norms, still play an important role in governing the local society, which means that there is less demand for public goods in comparison with urban areas. The major mission of Zhulin's local government lies in its industrial development. Thus, a strong and charismatic leader has emerged to unify the local community and organise people collectively to achieve this common goal.

Chapter 5 Firms

5.1 Introduction

A starting point for Chinese small town development is rural industrialisation. Industrialisation, as it occurs elsewhere, requires essential “inputs” such as entrepreneurship, technology, raw materials, financial capital and labour. Most of these factors are deemed abundant in an urban context but deficient in a rural one. Thus, existing cities or places with easy access to cities are desirable “seedbeds” for industrialisation because these advantages can be obtained and utilised. This is also evident from the theories and empirical evidence reviewed in the previous chapter (see Chapter 2 for review). However, the paradoxical phenomenon that this thesis tries to examine is why industrialisation can be achieved successfully in two towns with such contrasting location-settings. To answer this question, aggregate-level statistics, such as total industrial output and GDP growth at town level, offer little information because they cannot reveal the micro-mechanism of firms’ formation, organisation, growth and subsequent structures in both localities. Thus, a close examination of firm-level evidence is essential to unpack the interaction between firms and their host environment.

The main concern of this chapter is to study the impact of urban proximity on firms in the two towns based on firm-level evidence. The two towns under close scrutiny are sharply contrasting in terms of their proximity to existing cities but similar in terms of economic prosperity. By 2001, the total industrial output in Xihongmen town (a suburban town) and Zhulin Town (a rural town) was 1.16 billion RMB and

0.63 billion RMB respectively. Considering that the population size⁴ of Xihongmen town is double that of Zhulin town, we can fairly conclude that there is little difference in industrial development at per capita level in the two towns. But when we look at the numbers of firms in the two towns, a sharp contrast can be immediately identified. In 2001, there were **947** firms in Xihongmen town and only **87** firms in Zhulin town. This direct comparison reveals that the firms in the two localities are actually very different, at least in terms of their average contribution to the local economy.

The purpose of this chapter is to explore the differences between the two towns' firms through systematic comparisons and also to explain why such differences exist by referring to their contrasting locations (suburban vs. rural). The key argument of this chapter is that geographical proximity (or remoteness) to existing cities has a profound impact on the operations of firms in the two towns. The basic rationale is that in order to survive and succeed, firms need to utilize the advantages with which their locality is endowed and overcome any constraints that their locality exerts. Of the two towns selected in this study, it is obvious that the Xihongmen town (suburban town) possess more advantages (or less constraints) than Zhulin town (rural town) for the process of industrialisation. Its proximity to the city enables firms in Xihongmen town to enjoy various urban advantages. In contrast, firms in Zhulin town need to cope with various constraints associated with its relatively isolated and remote location. Thus, the **firm-formation process, inter-firm networks, growth patterns** and subsequently **local industrial structure** in the two towns are likely to be different, since the firms are more or less embedded in very different local contexts.

⁴The population size here refers to those residents with local household registration (*hukou*), and does not include migrants from outside the local community.

Drawing from both qualitative and quantitative data, including historical records, on-site interviews and firm-level data, this chapter explores five key aspects of local firms. Although some similarities will be discovered and presented through the comparisons, the main focus of this comparative analysis is centred on the contrasting features of firms at the two locations. The five key aspects are listed below:

1. **Origin of the First Firm:** Based on the local government's historical records, this section aims to answer the following questions: how did the first firms emerge in both towns and under what kind of institutional environment? How were the business opportunities identified and based on what concerns? How did the entrepreneurs mobilise local resources to set up these firms? What was the significance of these first firms to the subsequent process of industrialisation at the two towns? This section marks an attempt to trace the starting point of rural industrialisation in both towns. Close examination of this process will provide a good historical background for further analysis and also identify some path-dependent elements that potentially exert influence on the later trajectory of the local industrialisation process.
2. **Case of Private firms:** Unlike collective firms, which are historically and institutionally rooted in the local area, private firms are normally "footloose" and free to make their own location choices. Although private firms are not equally developed in both towns (the number of firms in Xihongmen town significantly outnumbers the number in Zhulin town). As an essential and increasingly important part of the local economy, the details of how private firms were set up and how they interact with their environment should not

be overlooked. This section compares two private firms, one from each of the two towns, based on the author's fieldwork and interviews with the business owners; the study aims to find out how the business owners made their location choices and their self-evaluation of the locality's impact on the business.

3. **Inter-firm networks:** Firms do not operate in a social vacuum: their operations inevitably involve various linkages with other firms, but the network relationships might be different in nature and strength. This section is an attempt to summarize different features of inter-firm networks at the two towns and also explain why their inter-firm networks are different.
4. **Growth Patterns of Firms:** The pattern of firms' growth at town level is the key issue to be examined in this section. This section also aims to identify the main driving force behind the formation of new firms in both towns and outline the impact of the different growth patterns to the local industrial development.
5. **Industrial Structure:** The agglomeration of firms creates a certain industrial structure, which can be identified as primary, secondary and tertiary sectors or in a more detailed manner. The firms in each sector cannot be treated as homogenous economic entities, since the strength of each industrial sector is shifted along with the local development process. The two selected towns have experienced relatively different degrees of urbanisation, which could affect firms in each industrial sector differently. This section aims to describe various key features of local firms in different industrial sectors and compare the changes of industrial structure in the two towns

The study of the above five key aspects of firms is also guided by a simple logic, which can be regarded as the basic analytical framework of this chapter.

Individual Firm (1 & 2) → Inter-Firm Network (3) → Firms at town level (4 & 5)

The study starts from the analysis of individual firms based on case-oriented qualitative evidence, then moves on to the study of inter-firm networks and finally analyses some distinctive characteristics of firms at aggregate level - town level. This logic is not based on any given theoretical framework, since the aim of the analysis in this chapter is not to confirm or test any existing theories but to explore differences between firms at the two towns in order to advance new theoretical thinking on the interaction between firms and the environment in the post-1978 economic reform era.

This chapter is structured as follows: section 5.2 specifies the operational environment for local firms at both towns and compares each town's advantages and disadvantages for industrial development. In order to distinguish it from the local environment mentioned in the previous chapter, I use the term "milieu" to specifically refer to the environment for firms. Sections 5.3 to 5.7 study the five key aspects mentioned above, namely the origin of the first firm, the case of private firms, inter-firm networks, growth patterns of firms and local industrial structure. Section 5.8 discusses the major research findings and offers conclusions.

5.2 Firms' Milieu

In the previous chapter, the local environment was closely examined with the aim of figuring out what kinds of task environment the two towns' local governments

were operating within. For the local government, population size and social stratification are the key issues, because they are the principal environmental challenges to service provision, as evidenced in Chapter one. They are also important factors for firms' operations: for example, the local population size can be a good indicator of the local market size, while social stratification can be linked to the various market segments, which enable different range of products and services to co-exist in one place, since the demands from different social groups are heterogeneous. Apart from those factors, there are also some specific environmental facets that are crucial for the firms' operation, such as interactions with existing urban systems, natural endowment and the institutional environment. The main features of the firms' milieu at the two towns will be presented and compared in this section.

Xihongmen Town

Although Xihongmen town is endowed with very fertile soil and acted as a major farming base for centuries in the extended Beijing Area, this natural advantage has eventually given way to the industrial advantage because of its proximity to Beijing city. In the last two decades, the local environment has been transformed into an industrial and service base with nearly 1000 firms operating within the town territory, which demonstrates the popularity and status of this suburban town. To conclude, Xihongmen town provides dual advantages for firms' operations, which can be summarized as **urban** and **institutional** advantage.

Urban Advantage: Being a suburb of Beijing, the accessibility of the inner city means that firms at Xihongmen town can enjoy relatively lower land rent in comparison to inner-city prices, but also have the opportunity to access the huge

inner-city market. Regarding the market size, the official statistics show that the population size of Beijing had reached 11.9 million by the end of 2004 (Beijing Statistics Yearbook, 2004). The average annual income is 13,882.6 RMB and is ranked third highest in China, and the GDP per capita reached 37,058 RMB by 2004 and is ranked second highest in China (China Urban Development Report, 2004). Such a sizeable market has made Beijing an attractive market, which could be a huge advantage for firms located within its realm.

Beijing is also a city with the highest concentration of higher education institutions and national research institutes. These institutions are frequently addressed in the regional development literature as the key factors to explain firms' competitiveness within a region, termed by Amin and Thrift (1995) as "intuitional thickness". Those institutions are crucial to the firms in terms of providing technological advancement and skilled human resources. Apart from those established institutes in the city, high concentrations of firms in the city also facilitate technological spill-over effects and organisational learning among firms. The various business networks also facilitate the rapid exchange of information, which is paramount to the success of firms.

Institutional advantage: Apart from the above-mentioned urban advantages, Xihongmen town is also blessed with some institutional advantages, which make it an even more desirable place for industrial development than the inner city. During the economic transition period (1978-present), China's gradualist style reform has actually made rural regions more economically liberal than their urban counterparts. The fiscal reform actually creates a certain institutional divide, which favours rural areas. As Knight and Song (1999: 13) described it, "The new sector (rural industry) developed in the rural rather than the urban areas largely because of the

institutional divide between rural and urban China that the State had created. Only in the rural areas could economic agents respond to the supernormal profits available in light industry. Moreover, the policy of rural fiscal self-reliance created a strong incentive for rural authorities to promote the industrialisation of their localities. In this sense the institutional divide generated a degree of 'rural bias' in comparison with the 'urban bias' model."

The "rural bias" means that the local government, which is administratively classified as rural, actually enjoys more autonomy than its urban counterparts in utilising resource to pursue economic development during the economic reform. In the case of Xihongmen town, the previous chapter has already showed that the local government promotes local economic development by using various policy tools (for example, issuing hukou to attract non-Beijing entrepreneurs). The local government also enjoys a high degree of autonomy in using local land resources to pursue economic gains. Although Xihongmen town is currently an integral part of Beijing city, the local government is still classified as town status: this status allows Xihongmen town to be more institutionally flexible and innovative in dealing with local development problems than its counterparts in the inner-city area.

Zhulin Town: The location of Zhulin town is unfavourable for industrial development not only because of its remoteness from existing cities, but also because the town suffers from water shortages, which is a critical issue for industrial activities. In addition, the mountainous landscape also hinders the establishment of a mass production base. By any means, the geographical features of Zhulin town are incompatible with the development of modern industry, simply judging from its geographical features.

Although geographical disadvantages are somewhat “genetically” rooted factors, which can hardly be changed during the developmental course, there are also certain local characteristics that could be potentially utilised for generating industrialisation.

The first such characteristic is the **natural resources**. In rural China, attempts at rural industrialisation mostly started with the manufacture of building materials. Zhulin is no exception. In the mid-1950s, a group of geologists discovered rich mining resources in Zhulin’s mountains. This finding directly triggered the first attempt at industrialisation (details of the formation of the first factory will be explained in section 5.3). The locally available resources constitute a good foundation for the non-agricultural activities, which can be regarded as one of the advantages for industrial development. The building materials industry has always been Zhulin town’s key strength and it was still contributing significantly to the local economy when the author conducted fieldwork there.

The second advantage might be termed “**social resources**”. Although remoteness and isolation can be disadvantageous for industrial development, the isolation can also result in a socially homogenous environment. This kind of environment could generate a large stock of “social capital”, which could be potentially beneficial for economic development. As Putnam (2000) puts it, “isolation may lead to a distinct form of social capital”. Recall what I described in the previous chapter (see section 4.2): one of the key characteristics of Zhulin town is its kinship-centred network and relatively intact social structures. The socially homogenous environment facilitates trust and knowledge-sharing, and reduces transaction costs and various risks, which could be helpful in developing the local economy.

Summary Comparison: The comparison of firms' milieu shows that Xihongmen town is, by any standards, a more desirable place for modern industrial development. Its "double" advantages are the key strengths with which the town attracts firms, and could not easily be duplicated by other towns. By contrast, Zhulin town's environment is mainly disadvantageous for industrial development, but we should also note that its relative remoteness from the existing cities and poor natural conditions also result in the social structure of local community remaining intact, since there is no inward migration. The social structure of the town potentially fosters a strong sense of unity and solidarity at community level, which might be also beneficial for economic development.

5.3 Origin of the First Firm

The comparison of firms' milieu at both towns clearly shows that Xihongmen town outweighs Zhulin town in terms of the quality of the environment for firms' operation. However, one thing that we should bear in mind is that both localities started from the same starting point – four decades ago, they were both solely farming villages without a single firm. In a rural locality with farming as the mainstay of life, the formation of the first firm is a significant event for its "exemplar" influences on the subsequent industrialisation process, and is also good for the accumulation of human and financial capital. Thus, close examination of a single firm's formation process can throw more light on our understanding of the interactions between firms and the environment. Based on the historical documents

obtained through fieldwork and assistance from some interviewees⁵, this section reports the formation processes of the very first firms at the two towns and later makes comparisons between them to reveal how locality provided the initial impetus for the formation of the first firm.

Xihongmen Town: Xihongmen Electron Tube Factory

The first firm at Xihongmen town was a collective enterprise - ***Xihongmen Electron Tubes factory***. It was established in 1966, the same year that the Cultural Revolution (1966-1976) commenced. Although the social and economic chaos started to disturb urban areas under this radical socio-political movement, the rural areas remained largely unaffected at its initial stage. At Xihongmen town, a number of factors facilitated the birth of the very first firm. First, at a national level, the positive role played by rural collective enterprises⁶ was widely recognised (see Perkins et al, 1977; Lin & Yao, 2001). Although the central government still placed its main emphasis on grain production, the control over the formation and operation of rural collective enterprises was relatively relaxed at that time. The communes and brigades were allowed to establish factories as long as this did not interfere with their main task - grain production. Second, the local farming sector had suffered from over-manning problems for a long while. There was surplus labour that could be readily transferred to the non-farming sectors. Third, the local government had a certain amount of savings that could be used as an initial

⁵ Most details about the formation of the firms in both towns are written in the town's history record (Xian Zhi), but I also had the opportunity to interview some people who once worked in those firms, and some of information they gave me is also used here.

⁶ Before 1978, the rural collective enterprises were known as Commune and Brigade Enterprises (CBE): the name reflects the then political system in rural China, which was governed by People's communes and Production Brigades (for a detailed account of the system, please see Byrd and Lin, 1990; Oi, 1994)

investment to set up firms. These three factors constructed a good foundation for Xihongmen to embark on its new journey of rural industrialisation.

Although the basic premises for establishing a firm were fulfilled, an important starting point was to find a suitable product to pursue. A handful of local cadres started to conceive various plans in 1965 but struggled to find a workable project. As the then local leader Mr. Wei Shenhe remarked, "our farmers are only familiar with planting tools, not machinery tools". They finally decided to ask for help from people in the city and search for potential projects in Beijing. After a few months' search, a message came from one local cadre's junior school classmate about an inner-city factory - ***The Beijing Third Radio Components Factory*** - which intended to externalise part of its production to other factories. The local government immediately sent delegates to this Beijing factory to discuss the possibilities of cooperation. After several rounds of negotiation, the Beijing factory agreed to transfer the electron tube production technology to them and help them to build a new factory at the town. Six months later in 1966, the first factory was established in Xihongmen town. Thirty-six workers were selected from the local area based on two criteria - being young and knowledgeable - because the local government believed that young people are better able to handle technological work. The factory site was located on previously deserted land adjacent to the local government. The first batches of products were tested and passed two months later by the Beijing factory, which also helped to sell them. The local government earned its first "buck of gold" - RMB 40,000 - in its first industrial attempt.

Although the success of the first firm greatly encouraged the local government to pursue other industrial activities, the operation of this first factory was inevitably influenced by the macro-level political turbulence when the Cultural Revolution

expanded to rural areas. Only two years after its first establishment, the founder of the factory – Mr. Wei Shenhe - was named as a “rightist” and dismissed from his managerial position in 1968. The operation of the factory was suspended and it was pushed to the verge of closing down several times before 1978. The turnaround came in 1978; the end of Cultural Revolution and the changing socio-economic environment revived the factory again. The factory was reopened and expanded and the former leader was reappointed. The development of the enterprise was once again on the right track. After 10 years of running, the factory was officially disbanded in 1988 because of its poor performance and intense market competition. Despite its sad disappearance, during my visit to the Xihongmen town, the local officials still mentioned it and described its significance as “the first step of the long march” of Xihongmen town’s industrialisation, urbanisation and modernization.

Zhulin Town: The Refractory Bricks factory

Prior to industrialisation, farming had been the mainstay of Zhulin for centuries, although the land is not ideal for farming. Due to its mountainous landscape, covered by thin soil, and its shortage of water resource, complete reliance on farming was not sufficient for local residents’ livelihoods. Thus, Zhulin’s history was always connected to miserable poverty. There were many sad stories, such as people selling their own babies or begging in other places. This deeply rooted poverty was an initial driver for local people to think of other alternative livelihoods; one option was for the town to develop its own industry, but it is hard for a rural place to take the first step forward, since there are scant resources that can be used to set up factories.

One opportunity emerged in the mid-1950s, when a group of geologists from the Soviet Union and the Chinese Academy of Science found that the mountains of Zhulin contain rich resources such as limestone, iron ores, alumina and coal. This groundbreaking news excited local people. The village started to think about how to convert these resources into cash to alleviate poverty. At an early stage, they sold these resources directly, but they later found that the profit from direct selling was low. In 1968, the first collective factory was launched to produce refractory bricks, but it was later forced to close down by the provincial government because of its “capitalist nature”⁷. Although this was rather disappointing for local residents, over 30 people had mastered the techniques needed to make bricks and the later leader of town, Mr. Zhao Min-en, also gained experience on how to manage the production and market the products. This period was essential for the subsequent development of local firms.

After 1974⁸, when the control over rural industry was relaxed, the refractory bricks factory resumed production. A few more workshops were established to expand the productive capacity of the factory under the leadership of Zhao Min-en. Its products - refractory bricks - were mainly sold by local salesmen through door-to-door promotions in the major cities of Henan province, such as Zhengzhou, Kaifeng, Jiaozuo etc. The factory was later expanded and reorganised as the *Jingzhou* Corporation Group, which consists of twelve factories and still acts as a profit centre for Zhulin town nowadays. The significance of this firm was that it helped the local

⁷ During the Cultural Revolution period (1966-1978), any attempts at non-agricultural activities were considered by the central government as challenges to the socialist system and named as “capitalist tails” which needed to be completely cut off.

⁸ In 1974, De Xiaoping was appointed as China’s first deputy premier and was responsible for the daily running of the state council. He is the leading advocate for the liberalization of the rigid economic planning system.

community to accumulate a certain level of financial and human capital in its early stage of industrialisation. It was also at this stage that the leadership of Mr. Zhao Min-en and his associates was firmly established. A durable leadership has always been a key feature of Zhulin's development. This durability continues to provide both stability and continuity of local development until the present day.

Summary Comparison: The formation of the first firms in the two towns shares some similarities. First, both firms were set up in the hands of local cadres. Second, in both cases, the start-up of the first firm was made possible by the relaxation of national regulations and policies. These two similarities reflect some fundamental facts about Chinese rural industrialisation, namely the important role played by the shift of national development strategy and policy. It is also true that local government represented the only legitimate operator at the onset of industrialisation because private ownership was still heavily discriminated and prohibited at the early stage of the economic reform.

Aside from the similarities stated above, which are more or less universal for all rural firms in China, there are also some substantial differences in the formation of the first firms at the two towns. For Xihongmen town, every step of the firm's operation was closely linked to the inner city of Beijing. The evidence shows that Beijing, or more specifically, an inner-city SOE, played a vital role in identifying the first firm's business opportunity, as well as in technology transfer and the sale of products. This case represents a classic example of firm formation based on urban spill-over effects. By contrast, the formation of the first firm in Zhulin town relied purely on the local "natural" and "social" resources, which imprinted the "indigenous" nature of the local economic development from the very beginning. So, the "city-oriented" vs. "community-based" nature of industrial development can be

distinguished at a very early stage of the rural industrialisation of the two towns. This distinction is very important in understanding the two towns' subsequent industrialisation processes.

5.4 The Case of Private Firms

This section studies private firms, which have mainly emerged since the 1990s due to a shift in the national development policy. In contrast to the immobile nature of collective firms, private firms are considered as "footloose" economic agents that can choose locations purely on the basis of the profit-maximising principle. In the two selected towns, private firms have mushroomed in Xihongmen town but are scarce at Zhulin. This fact has already demonstrated the positive effect of urban proximity on industrial development. However, since private firms still exist at both towns, we are not clear on several basic questions. First, who are the entrepreneurs in the towns? How did they make their location choices and based on what concerns? What is the impact of the locality on their businesses? Based on the fieldwork conducted at two private firms, this section aims to provide answers to these questions.

Xihongmen Town: Red Horses Mahogany Furniture Ltd

Although collective enterprises were the dominant power in local industry during the 1980s, the 1990s witnessed an explosive growth of private enterprises in Xihongmen town. Nowadays, Xihongmen town promotes its image as a "fertile land for entrepreneurs" in southern Beijing, and the official statistics show that nearly 1000 private firms were registered in the town territory by the end of 2004. Here,

"fertile land" is a very interesting "label" since Xihongmen town used to be a famous agricultural base for all sorts of farming products 20 years ago. The transformation from "fertile land for farming" to "fertile land for entrepreneurs" is largely due to its convenient proximity to Beijing.

In this part, a successful private firm in Xihongmen town will be analysed based on my visit to this factory – **Beijing Red Horses Mahogany Furniture Ltd**. The case triggered my interests for two reasons. First, this enterprise was originally located in *Nantong, Jiangsu* Province and relocated to Beijing in 1997. I was very interested in the owner's decision to make this "long-haul" relocation. Second, the owner and staff of this factory were all willing to talk with people who show an interest in their products and business, so "gaining access" was not a problem. This visit turned out to be very fruitful and interesting. I also had chances to take some photos: photo 5.1A shows one of its popular products – the *Lohan* bed, which was developed after the firm relocated to Beijing. The owner told me that they had sold 77 in 2003. Photo 5.1B shows one of the four workshops that specialise in processing the raw wood.



Photo5.1A: Traditional Chinese Luohan Bed



Photo5.1B: The Wood Processing Workshop

Mr. Ma Shucheng, the owner and founder of the factory, is an active talker. I raised a number of questions regarding the reasons why he chose to do business in Beijing, the source of the labourers employed, the firm's relationship with the local government and community and how he felt about the impact of relocation on the business. His replies contained abundant information and some of the key points he made are summarised below.

Reasons for relocation (from Nantong to Beijing)

"I had never considered doing business in Beijing before; the idea came to me in 1995 when my son started college in Beijing. During a visit to him, I also visited some furniture stores and found that almost 90% of so-called Mahogany furniture in the Beijing market was fake. It really shocked me! I also noticed that the people of Beijing have strong purchase power because even that fake mahogany furniture is very sought-after in the market... I was thinking, 'I have a factory in Nantong, we are doing very decent business (meaning no fake materials): why couldn't I have a factory in Beijing?' The market is huge here and our products are very competitive...In 1997, I rented this place and started this factory..."

Sources of Labour Employed

"My business is a highly skilled one; there is no "anybody-can-do" type work. So, we don't use local people. All my employees are hired from our hometown. You might have heard of our hometown, it has a well-earned name as "the hometown of Chinese wood-carving". Many young men start to learn the carving skills in childhood....."

Relationship with Local Government/community

"What do you mean when you say 'the relationship?' I don't know who the leaders in this town are and I have never had personal connections with them during these

years. All we need to do is "work honestly, operate legally (Che Shi lao Dong, He Fa Jing Yin)" and pay all the taxes we should pay...that's it!"

Impact of the Locality

"Moving to this place is definitely the best choice I have ever made... Our last year's business (total sales) is almost 7 times more than when we were in Nantong...Beijing is a huge place and there are tons of rich people, we have no problems selling our full range of products no matter how expensive they are...this was almost impossible in my hometown (Nantong). Beijing is also a place where you can learn a lot from the market, such as the design of new products, management and promotions... You meet all sorts of customers...we are currently having orders from Taiwan, Hong Kong, Korea and Japan...we are a international firm already"

Zhulin Town: Dayang Clothing Factory

The emergence of private firms in Zhulin town is only a recent phenomenon. One factory I visited during the fieldwork is *Dayang* Clothing Ltd, a local private firm established in 2001. The reason why I chose to visit this factory is because it is one of two private firms which employ more than 50 people;⁹ this fact also reveals the weak status of private firms' development in Zhulin town. Another reason why this factory interested me is that its main business - garment manufacturing - should not in any sense be a strong point for Zhulin town. Although nowadays the whole world is flooded by all types of garment made in China, the major production base is centred on the Pearl Delta area because of the availability of economic scale and shipment access. In Zhulin town, as a rural place in the hinterland, the cloth-

⁹ According to the interview with local officials, only two private firms in local area achieved such scales.

making business would be expected to suffer from the various constraints. These two reasons helped me to decide to visit this factory.

My initial impression of this factory was its two large and bright workshops. Photos 4.2a and 4.2b show these two workshops respectively. Workshop 1 produces bags for Philips' Electronic products. There is a big slogan on the wall - "Going to the international market with honesty and quality", and I later discovered that all the bags produced here would be shipped to Europe. The second workshop produces cotton bags decorated with cartoon pictures that are mainly designed for young women. Those bags are intended for domestic sale.



Photo 5.2A: Workshop 1 (producing Philips' Bags) **Photo 5.2B:** Workshop 2 (Producing Cotton Bags)

Less than 30 people work on the assembly lines, and I asked Mrs Cui Baoqing, the owner of the factory, the reasons for this. She explained that the total number of workers hired by this factory is 67, but half of them are part-time. The number of people working in the assembly is decided by the workload: "if we get a big order, maybe all the people will work here, but in normal conditions, we have 40 people around". Another interesting finding is that this company does not actually produce any clothes, although its name suggests that it is a clothes-manufacturing factory. The reason for this, as explained by Mrs Li, is that they plan to develop themselves

as a clothing-manufacturing factory but the conditions are not mature at the moment. So, they have started with easy things – the manufacture of fabric and cotton bags. The interviews with Mrs Cui Baoqing and her associates took place in her office. One key message that I got through the interview is that Mrs. Cui Baoqing is the wife of Mr. Li Jingzhou, the director of the *Qingzhou* Corporation Group, which is the second largest business group in the town. This connection is vital in explaining the existence of this factory, although Mrs Cui didn't refer to it in an explicit way. I raised a number of questions similar to those asked at Xihongmen town, asking about why she started the business, the sources of labour employed, the relationships with local government and the community, and the impact of locality to the business. The key points made by Mrs Cui made are summarised below:

Reason for starting the business

"I had worked for 7 years in a local factory before staying at home (being a housewife)...my son started college in 2000 and there was not much to do at home. So, my husband supported my decision to do something...finally we decided to start this business. The Henan Province International Trade Bureau gave us some export quotas (making of bags for European companies), and we used our savings as initial investment. My husband helped me through all the set-up issues..."

Source of Labour Employed

"All our workers are either from the local town or from the nearby Dayugou village. Most of them are young and middle-aged women. Our work is very flexible; some of them can even work at home if they have the equipment (sewing machines), and there are no problems with recruiting people because it is not a difficult job..."

Relationship with local government/community

"The local government supports us a lot, to get some export quota from the Province International Trade Bureau sometimes requires the local government's negotiation. The land, electricity and many other things need to be ratified by the government..."

"We don't pay fees to the local government but make donations on a voluntary basis. Last year, we donated 30,000 RMB for the purpose of constructing roads. Sometimes, we also send our workers to do cleaning work for public spaces. This is a small place: you need to do something for the community, otherwise you earn a bad name..."

The Impact of the Locality:

"It is natural to establish a firm here because I am a local person. My local background has been really helpful in starting this business. Our current problem is that our product range is very narrow. As you saw, we can only produce bags and the profit from making them is very low. We want to develop into a garment-manufacturing factory, but that requires skilled workers and designers. The equipment can be purchased but suitable persons are very difficult to get...we are now planning to recruit some people from Guangdong province or send our workers there for training, but it is not that easy and it takes time..."

Summary Comparison: Based on the fieldwork and interviews with the business owners, this section reports the study of two private firms at two towns. The qualitative inquiry focuses on the firms' start-up processes and the owners' self-evaluation of the impact of the respective localities on their businesses. What we can conclude through this comparison is that the two firms are very different in

terms of the whole start-up process and later operations. Two major differences can be identified. First, regarding the reasons for starting a business, the business owner at Xihongmen town clearly stated that he was attracted by the market potential and enormous opportunities offered by Beijing. The pursuit of high profit was the dominant reason for choosing this location. On the contrary, the owner of the private firm in Zhulin town showed a very mixed view regarding the start-up process. She gave a quite interesting reason that "she didn't have much to do" at home, but the true reason is that her husband is a powerful figure in local industry and belongs to the "leadership network" mentioned in the previous chapter. The founding of this private firm is a "spill-over" from the local social network rather than being created by someone from outside the community. Second, although both owners are satisfied with their current location choices, their reasons are entirely different. The business owner at Xihongmen town praised the market conditions in Beijing and was also very satisfied with the current operation of his firm. He seemed to possess little knowledge about the local town and had little interest in building any close relationships with the local community; all he was interested in was exploring the full potential of the Beijing market. In marked contrast, the business owner from Zhulin town attributed her choice of location as a natural choice, since she is a local person; meanwhile, she also thinks that her local background and social connections with local government play a vital role in her business, since part of her firm's business (export quota) has been obtained through the local leaders' social network with the provincial international trade department. She also acknowledges that the town's location has caused some problems with the hiring of skilled labour for clothes-making, but plans to overcome this shortcoming by recruiting people from outside or sending current employees away to be trained.

5.5 Inter-firm Networks

The above two sections report on firms' formation and operation based on case-centred qualitative evidence. The narrative accounts have already showed the significance of various network relationships in supporting and facilitating the business operations at the two towns. Apart from these non-market relationships, in a purely economic sense, firms also need to deal with suppliers, providers of intermediate goods, retailers and consumers to ensure their daily operations. Thus, regardless of their location, firms are more or less interlinked in certain ways, but the networks might exhibit different characteristics in different regional settings. This section aims to conduct an exploratory analysis of inter-firm networks at the two towns, summarize the major characteristics of these networks and explain the possible reasons behind them. The summary comparison highlights the impact of urban proximity on the patterns of inter-firm networks in both towns.

Xihongmen Town

Firms in Xihongmen town behave more like **discrete units** and their inter-firm networks are characterized by loosely connected, business-centred links, mainly governed by the competitive market. We can basically summarize the inter-firm networks at Xihongmen town as business-centred networks.

At Xihongmen town, only a small number of firms are organised as formal business groups¹⁰. Direct evidence to support this statement comes from the local TVEs

¹⁰ The concept of business groups is defined as "sets of legally separate firms bound together in persistent formal and/or informal ways" (Granovetter, 1994; 2005). Internationally, Korean *Chaebol*, Japanese *Keiretsu* and *Qiyejituan* in Taiwan are frequently referred to as typical cases of business groups.

(Town and Village Enterprises). In 2001, the total number of TVEs in Xihongmen town was 219, and there was only one identifiable business group – Xihongmen *Xinguang* Group, which consists of 11 firms. All the firms within this group share the same title, "*Xinguang*", and their products and services are all centred on the lighting equipment. Apart from this business group, none of the TVEs have officially established themselves as business groups. Thus, locally speaking, only 5% of local TVEs operate in such a business group format. This is very different from other parts of rural China, where TVEs are normally well organised into one or a few business groups, which consist of one or two core firms and several subsidiary firms. The whole group normally has a unified production orientation and its firms are mutually dependent on each other. This phenomenon is also well documented by previous research on TVEs (see Oi; 1995 Walder 1995). It is clear that the business group is not a significant phenomenon in Xihongmen town for the previous collective enterprises. For the private firms that emerged later, although there is no concrete data to directly support the claim, business groups are a rare phenomenon. My interview with the director of the local enterprise management office has confirmed that business groups are also a rare phenomenon for the private firms in Xihongmen town, to the best of his knowledge. He suggested that the main reason is because the local firms are mainly small manufacturers and service companies that have come from all part of China and thus have little incentive to organise themselves into formal business groups in the local area.

So, why are firms in Xihongmen town less likely to be organised as business groups? Here, I argue that the principal reason lies in the dynamic nature of the local business environment. Due to its geographical proximity to the city, firms face a very mature and competitive market, which offers almost everything, so there is no need for single firms to build close ties with each other to obtain raw materials,

intermediate goods or various services because everything can be purchased in the market. Another reason is that the majority of local firms nowadays come from outside the local community and have no local background. They are mainly attracted to Xihongmen town because of its proximity to Beijing, rather than because of the town itself. Their products and services are mainly targeted at large markets such as the inner-city region of Beijing or the national market; thus, there is little interest in seeking alliances or building close networks at local level. In this sense, the scope of these firms' networks is largely outside the local town, extending to Beijing or to other parts of China. The case study in section 5.4 shows how a non-Beijing firm is doing business in Beijing and also keeping connections with its hometown for human resources and technological support. But, locally speaking, firms are rarely organised formally as business groups.

Although the above descriptions show that business groups are not a significant phenomenon at Xihongmen town, this does not mean that inter-firm networks are absent in the town's business operations. What I argue here is that firms at Xihongmen town behave in a more "individualistic" way and their inter-firm relationships are loosely connected. The nature of inter-firm networks is mainly business-centred and governed by economic transactions rather than non-economic connections, such as kinship or social networks. From a spatial point of view, the inter-firm networks are also geographically diffuse, and are not constrained to the local area. The networks are also less formal and institutionalised in comparison to the business groups commonly found in rural China.

Zhulin Town:

Apart from the limited number of private firms (18 in 2004), the collective firms at Zhulin town are organised neatly into 8 business groups. Each group has a unified production line and the member firms within the group share interdependent relationships. Why are firms at Zhulin town so highly organised in the form of business groups? There are two reasons that might explain this phenomenon.

First, we can basically treat the business groups as reflections of dense local kinship/social networks. As the previous chapter shows, the directorship of different business groups and member firms is heavily penetrated and interwoven with local kinship/social network. For example, the son of the party secretary of Zhulin town is the managing director of the most profitable enterprise – Zhulin Zhongsheng Chinese medicine factory. The head of the second largest business group, the Qingzhou Group, is a close friend of Mr. Zhao and one of Zhao's sons-in-law is the director of the Qingzhou Group's member firm. Almost all the local business groups can be connected by some fundamental kinship/social connections; thus, the highly organised business groups have deep roots in the local social structures. As Mark Granovetter (1994) summarized, the reasons for the existence of business groups as follows: "firms form into business groups through repeated transactions and by factors such as geographic region, political party, ethnicity, kinship, or religion." At Zhulin town, the relatively restrictive geographic region and the dense kinship networks construct a solid foundation for the formation of business groups.

Second, the business groups also bring a number of economic benefits to both the groups themselves and their member firms. From an economic perspective, business groups substitute for imperfect market institutions in the emerging economies (Caves and Uekusa, 1976; Chang and Choi, 1988). Clearly, the local environment holds many drawbacks for industrial development, such as a lack of

financial institutions and an underdeveloped factor market, which potentially creates the need for firms to organise themselves into groups to combat those drawbacks. One key example is that inter-loans among firms within a group or among groups have become a common practice for the firms in Zhulin town in the last two decades. It is also true that newly formed firms also share intrinsic links with existing firms: many member firms within groups have been established to serve the needs of the existing firms, which can be divided into core and subsidiary firms. In order to better illustrate the pattern of firms' organisation in Zhulin town, table 5.1 present the two major business groups and their member firms, including their products and firms' compositions and years of formation (in brackets) as follows.

Table5.1: The Compositions of Two Largest Business Groups in Zhulin Town

	Main product	Member firms (C denotes core firms and S denotes subsidiary firms)
Zhongsheng Group	Pharmaceutical products (1988 - Present)	<p>(C1) Zhulin Ante Pharmaceutical Factory (1988, Zhulin)</p> <p>(C2) Zhulin Zhongsheng Chinese Medicine Factory (1991, Zhulin)</p> <p>(S3) Zhulin Chinese Medicine Planting Base (1994, Lushi County)</p> <p>(S4) Zhulin Zhongsheng Pharmaceutical Factory (1996, Zhengzhou, listed in Shanghai Stock Exchange in 1999)</p> <p>(S5) Zhulin Zhongsheng Advertising Company (1995, Zhengzhou)</p> <p>(S6) Zhulin Zhongsheng Biotech Company (1999, Zhenzhou)</p> <p>(S7) Zhulin Zhongsheng Beijing Company (2000, Beijing)</p> <p>(S8) Zhulin Zhongsheng Real Estate Development Company (2002, Zhenzhou)</p> <p>(S9) Zhulin Zhongsheng Software</p>

		development company (2002, Zhengzhou)
Qinzhou Group	Refractory/Chemical materials and products (1978-Present)	(C1) The first refractory bricks factory (1974, Zhulin) (C2) The magnesium-carbon bricks factory (1977, Zhulin) (S2) Zhulin Casting factory (1978, Zhulin) (S3) Zhulin Building Material factory (1979, Zhulin) (S4) The first chemical products factory (1979, Zhulin) (S5) The second chemical products factory (1980, Zhulin) (S7) The cartons factory (1980) (S8) The printing factory (1984) (S9) The third chemical products factory (1987, Zhulin)

Sources: Compiled by author based on industrial history section from the book – *Zhulin’s Road to Prosperity*

Table 5.1 shows the compositions of the two largest business groups at Zhulin town. What we can observe from this table is that the firms within each group are closely linked to each other in the process of production. The founding of a new firm is always based on the opportunities created by the existing firms. The firms within each group also share the same production orientation and are mutually interdependent.

Summary Comparison: This section is an attempt to discover the different characteristics of inter-firm networks at both towns. There is a contrast in the inter-firm networks at both towns. At Xihongmen town, the inter-firm networks are mainly business-centred and governed by the competitive market, due to its high level of market competition. On the contrary, firms in Zhulin town are organised as

well-structured business groups as a result of both local kinship/social networks and an underdeveloped local market. The underlying reason for such variations can be probably explained by urban proximity: the presence of such proximity results in a dynamic market and thus makes firms behave in a more "individualistic" way, less connected by solid social ties, while its absence binds firms together based on solid kinship and social ties, and it can also be regarded as a strategy to combat the poor conditions of the local market.

5.6 Growth Pattern of Firms

This section looks at patterns of firms' growth at town level. In the introductory part of this chapter, one basic statistic revealed a huge gap in terms of the number of firms at the two towns, but the reasons for this discrepancy have not been clearly stated. The purpose of this section is to analyse the driving forces of firms' growth at the two towns. The underlying reasons for the highly imbalanced number of firms can be understood through the comparative analysis.

Xihongmen Town

In the last two decades, the local collective firms have experienced some ups and downs alongside the fast-growing private firms. Generally, the growth of collective firms has remained stable and maintained a slightly upward trend over the years. The growth of firms at Xihongmen town can be best described as a "demand-driven" model. The meaning of this model refers to the fact that the formation of new firms is normally a series of "adaptive responses" to the changing demands of

the market, especially the nearby inner-city market. This model has two distinctive characteristics.

First, rapid urbanisation acts as the constant driver for the firms' growth. Here, I want to use two examples to demonstrate this model. The first relates to the food processing firms established during 1984-1988. Within this period, a total of 42 food-processing factories were set up. The major driver for the formation of these firms was strong demand from the inner-city region of Beijing. Benefiting from the open and reform policy initiated in 1978, inner-city consumers have strong demands for high quality agricultural, poultry and meat products. Xihongmen town was pushed as a major agricultural products supply base for southern Beijing during this period. This demand facilitated the flourishing development of food processing businesses such as flour-processing plants, frozen vegetable factories and meats/sausage manufactures. The founding of all these firms was subject to "invisible hands" from the inner city. The second example is the real estate development business. This was still a very hot business when the author visited Beijing in 2005. Starting from the commercialisation of urban housing in 1994 (see Chen, 1996; Wang, 2001; Wu, 1996; Zhou & Logan, 1996 for detailed accounts), construction and its related businesses, such as the manufacture of building materials, paint materials and decoration materials, began to flourish in the local area. In 1995, the local government launched three construction companies and one decoration Service Company to meet the requirements of this increasing demand. Apart from these officially established construction companies, it is estimated that there are over 100 firms currently working in real estate and related sectors (through interviews with local officials). The two cases presented here are good reflections of the "demand-driven model" of firms' growth. The emergence of a collection of firms can be always attributed to the changing local environment.

The interactions between the local town and the nearby city contribute substantially to the formation of new firms.

Second, very high "birth" and "death" rates were observed in local firms in Xihongmen town. It appears that firms' birth (legal foundation) and death (legal disbanding) are very common practices in the business world, but the actual events are particularly frequent in Xihongmen town. During a 15-year period, the firms established in the early 1980s were all disbanded or had their names changed. Take the example of electron tube factory mentioned in section 5.2: the firm was closed down in 1987 because of its poor profitability. It was replaced on that site by some newly established luxury villas. The food-processing factories mentioned in the previous paragraph have also suffered from same fate: only 4 of them survived by the end of 2000. Although the number of firms has increase steadily over the years, the composition of these firms has been changing constantly. It has also been confirmed by local government officials that by the end of 1995, over 90% of firms established before 1988 no longer existed. This phenomenon is mainly due to the abundant opportunities existing in the local area, which facilitate the birth of new firms to respond to rapidly changing market conditions. Put in another way, the local government and entrepreneurs tend to behave in a more "opportunistic" way in developing businesses, and the other explanation is that the competition is too fierce. One good example relates to the real estate development business. From 1995, a collection of firms related to the real estate business were established. These organisations were established to serve some opportunities related to the developmental process. However, some of these firms were immediately disbanded after the opportunities had been fully exploited. The high birth and death rate of local firms, to a certain degree, reflects the very dynamic nature of the local economy.

Zhulin Town

In the last two decades, the number of firms at Zhulin town has remained rather scant. By the end of 2001, there were 8 corporation groups, comprised of a total of 58 factories and enterprises. The number has remained quite stable over the years. All those enterprises are classified as collective enterprises and run by the local government. The private sector has experienced some growth in recent years, but the number of private firms is still less than 20. The private firms, as the study in section 5.3 shows, are also mainly local initiatives, firmly based on the local kinship and social network. It is fair to say that Zhulin town's local economy is dominated by collective enterprises.

Two drivers normally facilitate the birth of new firms. The first is the ongoing entrepreneurship of local government, spearheaded by the key leader, Mr. Zhao Minen. He is responsible for several key strategic turnarounds in Zhulin's development history. One case was his decision to launch the pharmaceutical industry in 1988. Although it was a controversial decision, the subsequent development of this industry proved that this was a crucial step forward, since most rural firms only concentrate on low-value added, labour-intensive products that are dependent on natural resources; few of them take bold action to enter industries that are traditionally regarded as high-tech and capital-intensive, such as the manufacture of drugs and medicines. Successful entry into the pharmaceutical industry opened a new profit centre for local towns. The core firm, Zhongsheng Pharmaceutical Company, has facilitated the growth of another 8 firms in 10 years. In this case, the strategic choice to launch a pharmaceutical enterprise was not driven by local needs or the local environment but by the key leaders' visions and

judgement of the national market; thus, this type of firms' growth can be termed a "strategy-driven model" in contrast with the "demand-driven model" mentioned in the previous section. As Mr. Zhao remarked, "my judgement came from my strong belief that the people would be more concerned with health and well-being and the market for medicines would be promising". In this sense, the strategy, visions and entrepreneurship are truly nationwide in focus, rather than just mere reaction to the changing local environment or adjacent cities.

The second drive of new firm formation is the expansion of existing firms. Under this approach, the firms' growth follows an interesting "snowball-rolling" style. To closely examine this, there is always a "core firm" at the initial stage, and then new demands emerge and new firms need to be formed to resolve these problems. For example, the first firm established in Zhulin was the refractory bricks factory. Two years later, the division of this firm yielded two separate firms adopting different technologies: one continued to produce bricks through high temperature burning and the other produced magnesium-carbon bricks by using chemical adhesive. The products produced by the latter proved to be popular in the market. Later, this factory furthered the establishment of three other firms - a Casting factory, a Cartons factory and a Clinker factory. One firm became five firms in a matter of three years (see Table 5.1). The interesting phenomenon is that these new firms normally diversify their products in the later stages of development and get bigger and stronger: one example is the carton factory, which produces cartons not only for local firms but also for the market in the adjacent towns and villages. This form of growth is described by local residents as "hen-eggs-chickens" style development. A hen can produce eggs and eggs can foster more chickens; thus, a circle of firms' growth can be maintained in the local area.

The above growth patterns also result in one distinctive characteristic of local firms. Firms normally enjoy a very long lifespan after their establishment. As soon as they start, they operate at their full capacity and rarely disband themselves. When a firm is in trouble, its parent group or other groups normally provide support and help to this firm, trying every means to re-orient the production or recover from the failures. Thus, the failure rate of local firms is normally very low.

Summary Comparison: In this section, the diverse empirical evidence shows very different patterns of firms' growth in the two towns. The differences are summarized as two contrasting models, a "demand-driven model" and a "strategy-driven" model. The formation of two models is strongly associated with the local contexts of the two towns. The growth of firms at Xihongmen town is mainly an "adaptive response" to the demand from the inner city, and I have thus termed it a "demand-driven model". Under this model, the growth of firms is mainly driven by the inner-city market forces. Close proximity to the existing cities will always bring more business opportunities; thus, entrepreneurship in suburban towns is mainly a responsive process to the changing demands of the inner city. There is also a very high founding and disbanding rate in the local area. In contrast, the growth of firms in Zhulin town has mainly happened through the key strategic choices made by the local leaders. When strategic choices have been made, the key firm has been established. After one key firm has been established, the demands of this firm facilitate the growth of several subsidiary firms to support its production. All those firms are closely linked to each other and constitute a larger business group. The firms are well organised under the strong influence of the local social network and always enjoy a very long lifespan following their establishment.

5.7 Industrial Structure

In the previous sections, firms were studied mainly based on their individual traits, such as formation, death, inter-firm relationships and growth patterns. One missing dimension is that firms are heterogeneous and tend to have different performance in different industrial sectors, and the industrial sector itself is subject to wider social changes such as urbanisation or state intervention (e.g. urban regeneration). For example, we cannot assume that the service sector faces the same environmental pressures as manufacturing or agriculture, especially when an area experiences rapid changes that favour certain firms in a certain industrial sector. The standard development theories suggest that urbanisation is a driving force for the adjustment of industrial sectors (for example, urbanisation result in an upswing from primary and secondary to tertiary sectors). Under this scenario, the number and size of firms, total output and profitability in each industrial sector should be different. Thus, the adjustment of industrial structures can be a good indicator to show the dynamics of economic development in a particular territory. This section aims to study firms by bringing in this structural perspective. The relationship among urban proximity, industrial structural changes and firms is the central issue examined in the following analysis.

Xihongmen town

One direct consequence of being a suburb of Beijing is the city's "magnet effect" for both migrants and firms. The rapid urbanisation that occurred at Xihongmen town also has impacts on the local industrial structures, especially when we look at these structures over time. In the last section, I discovered that one pattern of local firms

is their high founding and disbanding rates. In this section, we can examine this issue further by asking: "Do firms in different sectors possess different characteristics? How different are they in terms of growth patterns and profitability?" In order to assess the impact of urbanisation on local industrial structures and firms, an in-depth study of structural changes in local industry is necessary.

During my research on firms in Xihongmen town, I was fortunate to obtain a firm-level dataset from the local government. The dataset is derived from each firm's profit and loss account, which contains key financial indicators such as turnover (total sale), sale cost, net profit, total wage bill, number of employees etc. Firms report these figures annually to the Xihongmen town's finance office and data from 1996 to 2001 were available. The dataset is a combination of both town- and village-owned firms. For town-owned firms, there are 196 observations in total, which provide continuous data from 1996 to 2001. For the village-owned firms, there are two cross-sectional datasets for 1998 and 2001, which consist of 276 observations (see appendix 4 for the definition of the key variables and basic statistics). I use a dummy variable to incorporate them together as a unified dataset (N=472). This dataset has three distinctive characteristics.

1) **A Detailed Industrial Classification:** The raw data provided by the local government divides local firms into seven industrial sectors (agriculture, livestock, manufacture, transportation, construction, commerce and service). This classification means that the analysis can be more concrete in assessing the effect of each industrial sector's impact on the local firms.

2) Population rather than sample: the dataset contains all the collective firms in Xihongmen town. In this sense, the dataset is a population rather than a sample of collective enterprises at Xihongmen town over the 6-year period. This feature also decided the main aim of the following data analysis, which is to describe rather than predict, since there is no need to make any generalization based on a dataset that can be regarded as a whole population.

3) Unbalanced rather than balanced panel: The collective firms in this dataset include the exit and entry of firms but it has not been possible to distinguish between exits, mergers and name-changes of those firms. Thus, it is an unbalanced panel.

I want to achieve two goals in analysing this dataset: 1) to describe some of the changes of key variables over the years and report the extent and trend of the changes; 2) to assess the relationship between firms' output and input in different industrial sectors based on the production function approach.

1) Descriptive Analysis

In this part, four main indicators - firms' number, turnover, employees and net profit margin (calculated as net profit/turnover to indicate the profitability of firms) - are described. The reason for studying these four indicators is that they are the best available indicators to show the characteristics of firms in different industrial sectors in a rapid urbanisation period (1996-2001). In the following descriptive analysis, I also divide the town- and village-owned firms into two different tables to show more subtle information regarding the two types of firms.

a) Number of Firms in seven industrial sectors by year

Table 5.2a: The number of town-owned firms in different sectors (1996-2001)

Year	Agriculture	Livestock	Manufacture	Transport	Construction	Commerce	Service	Total
1996	2	5	8	1	1	1	8	26
1997	2	5	8	1	1	1	8	26
1998	2	4	8	1	1	0	7	23
1999	1	1	10	1	1	0	12	26
2000	1	3	22	1	1	2	11	41
2001	1	2	31	1	1	5	13	54

Table 5.2b: The number of village-owned firms in different sectors (1998 & 2001)

Year	Agriculture	Livestock	Manufacture	Transport	Construction	Commerce	Service	Total
1998	7	n/a	66	3	n/a	19	16	111
2001	1	n/a	94	3	n/a	48	19	165

The number of firms is a very crude measure of the strength of the different industrial sectors, since it cannot reveal the size of individual firms. Nonetheless, the distribution of firms in different sectors can still give us some general understanding of the size and strength of each industrial sector. The above two tables present some patterns of firms in different industrial sectors. Four main features can be summarized as follows: 1) In the primary sector, the number of firms in agriculture and livestock has dropped steadily through the years. This is partly due to the rapid urbanisation that occurred during the period, which has added value to the land. Traditional "land-intensive" industry, such as agriculture and livestock, needs to give way to other highly value-added industries, such as the

manufacturing and service sectors. 2) The manufacturing sector has experienced rapid growth in terms of number of firms, in both town and villages. 3) The construction business only operated at town-level because only the town government has legitimate power to use land for real estate development. 4) The number of firms in both the commercial and the service sector has increased rapidly.

b) Number of employees in seven industrial sectors (1998-2001)

Table 5.3a: Number of Employees in Town-owned firms (1998-2001)

Year	Agriculture	Livestock	Manufacture	Transport	Construction	Commerce	Service	Total
1996	25	191	342	24	96	42	213	933
1997	23	158	220	20	264	7	266	958
1998	16	113	193	12	264	0	239	837
1999	7	80	422	8	125	0	238	880
2000	7	141	1211	7	178	13	395	1952
2001	6	100	1245	7	195	47	581	2181

Table 5.3b: Number of Employees in Village-owned firms (1998&2001)

Year	Agriculture	Livestock	Manufacture	Transport	Construction	Commerce	Service	Total
1998	n/a	124	2464	110	n/a	626	275	3599
2001	n/a	26	3804	90	n/a	943	307	5170

The above tables show the number of employees in both town and village owned firms. The overall trend is that the number of employees has increased steadily over the years but its distribution across the seven industrial sectors is very uneven. The number of employees in the manufacturing, commerce and service sectors has increased substantially. The number of employees in agriculture and transport has dropped continually and the number of employees in livestock and construction

shows some fluctuations. For the livestock sector, the sudden growth of employees in 2000 is because of the merger of Xihongmen town and nearby Jinxin County, as a certain number of people were still employed in the livestock sector in Jinxin County, which caused the total number of employees in this sector to increase substantially.

c) Total turnover of seven industrial sectors (1996-2001)

Table 5.4a: Total turnover of seven industrial sectors at town level (1996-2001) (In thousands of Yuan)

Year	Agriculture	Livestock	Manufacture	Transport	Construction	Commerce	Service
1996	5830	20770	87580	490	45030	3060	100700
1997	3190	14460	107930	520	47320	870	129510
1998	1390	11690	127400	380	48850	n/a	147340
1999	550	8670	127120	430	74340	n/a	150400
2000	1220	26820	218210	400	128790	16090	185430
2001	3390	17400	277080	900	90920	10980	449140

Table 5.4b: Total turnover of seven industrial sectors at village level (1998&2001) (In thousands Yuan)

Year	Agriculture	Livestock	Manufacture	Transport	Construction	Commerce	Service	Total
1998	6550	n/a	286166	12600	n/a	160290	46780	3599
2001	1300	n/a	427210	18400	n/a	715190	38060	5170

The above two tables show the total industrial output in different sectors. For the agriculture and livestock sectors, the total output dropped rapidly from 1996 to 1999, but has bounced back since 2000. Tables 5.3 and 5.4 show that the number of firms and employees both dropped steadily, but this table shows that the turnover of this sector has increased again since 2000 and 2001. Similar patterns are also found in the livestock sector. The major reason is because of the merger of Xihongmen town and Jinxin County in 2001. Since Jinxin County is a less urbanised

town with a large primary (agriculture and livestock) sector, this merger has enlarged the statistics for the primary sector. If the effect of this merger is removed, the actual turnover of the agriculture and livestock sector should continue to shrink. The other reason might be related to the adjustment of farming to more value-added "cash" plants, such as flowers and *Penjings* (The Chinese art of dwarfing trees and shrubs, similar to Japanese bonsai). For the manufacturing sector, the total output is continuing to grow, and it is still the pillar of local industrial output. The transport sector continues to grow slowly, since this sector face more challenges from private businesses. The construction sector has experienced steady growth, although it experienced a slight drop in 2001 due to the completion of several major construction projects. The commerce and service sector has experienced rapid growth and now outperforms the manufacturing sector, having become the largest sector in terms of local total industrial output by 2001. This is so far the most striking change to the local industrial structure.

d) Average Net Profit Margin in the seven industrial sectors (1996-2001)

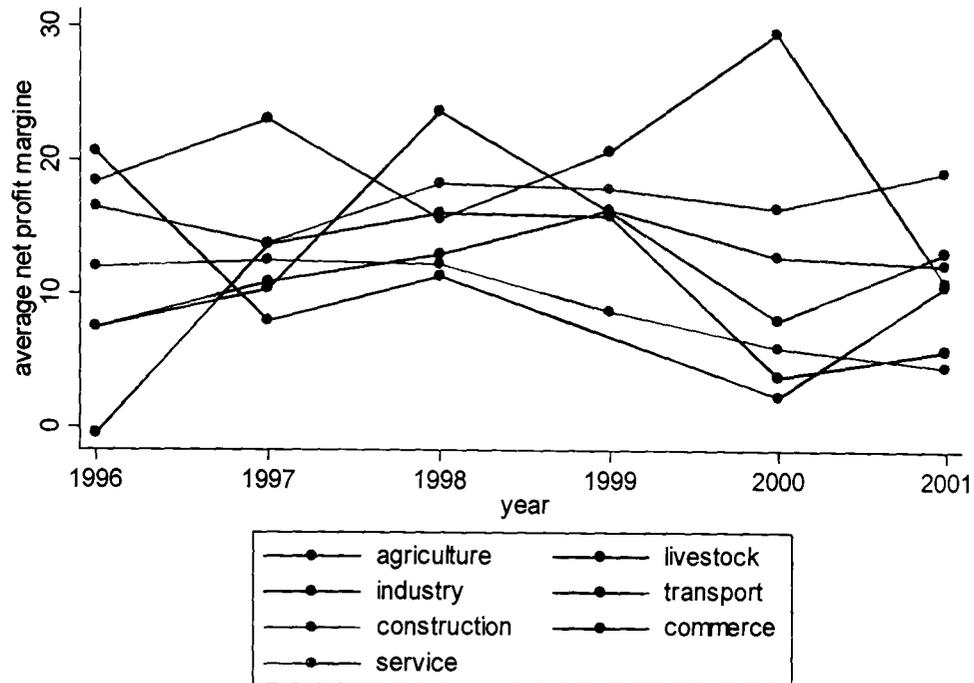
The net profit margin is a ratio that represents a firm's profitability. It is calculated as follows:

$$\text{Net Profit Margin} = \text{Net Profit} / \text{Total Sale} * 100$$

Table5.5: Average Net Profit Margin in seven industrial sectors (1996-2001)

Year	Agriculture	Livestock	Manufacture	Transport	Construction	Commerce	Service	Total
1996	-0.54	7.5	7.5	18.4	12	20.6	16.5	9.8
1997	13.7	10.3	10.9	23.1	12.1	8	13.9	12.7
1998	16	23.8	13	15.7	12.3	11.4	18.5	14.6
1999	16	16.4	16.5	20.9	8.8	n/a	18.1	17.1
2000	3.8	8.2	13	30	6.1	2.4	16.7	13
2001	6	13.5	12.5	11.8	4.7	10.9	19.6	13

Figure 5.1: A line plot of the average net profit margin in seven industrial sectors (1996-2001)



The above table and figure show the average net profit margin in different sectors over six years. The general trends are as follows: 1) both service and transport sectors enjoy higher profitability; 2) the manufacturing sector has quite a flat level of profitability; 3) the profit margins for the agriculture, livestock and service sectors are very fluctuant and generally show a downward trend.

2) Multivariate Analysis

I use two types of model to estimate the determinants of firms' total output. The dependant variable is the natural logarithmic value of turnover ($\ln(\text{turnover})$) and the explanatory variables include the natural logarithmic value of total sale cost, the total wage bill and the number of employees (employee), while seven dummy variables denote the different industrial sectors.

1) Pooled OLS Model (Year as dummy variables)

In this model, the different years are used as dummy variables and thus the conventional OLS model can be applied. Table 5.6 present the empirical results:

Table 5.6: Pooled OLS Estimates of Production Function

	All Firms	Town Firms	Village Firms
Inscost	0.89***	0.92***	0.86***
Intotwage	0.14***	0.12***	0.13***
Employee	-0.0002	-0.0008	0.0002
Agriculture	-0.04	-0.06	-
Livestock	-0.19*	-0.09	-
Manufacturing	-0.005	0.11	-0.25
Transport	-	-	-0.14
Construction	-0.02	0.12	-
Commerce	0.03	0.18	-0.2
Service	0.19*	0.28	-0.06*
Year96	0.62	-0.03	-
Year97	-0.4	-0.46	-
Year98	-0.03	-	-0.02
Year99	-	-0.09	-
Year00	-0.03	-0.13**	-
Year01	0.02	-0.11**	-
Constant Term	0.45	0.29	0.89
No of Observation	462	187	275
Adjusted <i>R</i> -squared	0.9734	0.9827	0.9649

Note: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

2) Random Effect Model

The panel data set permits the researcher to study the dynamics of change with short time series. The combination of time series with cross-sections can enhance the quality and quantity of data in ways that would be impossible using only one of these two dimensions (Gujarati, 2003). However, the first thing that should be done is to decide what kind of model will be used. The fixed effect model and the

random effect model are two popular approaches to analyse panel data; the generally accepted way of choosing between fixed and random effects models is running a Hausman test. Statistically, fixed effects are always a reasonable thing to do with panel data, as they always give consistent results, but they may not be the most efficient estimator, so a random effect model should be run if it is statistically justifiable to do so. The Hausman test checks a more efficient model against a less efficient but consistent model to make sure that the more efficient model also gives consistent results. The Hausman test tests the null hypothesis that the coefficients estimated by the efficient random effects estimator are the same as the ones estimated by the consistent fixed estimator. After running the Hausman test, I obtained significant P value, $\text{Prob} > \chi^2 = 0.048$, which means that a random effects model is a justifiable choice. The table below presents the results of this analysis.

Table 5.7: Random Effect Estimation of Production Function

	All Firms	Town Firms
Inturnover	0.87***	0.91***
Intotwage	0.13***	0.12***
Employee	-0.0002	-0.0008
Agriculture	0.05	-0.24
Livestock	-0.21	-0.27
Manufacturing	-0.03	-0.08
Transport	-0.009	-0.19
Construct	-	-
Commerce	-0.009	-0.04
Service	0.16*	0.1*
Constant Term	0.55	0.49
No of Observation	462	187
Within Groups R-squared	0.9047	0.9267

Note: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The results presented in the above two tables show that rapid urbanisation does not favour larger firms. One measurement of size, employee (the number of employees), is negatively correlated with turnover. This suggests that firms' size is irrelevant to their total output at Xihongmen town. Second, the different industrial sectors show different correlations with the output: the service sector is positively correlated with output in all models which are also statistically significant. The results seem to show convincingly that service sectors play an important role and are more productive since rapid urbanisation has facilitated the "upswing adjustment" of industrial sectors (from primary to tertiary). However, for the interpretation of the development of the agricultural sector, this sector may be diminished or weakened, but the analysis shows a positive correlation between agriculture and total output under the fast urbanisation process. This can be attributed to three reasons: first, the merger of Xihongmen town and nearby *Jinxin* county has enlarged the agricultural sector, and agricultural firms in Jinxin County could be very productive. Second, the implementation of a strict farming land protection policy by the central government may force the local government to "artificially" increase the output of the agriculture sector as a response to the upper level government's supervision. Third, I have found that most of the so-called agricultural sector doesn't engage in any type of traditional farming, such as planting crops and vegetables: the primary business in this sector is producing highly value-added plants such as flowers and *Penjing* (the Chinese art of dwarfing trees and shrubs, similar to Japanese bonsai). Based on the above reasons, the positive relationship can be understood.

Yulin Town

Two things make the identification of the industrial structure particularly difficult in the case of Zhulin town. The first is the organisation of local firms. As the previous section shows, business groups are the dominant organisational format for firms in Zhulin town. Although each group has a clear production orientation, its member firms normally operate at diversified industrial sectors, which are all embodied in their "parent" group. Generally speaking, the local industrial structure has stayed quite stable over the years, with heavy reliance on the largest corporation groups. Since the firm-level data are sparse and difficult to obtain, there are three ways to gain an understanding of the local industrial structure.

First, when we look at the town's eight corporation groups, only one Business Group can be categorised as a commercial/service sector group; the rest of the sectors are either manufacturing or agriculture. In 1996, this business group contributed 5.2% of local GDP and this figure rose slightly to 6.1% in 2000. When we closely examine the composition of this group, we find that it includes the local government-owned hotels, restaurants and some public utility organisations. Apart from this group, there are also some self-employed people and small businesses engaged in the commerce and service sectors, but these only constitute a tiny part of local GDP (less than 5% of local GDP).

Second, the largest two corporation groups have dominated the local economy for years. Table 5.7, shows the industrial output of the two largest business groups and their shares of local GDP from 1996-1999.

Table 5.8: Total industrial output of the two largest groups and their shares of local GDP (Units: 10 Thousands Yuan)

	1996	1997	1998	1999
1) Local GDP	89658	116938	125666	114636
2) Total Industrial output of Zhongsheng Group	51818	70767	69450	59756
3) Total industrial output of Qinzhou Group	20011	21313	25080	29750
4) Total of big two	71829	92080	94530	89506
Percentage (4/1)	80%	79%	75%	78%

Sources: Zhulin Town Planning Document

From this table, we can observe that the two largest business groups contribute around 80% of local GDP; this ratio also remains very stable over the years. This fact demonstrates the key role played by the large business groups to the local economy.

Thirdly, one important fact about local industry is the relocation of some firms out of the town territory. In this sense, the above-mentioned local industrial structure actually only represents part of the picture of local industry, since firms outside the town are also included. Conventionally, the collective enterprises have their roots in the local community, which is normally immovable; the nominal owners of the collective firms are all the local residents and the local government actively controls and monitors these firms' operations. However, when the local resources seriously restrain the growth of firms, they can relocate to a more desirable place. Zhulin is a typical case for this. The pillar industry of the town, although initially established

within the local town, moved to Zhengzhou, the capital city of Henan Province, in 1992, and now the firm has several factories operating in Zhengzhou and other locations. The relocation of the firms potentially has the ability to “hollow out” the local industry. Since many people now work outside the town’s territory, this will also affect the development of the tertiary sectors, since the buying power of this group of people is lost to the local area.

Summary Comparison: Through the study of changes of local industry at the two towns, three main differences can be identified. First, at Xihongmen town, the local industrial structure has experienced an upward shift from the primary sector to the manufacturing and service sectors, as the analysis demonstrates. But at Zhulin town, the local industrial structure has changed little over the years. Second, the multivariate analysis of firm-level data shows that the size of firms is not related to output at Xihongmen town. However, at Zhulin town, the large firms and business groups are the dominant forces in the local economy. Third, Xihongmen town’s territory serves as a magnet to attract firms and thus makes the local town territory into a strong economic base, but Zhulin town’s disadvantageous location means that some key firms have relocated outside of town, which could potentially hollow out the local economy and also result in an underdeveloped tertiary sector.

5.8 Discussion and Conclusion

The chapter started by examining the local firms’ milieu. The comparisons reveal that urban proximity does indeed mean that the two towns possess very different environmental qualities for firms’ development. It is evident that Xihongmen town, endowed with convenient access to Beijing, possesses dual advantages for firms’

operation. On the contrary, Zhulin town is in a vulnerable position for developing industry and the very few available resources for industrialisation are the local natural and social resources. The impacts of urban and rural location on firms' formation, networking, growth and industrial structure are evident in the analysis. To synthesise what have been found, four major distinctions can be concluded as follows.

First, in section 5.3 and 5.4, two pairs of cases have been studied and compared. In Xihongmen town, the first firm was basically a product of the urban spill-over effect. Every stage of production of this firm was intrinsically linked to the inner city. The inner city also attracts private firms from all parts of China, rendering Xihongmen town an attractive economic base for the development of firms. So the "city advantage" has always been a key strength for Xihongmen town. In contrast, firms in Zhulin town all feature a strong local nature. The formation of the town's first firm was mainly based on the local natural resources. The availability of local resources was the initial driver for the establishment of this firm. The local kinship/social network also plays a crucial role in establishing firms; even private firm can be regarded as extensions of the local network and virtually no private firms from outside the community have invested in the local area.

Second, the inter-firm networks in the two towns exhibit very different characteristics. In Xihongmen town, the inter-firm network is primarily a business-centred network and is governed by the competitive market; very few local firms are organised as "business groups" and their relationships are normally loosely connected and diffused across the region. By contrast, the firms in Zhulin town are organised as "business groups" with unified production and close ties. Such contrasts basically demonstrate that the local socioeconomic context has a

profound impact on the organisation of firms. Firms based in Xihongmen town face a more mature market, which potentially reduces the chance of forming business groups, since the various factors can be purchased through market transaction. In contrast, the fact that firms at Zhulin town are organised as business groups can be understood as a reflection of dense local kinship/social networks, but more importantly, the well-organised business groups also provide substantial economic benefits to help the firms to battle the poor conditions of the local market.

Third, the growth of local firms follows very different patterns. The growth of firms in Xihongmen town is mainly driven by the demand from the inner city; thus, I term it a "demand-driven" model. The existence of several waves in the firm-formation process shows that the city is the ultimate driving force to facilitate the birth of new firms in the suburban area. One direct consequence of this model is that very high birth and death rates have been discovered among firms in the local area because of the dynamic nature of local economy. For Zhulin town, the growth of firms is mainly driven by the key strategic choices made by local leaders; thus, I term it a "strategy-driven model". Under this model, firms are also established based on the demands of existing firms; this facilitates a "snowball-rolling" style of growth. The consequence of this model is that firms normally enjoy a very long lifespan and mutual interdependence in their business operations.

Fourth, the agglomeration of firms has created particular industrial structures at the two towns. For Xihongmen town, based on the analysis of the data from 1996-2001, two findings have emerged: the first is that different industrial sectors show some diversified responses to the local urbanisation process. The panel estimate of firms' output shows that firm size does not correlate with output. There is also an upswing in the industrial sectors, from primary manufacturing to the service sectors. By

contrast, in Zhulin town, the local industrial structure has tended to remain stable over the years and the two largest corporation groups dominate the landscape of the local economy. The two biggest groups contribute around 80% of local GDP; thus, their performances are vital for the local economy. There are also a significant number of firms operating outside of town, which potentially damages the industrial base of Zhulin Town.

As reflected in the above major research findings from this chapter, the findings suggest that urban proximity plays a key role in the explanation of variations between firms in the two towns. The above contrasts of industrial development at the two towns can be summarized as two different trends: “divergent” vs. “convergent” or “quantity” vs. “quality”. For Xihongmen town, the major process of local industrial development is to broaden the economic base and pursue parallel growth of both collective and private firms. In this sense, we can say that the government has placed greater emphasis on firms’ quantity and diversification, since the favourable location allows them to do so. In contrast, Zhulin town’s industrial development has been increasingly reliant on the performance of its “flagship” firms, one example being the town’s largest corporation group, the Zhulin Joysun pharmaceutical group, which now contributes half of the local GDP. In this sense, there is a convergent trend in local industrial development and the “quality” of key firms is the more important issue for the prosperous development of the town.

Chapter 6: People

6.1 Introduction

In the previous chapters, the two towns' governmental behaviour and industrial development have been investigated and compared. The inquiries have been conducted primarily through the analysis of organisation-level evidence with limited concern for ordinary "human actors" - local residents. This chapter thus shifts the analytical focus to ordinary local residents in order to gain a more comprehensive understanding of the two towns' developmental routes and their impacts on local residents' lives. Based on the fieldwork and in-depth interviews (N=32), this chapter aims to 1) Explore the concrete facts about local residents' livelihoods and their concerns regarding various local socioeconomic changes; 2) Compare the research findings from 1) and explain the causes and consequences of these identified variations (or similarities) from both towns. 3) Explain the possible links among the local residents' livelihoods, concerns about changes to the local community and their urban identity formation. The final part draws conclusions regarding the geographical position of small towns and its influence on local residents' livelihoods, urban identity formation and social change.

Through the comparative studies of local governments and firms (Chapter 4 & Chapter 5) at both towns, one identifiable fact has emerged: two non-parallel driving forces (urban expansion and rural industrialisation) influence the two towns' development processes differently. But, what are the impacts of these two types of urbanisation on people's life? What happened to the former peasants' relationship with their land when they left farming? How did people change their employment status from farming to non-farming? How have their incomes and welfare been

changed during this process? And what are their attitudes towards various social issues that have occurred alongside the rapid urbanisation of their communities? All these questions are concerned with the transformation of local residents' livelihoods, attitudes and self-perception in a longitudinal manner. It was thus decided that "survey style" research methods would be inappropriate, since most of the information required is subtle, in-depth and requires researchers to build an "active interaction" with their research participants (in this research, the research participants are local residents). On the basis of this concern (for more detailed discussion on research design, see chapter 3), 32 interviews (16 at each town) were conducted and taped, while some participant observations were also made during the fieldwork and later written into detailed notes.

Before proceeding to the main research findings, it is necessary to write a short section to describe my general impressions of the two towns' interview respondents. "Impression" means something beyond words. It deserves to be mentioned because some sharp contrasts were observed in the field. In Xihongmen town (the suburban town of Beijing), the interview respondents were normally very active, and their answers to questions were very straightforward and outspoken. On some occasions, I had to interrupt them with some more relevant questions, since they could easily carry on talking about different things for a very long while. In contrast, in Zhulin town (the rural industrial town in Henan province), the interview respondents were normally quite and conservative, and tended to give very short answers to questions, sometimes only "Yes" or "No". The latter can be a nightmare for researchers, but I responded with two strategies in order to make the most of my interviews. The first was to simply ask more questions and the second was to raise some interesting topics to "warm up" the participants for further conversation. The above distinction is important in terms of "comparative values" because the

distinction cannot be solely explained by "locality-specific culture" e.g. that Beijing people are talkative and Henan people are quiet. Instead, the respondents' attitudes towards me - a researcher introduced by the local government - reflect their attitudes towards the local government as well. In Xihongmen town, the respondents were outspoken and critical of the local government's policy even in the presence of a local governmental official (I was assisted by a young local governmental official during the interviews). In Zhulin town, the respondents were very cautious in responding to my questions and strove to maintain "political correctness" throughout the conversations, even though our talks were very private. The differences, in essence, denote different levels of "social change" at the two places, as I will argue in the later analysis.

Returning to the interview contents, the original design of the interview questions was centred on investigating the following three aspects of local residents' lives:

1. Livelihoods

2. Concerns about local community changes

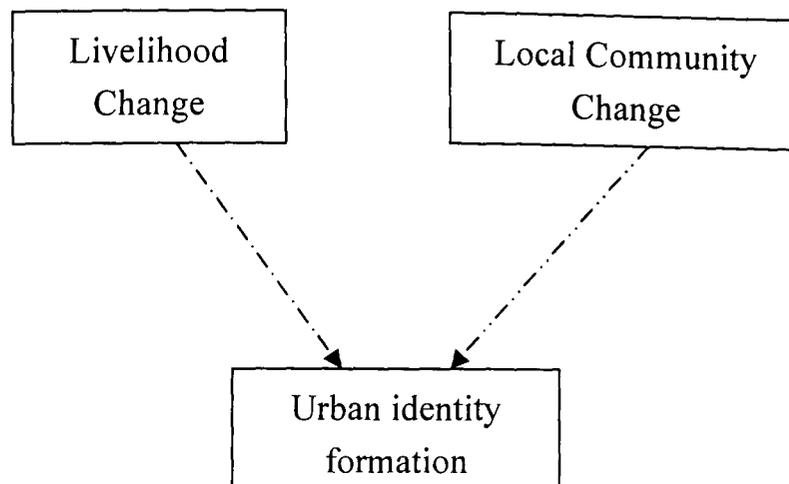
3. Urban identity formation

Regarding the aspect of livelihoods, I have borrowed some insights from the framework of rural sustainable livelihoods (Scoones, 1998), which is an increasingly popular approach in analyzing rural development issues. This framework emphasises several forms of capital (natural, economic and financial, and human and social capital) and their effects on household/individual well-being. This approach is illuminating, but it was originally designed for researching poverty reduction in agriculture-based households and individuals (rural setting). Considering that the two towns I selected are very industrialised and urbanised, my approach in raising these questions was also slightly modified to fit into my research context during the interviews. Unlike the sustainable livelihoods

framework, which principally stresses poverty reduction, I placed more emphasis on the issues of “stability and security” because it is evident that poverty issues are no longer a major challenge for either community. The questions are normally specific, such as “how much is your annual income? Do you receive any welfare from the local/national government?” To investigate the second aspect – concerns about local community change - I conducted a broadly exploratory investigation of local residents’ attitudes, evaluations and feelings towards the fast-changing local socio-economic environment. Unlike the questions regarding livelihoods, I raised very open-ended questions such as “what are the major social problems in your locality?” “How do you view your local community from a future perspective?” etc. The third aspect is specific to urban identity formation, and the question “do you identify yourself as a urbanite?” normally served as the “closure question” in my interview process. More importantly, the question also touched upon the ultimate issue regarding the urbanisation process, which is how local residents (individuals) psychologically transform themselves from peasants to urbanities.

The possible sources leading to urban identity formation can be traced back from aspects of their livelihoods and community concerns. In this sense, a reverse triangle relationship can be identified in order to interpret the relationship among the three aspects of the interview content.

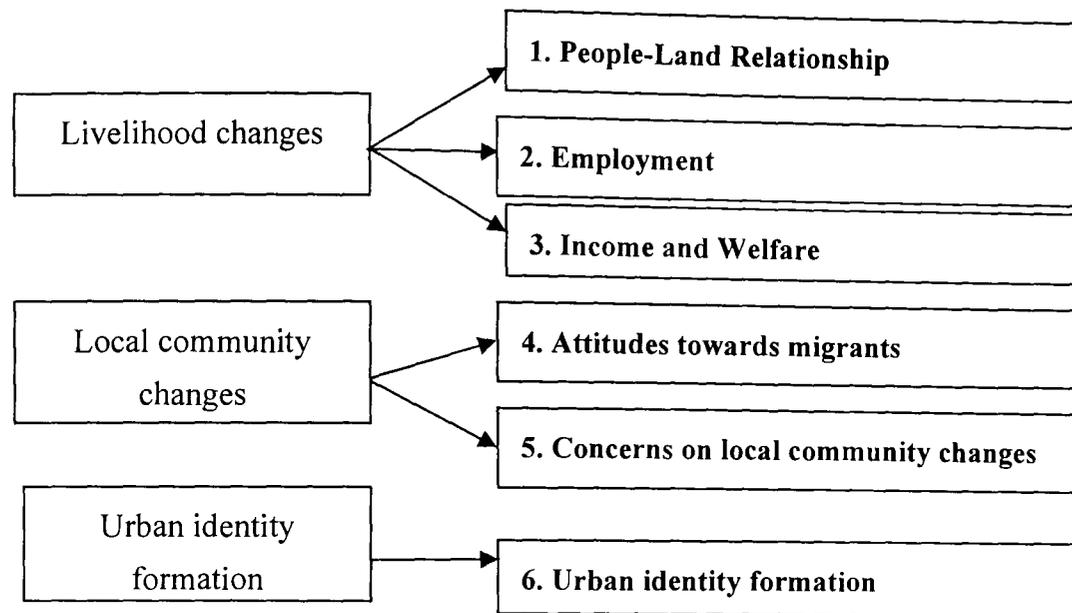
Figure 6.1: Relationship among three aspects of interview content



The above figure illustrates my plans to collect data and some of the preconceptions with which the data were explored. The use of dotted lines rather than straight lines in Figure 6.1 to label the relationships between pairs indicates that to an extent, the relationships are waiting to be discovered rather than being theoretically established in mind. An important task for me, in this chapter, is to seek the potential sources from above two aspects (livelihoods and local community) that exert influences on the local residents' urban identity formation.

Six themes emerged from the vast body of interview data. If we take the above three aspects as the main themes, the data also give more detailed meanings to the above broad classification, while some sub-themes emerge and make the three aspects more specific. The figure below presents the major themes revealed from the interview data.

Figure 6.2: Main themes that emerged from the data analysis



Starting in the next section, each theme is written as a self-contained section to engage with the specific issues reflected in the figure above (6.2: People-land relationship; 6.3: Employment; 6.4: Income and Welfare; 6.5: Attitude towards migrants; 6.6 Concerns on local community changes; 6.7: Urban identity formation). In each section, the respective findings from the two towns are reported, followed by a summary comparison, which further discusses the research findings in a comparative manner. Section 6.8 is the conclusion, which attempts to give a general treatment to the previous sections' research findings and highlight some theoretically significant issues that emerged from this empirical evidence.

6.2 Relationships between People and the Land

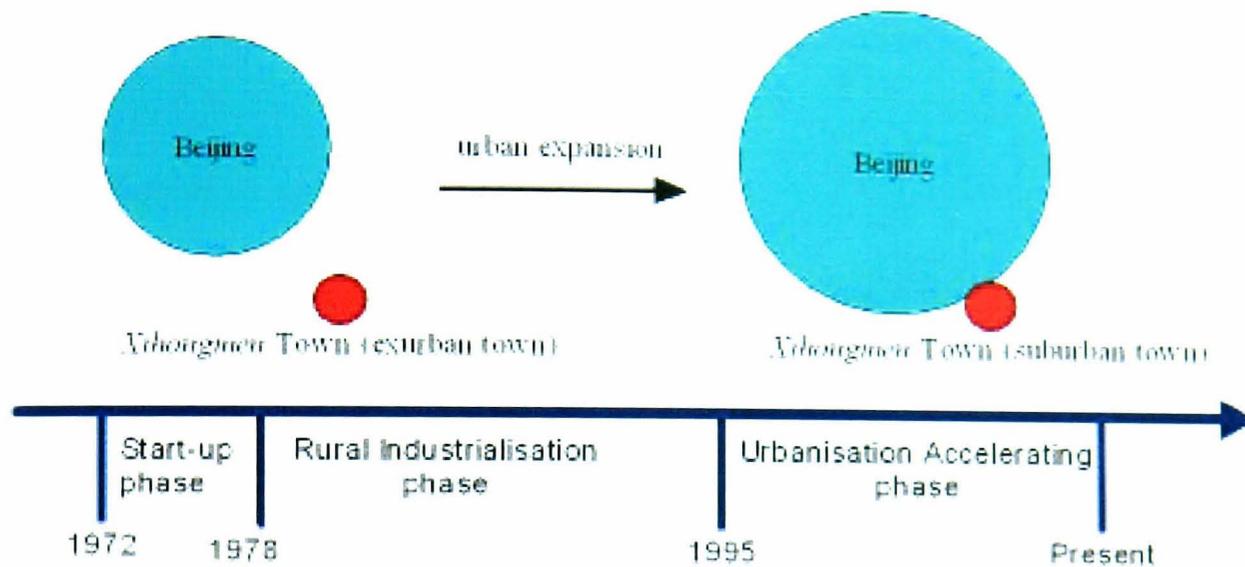
In China, land-use change is the major consequence of rapid industrialisation and urbanisation. It has thus received intensive research coverage in recent years (see Verberg *et al*, 1999; Weng, 2002). Most researchers have devoted their attention to

the spatial pattern of land-use change at a national level, or the impact of land-use change on environmental degradation and subsequent policy issues. Very few of them have focused directly on “human actors” (peasants) and their perceptions of land-use change. Given the institutional arrangement in which land resources in rural China are owned by collectives rather than individuals¹¹, the changing relationship between land and people is a complex issue and deserves more close scrutiny. In this part, the local residents’ relationships with land resources are explored and compared, the differences are identified and the possible causes and consequences are also discussed.

Xihongmen: Being a suburban town of Beijing, Xihongmen town has experienced rapid development in the last two decades. The average local GDP growth rate was around 18% between 1990 and 2000 (*Local Government Annual Report, 2000*), well beyond the national average rate of 8%. The town’s territory has also been transformed to a more urban-like appearance with only a small proportion of farming land remaining at the verge of the town territory. The reason for such a rapid development of Xihongmen town can be attributed to two driving forces: the indigenous rural industrialisation and the expansion of Beijing. Figure 6.1 presents a simplified version of Xihongmen town’s developmental history with a specific focus on its changing spatial relationship with Beijing during the last two decades. Although such a clear-cut divide of developmental phases would be convenient in interpreting the development trajectory of Xihongmen town, we should also bear in mind that two forces (urban expansion and rural industrialisation) have been intertwined to a large extent and simultaneously pushed local development.

¹¹ Starting in the 1980s, the Household Responsibility System gave back the land use rights to individuals (normally with 10-15 years contract), but the villages (collectives) are still the owners according to Land Administrative Law.

Figure 6.3: The timeline of Xihongmen town's development



From the above figure, we can observe the following changes: 1) the timeline denotes several developmental phases of Xihongmen town. The development during the first two periods (start-up phase and rural industrialisation phase) was mainly driven by indigenous industrialisation and the current stage (1995 onwards) has been heavily influenced by the expansion of Beijing. 2) The geographical connection between Xihongmen town and Beijing has changed dramatically. I use the terms "exurban town" and "suburban town" to show the relatively different positions of Xihongmen town in the extended area of Beijing city. During the local industrial start-up and industrialisation phase, Xihongmen town could be viewed as an "exurban" town of Beijing, as it was surrounded by farming land and transportation to inner Beijing city was inconvenient. With the continuous expansion of Beijing, Xihongmen town was drawn closer to the city core and its location relative to the city now can be better described as "suburban".

The reason for making the above classification of developmental phases is crucial because such a timeline is helpful to interpret local residents' relationships with their land resources. The following parts deal with people-land relationships during the various developmental phases.

Rural industrial start-up phase: The beginning of Xihongmen town's non-agricultural activities can be dated back to 1972. From 1972-1978, several local factories were established to produce building materials and some daily necessities for local consumption. But, farming is still the mainstay of local residents' livelihoods. The soil quality is good and some vegetables (green peppers and spring onions) produced by Xihongmen town enjoy a prestigious reputation in the southern Beijing area. The local residents were grouped into agricultural brigades to farm collective land and only a small proportion of people joined the newly established local factories. The people-land relationship was very close during this period, but the shift of labour from agriculture to non-agricultural activities was already an evident trend.

Rural industrialisation phase: During this phase (1978-1995), local industry gained substantial growth under the "reform and openness" policy. The local industrial structure was a mixture of the booming collective industries and traditional rural agricultural activities. The labourers were increasingly transferred from agriculture to industry during this phase. This trend also had an impact on Xihongmen town's land reform process. Unlike the widespread adoption of the Household Responsibility System (HRS) in rural China, Xinghonmen town became a special case where the Household Responsibility System (HRS) was only implemented for one year in 1984; subsequently, the land was re-collectivised again to the villages in 1985. The local government described the reason as the

economic inefficiency of HRS because the 1984 agricultural output dropped significantly after HRS was adopted. Through the interviews with local governmental officials, there are two underlying reasons. First, mechanized farming was already widely used in local areas before 1978. The local government and village committees purchased many reaping and irrigating machines. This machinery only performs well when the land is sufficiently big. Second, the local industry had experienced considerable development and many people had joined the local industry, which resulted in a labour shortage for farming activities. Therefore, each village established its own agricultural brigade to be solely responsible for farming work since 1985. In this sense, the people-land relationship at Xihongmen was becoming looser, since the rapid industrialisation rendered farming unattractive in comparison with working at a factory. Some older respondents described their experiences during this period.

People were keen on working in the local industry: it allowed you to gain more working points during the commune period and more salary after that...(Mr Yang, local grocery's owner)

I was working at a building material factory in town; my parents and my wife were working in an agricultural brigade...normally women and old people were selected to do farming work. If you were young, male and a quick learner, it would be shameful to stay on the farm... (Mr. Liu, entrepreneur)

Owning a piece of land was not that important (in that period); anybody with some skills or social connections wanted to work in factories. Even the girls preferred to marry guys who held factory jobs... (Mr. Zheng, accountant)

The above dialogues show the adverse effect of rural industrialisation on the people-land connection. What we can conclude here is that the people-land relationship would be significantly weakened in a rural region that experiences rapid industrial development during the economic reform era.

Urbanisation Accelerating Period: While the market-oriented economic reform was deepening, the town was increasingly drawn closer to Beijing's urban system as a result of Beijing's rapid expansion. Meanwhile, the development of the local collective industry reached a peak in 1992. Many local TVEs (Township and Village Enterprises) started to experience recession and some of them went bankrupt. However, the newly emerged housing market opened a new "profit centre" for local government. The local government utilised idle land (normally puddles and rubbish fields) and bankrupted TVEs' sites, developing them into residential and commercial property to sell or lease. In 1995, local government developed the *Jiulong* Garden, some luxury villas for rich inner city house-buyers. The government also claimed that the real estate business would be the backbone business for Xihongmen's future development. Many local residents realised that Xihongmen's land resources had become extremely valuable, and that the local government might take advantage of from collective land for their own benefit. Mr. Liu, one of interview respondents, described his feeling on those issues.

I used to work in a local factory, but the factory was closed down in 1992. Because the factory was collectively owned and we were still peasants, they gave us no compensation. The town leader just told us to return to our original village.....but after 3 years, our factory site was cleared and rebuilt into villas (bieshu). My old co-workers told me the government made a huge profit from selling them...but we had no share of it....I hope some compensation can be given to us, but until now nobody has mentioned

it...we've been forgotten completely...At the end of day, you are a peasant, the land is your lifeline... (Mr. Zheng, entrepreneur)

Some others also described their feelings on Beijing's real estate market and its impact on local land value:

Our place is very near to Beijing, this is very important; the land value will be continually rising... (Mrs. Li, housewife)

It is stupid to sell land to developers. Look at real estate prices nowadays in Beijing: even if the developers give you a large amount of money, they still take advantage of you...(Mr. Zhang, worker)

The awareness of increasing land value was a starting point for local residents to become involved in some collective action. During the fieldwork, what I found was that people's bargaining power cannot be neglected at Xihongmen town. What I mean by "bargaining power" is local residents' strong desires to manage their common property (land resources) and have a say in protecting their interests. Basically, there are two ways (Guo, 2001) to achieve this in China. The first is through *ex post* actions, meaning that after peasants' interests are violated, they seek some collective action such as, "reporting to upper level government (*shangfang*)", "lawsuits", "resistance to taxes and fees" and even serious "physical conflicts with local governmental officials". A very famous case happened in Beijing in 2001; more than 1,500 people launched lawsuits against the local government for "illegal" expropriation of collective land and under-compensation of peasants (*Beijing Ribao*, 12.05.2001,2). Although no similar events happened in Xihongmen town, land-use issues in Beijing's suburban regions have become a very sensitive issue and local governments of suburban towns need to be very cautious in making

any decisions regarding land-use. The second approach is *ex ante* action, including proactive methods to protect individuals' own interests. These include active involvement in local village-level elections, calling for transparent information, and formalising the entitlement of personal rights (making formal contracts). It is obvious that *ex ante* action is better than *ex post* action in terms of effectiveness. As one respondent concluded, "it is always good to make things clear in the first instance". Clarity can be achieved through contracts, agreements and explicit policies from the local government, in his view.

Xihongmen is a typical case of local residents adopting *ex ante* action to protect their interests. As collective ownership is the only legally defined ownership of land resources in rural China, the issue of most concern to local residents is how to make the most of this so-called "collective ownership". In order to pursue their "fair share" of collective land resources, local residents use various channels to achieve their goals. Their enthusiasm for participating in village-level elections is greatly enhanced. A village head during my fieldwork told me that there has been a big shift in terms of people's attitudes towards participating in local elections. Although village-level elections in China were initiated in 1989¹², the village head described the first 10 years of running of this institution (democratic election) as somewhat "cosmetic" (*baishe*) in their village. He remarked further on people's changing attitudes to local elections:

People didn't care too much in the old days...but now people take it seriously, maybe too seriously in my point of view...before the

¹² In November 1987 the Standing Committee of the National People's Congress (NPC) in China adopted the Organic Law of Village Committees (draft). The law stipulated that the chairman, vice-chairmen, and members of village committees should be directly elected by the residents of the village. Implementation of the Organic Law began in 1989. Although the Tiananmen Incident interrupted the process, the effort survived the criticism of conservatives in the Chinese Communist Party (CCP) and continued.

election is held, there are numerous rumours, propagandas and conflicts, and this chaos will be persistent for a while even after the election ... (Mr. Chang, village committee head)

Active participation in local elections is one way for local residents to have a say in managing local common affairs. Some other institutions have also been established in recent years to channel popular dissents. One example is that the town government set up the "Letter and Visit Office", which is responsible for accepting local residents' complaints and resolving conflicts. All of these institutions, to a large extent, are constructed through local residents' increasing confrontations with local government and active involvement in village-level elections.

This is all in keeping with my previously stated impressions of interview respondents. Most of them were very outspoken; sometimes they poured heavy criticisms on the local government and national policies. One female respondent described her viewpoint on people's changing attitudes.

Nowadays, ordinary people (laobaixing) are changing quite a lot. We are getting smart and always keep sharp eyes on those issues (land issues). It is no good to take advantage of peasants, we have no land now, and we are entitled to get good treatment. You know... living in Beijing is terribly expensive. How can we survive without proper compensation? (Mrs Xie, housewife)

In the last ten years, the continuing disputes and arguments over land use have forced the local government to take some countermeasures. After a few years' negotiation and investigation of other provinces' policies, Xihongmen town has

adopted a method called the "land shareholding" scheme. The method was adopted in Nanhai, a city in Guangdong province, where farmland conversion has been widespread as a result of rapid economic development. Under this system, villages translate peasants' rights to land usage into shares indicating ownership of the collective land, and plans are made for the use of the land. They divide the land into different categories: for industrial development, for commercial construction, for housing and for grain production. Peasants, as shareholders, receive the profits made from the land both through agriculture and other non-agricultural businesses. By pooling the resources of all individual peasants, the rural collective binds the interests of villagers together because land is no longer distributed within a small group. Although the government may still require villages to turn in some land for public use such as road construction, this method reduces the odds of local government occupying farming land at will for its own fund-raising. Since land has a designated purpose, governments will face difficulties in forcing villages to turn in more land without reasonable compensation. This is because village cadres can easily mobilize the entire village and have strong support. For this reason, the share-holding system has been regarded as a significant institutional change and has received extensive attention from both the government and academics (Cai, 2003).

This share-holding system was firstly adopted at village one of Xihongmen town in 1998. The procedure involves first identifying the land resource (the size of land) and second identifying the number of people entitled to this right; the third step is to commission a village committee to be responsible for the commercial operation of the land. The people within the community can share the profits obtained from these commercial operations each year. The method has produced a demonstrable effect and gained popularity at Xihongmen town. During my visit to the town,

villages had already adopted this method and the other 13 villages were undergoing the process of establishing the system. My interviews with local residents also demonstrate the overwhelming support for this system. The comments below are very typical:

"You know, land is very valuable in Beijing's suburbs, but the issue of how to use land is vital. Some other suburb villages simply sell land to developers: peasants just take cash in hand, which might be a large amount, but we are peasants, we have no skills, how can we survive when the money is used up? So, our way is better, thanks to the village and local government. (Mr. Zhang, entrepreneur)

"My husband's parents have been sick for many years, I had to stay at home to look after them, only my husband works and earn money. Now we are all shareholders, all of us can get dividends every year. That makes life much easier... (Mrs, Huang, housewife)

The above analysis illustrates that the people-land relationship becomes a vital issue when the local urbanisation process accelerates. Local residents are more aware of the value of land and also take more precautions to protect their benefits. The adoption of the land share-holding system further strengthens the people-land relationship, even though the reality is that most local residents left farming work a long time ago. This institutional arrangement is certainly associated with the current land system in China. But, what I argue here is that rapid urbanisation in Beijing's suburban towns results in increasing land value and the local residents' attitudes towards land have also changed significantly in response to this process. During the rural industrialisation period (1978-1994), the people-land connection

was greatly undermined by the numerous non-farming jobs provided by local industry. But the situation changed dramatically when urbanisation accelerated. Local residents are more aware of the importance of their land rights, and collectively adopt a new institutional arrangement – the land shareholding scheme. The scheme has a far-reaching impact on local residents' livelihoods. The following analysis shows that other aspects of people's employment, income and welfare are also influenced by this particular institutional arrangement.

Zhulin: The land resources in Zhulin are abundant in terms of size, but poor in terms of soil quality. In addition, there is no single large piece of land (more than 10 Chinese Mu), due to the area's mountainous landscape. The poor farming conditions mean that local residents suffered from extreme poverty before the 1978 economic reform. It also drove local residents' attempt to launch local industry from 1972. However, farming activities remained the major source of local residents' livelihood until 1993. The farming land was redistributed to households under the Household Responsibility System (HRS) in 1981. Since the land conditions are not ideal for farming, significant numbers of residents raise livestock, such as cows, rabbits and ducks, as a supplementary source of income.

The local collective enterprises have gained rapid growth since the 1978 economic reform. From 1978 to 1992, the booming local industry was drawing more and more local residents into local industry, leaving women and aged people to farm the land, but farming remained as a significant element in supporting livelihoods. Even factory workers also spent lots of time helping their own family members with farming and raising livestock during their spare time. One respondent described his life in the mid-1980s:

I was working at a fire-resistant material factory (naihuo cailiaochang), and my wife raised rabbits and chickens at home. My parents were farming our land and we helped them in the busy season...In 1991, my wife joined the local bottle factory and my parents only farmed part of the land (zerentian)...After my father died in 1995, we just had no time or energy to look after the land any more. We stopped farming from that time... (Mr. Li, factory worker)

There were also occasions when people had to return to farming work when the local industry was in a poor condition. In 1997, the town's industry suffered from a recession because bank loans were tightened by the central government in order to avoid the influence of the Asian financial crisis. Many jobs in the industrial sector were lost, and people were thus pushed back to farming again. One of my respondents described his experience:

Initially, my factory was still running 2 days a week. I had to find something to do for the rest of the week. In 1999, when the factory's condition was getting better, I returned to work again... and now my wife still plants some vegetables for our own use ...(Mr. Wu, factory worker)

A local government official told me the land was re-collectivised in 1994 because more and more people left their land idle. There were also some occasions when people requested some land for agricultural purposes. The local government had very relax policies on ratifying land to individuals. In 2002, the local government made new policies on land use, which was a response to a national environment policy - converting farming land to woods (*tuigen huanlin*). The local government organised local residents to plant trees and bamboos on land that had little

agricultural value or had been left idle for a long time. A large park was built and the government also planned to make the town into a tourist attraction in future. During my interviews, most respondents showed little interests in land any more. Ironically, the distribution of land in 1980 caused great turbulence for the local society because of limited land resources and the variable quality of land.

In conclusion, although a pastoral lifestyle such as planting vegetables and raising chickens is still widely observed in Zhulin town, the rapid industrialisation process has significantly weakened the local residents' relationship with the land. The purpose of land-use is now mainly to accommodate local industry or housing. A large amount of land has been left idle or converted to woodland and grassland in recent years. Individual land rights are not regarded as important, since most local residents have little interest in farming. The local land market is also underdeveloped; thus, there is very little demand for land in the town's territory.

Summary Comparison: Through the investigation of the people-land relationship at two towns, we can observe that both towns' people-land relationships shared some similarities during the rural industrialisation stage, in that the people-land relationships were significantly weakened due to the "pull force" of rural industrial jobs. However, their different geographical positions subsequently resulted in different development routes and hence contributed to significant differences in the people-land relationship in the present day. For Xihongmen town, the people-land relationship is getting very close again and local residents have collectively adopted a land-shareholding scheme, which can be viewed as a type of "quasi property right". More importantly, the adoption of this system has been actively constructed by local residents through active participation in local democratic elections and other forms of collective actions; we can clearly see that some sort of progressive

“social change” happened in this area. By contrast, the people-land relationship at Zhulin town remains weak and the sense of entitlement and property rights are still understated in this area. The use of collective land, to a large extent, is a governmental behaviour rather than a common affair for the local residents. The geographical location also act as important factor to influence the interpretation the national land policy, the collective ownership is a very vague defination but it was given clear and appropriate interpretation in Xihongmen town through share-holding system, each local resident have equal right to benefit from the commercial operation of land resources but

6.3 Employment

The shift of employment from farming to non-farming sectors is the most important step in urbanising individual farmers. The occupational shift, together with the skills and knowledge obtained through non-farming work, means that former peasants become more capable of living in the City. Normally, the job choices for Chinese rural peasants fall into three categories: migration, rural industry and farming. Knight and Song (2003) studied the labour allocation of the above three categories and found large differences in marginal returns between farming and non-farming activities (the latter being far higher than the former). In the same study, they also noticed that location is an important factor and found that the distance from towns and cities increased days worked on the farm and decreased days worked off the farm.

Location (distance to existing urban place) was the key factor in selecting the two towns in my study (see the section on “Case Selection” in Chapter 3 for details).

The contrasting geographical positions of the two towns certainly have a strong influence on local residents' occupational structure, but they also share one similarity in terms of occupational choices, which is that none of the local residents in either location choose to be migrant workers. The reason for this can be directly attributed to the economic prosperities of both towns (the two localities can generate sufficient jobs for local residents). Thus, the task of this section is to identify the variation in local residents' occupational patterns and how has it changed along with local development processes.

Xihongmen: For Xihongmen town, its suburban location close to Beijing is a definite advantage for local residents seeking non-farming jobs. But how do local residents get these non-farming jobs? Are they allocated by the local government (town government/village committees) or provided by other sectors through the labour market? Are local jobs sufficient for local residents' full employment, given the fact that a large number of migrants have migrated into the local community? Those questions cannot be answered solely by individual interviewees; first, some investigation of employment status at town level is needed.

A basic understanding of town-level employment status was obtained through a visit to the job centre before conducting interviews. The job centre was set up by the local government in 1999 and its purpose is to train local peasants to acquire the essential skills to secure urban jobs. The courses include cleaning, community management, electric welding, gardening, car mechanics and applied computer skills. The centre offers the entire range of courses to local residents free of charge. The lady in charge of the job centre, Mrs Lu, described the basic employment status of local residents at Xihongmen town. Since there are no detailed data available on the local residents' employment status, Mrs Lu's introduction was very helpful in

illustrating local residents' employment status in a general manner. According to her description, the local collective enterprises only employ a small proportion of local residents and the rapidly increasing private firms (most of them are from outside of Beijing) employ almost no of local residents. The vast majority of local residents are working in the tertiary sector. She also estimated that a certain number of people simply stay at home with little intention of working. She described local people's attitude to seeking jobs:

"People at Xihongmen town are not actively seeking employment, they are also very choosy about jobs. There are three types of jobs they don't want take: first, jobs that are too far away from home, second, dirty and tiring jobs, and third, low-paid jobs. That makes our work (at the job centre) harder (Mrs, Lu, director of job centre)

Mrs Lu's account raises an important fact: that the local collective enterprises are not the major employers for local residents. Recall the findings from the previous "people-land relationship" section: the local collective industry was the initial driving force to "pull" peasants away from farming work. So, why it is it no longer the main job source? The reasons can be traced from the interview respondents' description of their career histories. Among the 18 interview respondents, 14 used to work in local collectively owned industry. Their employment paths are reflections of Xihongmen town's developmental history in some sense. Two of these respondents describe their job history as follows:

I started my first job at Xihongmen's machine tool factory in 1972, and then the knife factory in 1977, and changed jobs several times during the 1980s. All the jobs were allocated by the local government. Most people at that time were like me, working hard and obeying the leaders... In 1992, the

enterprise I was working for was closed down; I had a really hard time... I started to repair bicycles alongside the main road. Eventually I began to sell bicycle parts. Now I am running a local hardware store... (Mr. Zhang, entrepreneur)

"In 1994, our factory (basin factory) completely stopped production due to poor profitability. At first, we were allocated some stuff (iron basins) that we produced to sell as our salary, but we found that nobody wanted them. I had to ask help from my village, and they offered me a job selling small plants (pen jin) planted by them. I used to take a bike to sell them along the street...in 1996, I quit that job and I am now running a local grocery (Mr Yang, local grocery owner)

The above description shows that the bankruptcy of collective enterprises is the major reason why people sought other working opportunities. The above two respondents choose to become self-employed rather than joining other local factories. They also told me that a large number of local residents choose to become self-employed or to run flexible businesses (In Chinese, *xiaomaimai*, means "small business"). This is a rather confusing fact because the rise of the private sector has created a large number of jobs in the town's territory. In addition, there are still profitable collectively owned enterprises. So, given that being a "local" should be an advantage in seeking those jobs, why do the majority of local residents choose to be self-employed? The reasons can be interpreted from two aspects. The first is the "entry barriers" to those jobs, and the second is the advantages of self-employment.

The "entry barrier" to local collective enterprises is the increasing recruitment standards of local industry. My interviews with two ladies working at the largest local collective enterprise in Xihongmen town revealed some of the reasons for this:

Our company - Xinguang Group - is very different from 15 years ago. In the 1980s, the company was just a factory producing bulbs and lighting equipment. We now regard ourselves as a high-tech firm; we established our research department 3 years ago. Now anybody who wants to enter our company needs to have at least a college diploma. We recruited 11 newly graduated undergraduate students from universities in Beijing last year... even the workers standing on the assemblies are required to have graduated at least from high school, obtained the certificate and to be hard-working...(Mrs, Li, deputy HR manager)

I am now an accountant for the company. I entered the factory as a worker in 1984. In 1992, I took an accounting course and eventually moved to the factory's financial office. I am now still studying accounting courses and preparing to become a senior accountant. Nowadays, you can't stop studying; otherwise you will be eliminated through competition... (Mrs Liu Accountant)

From the above description, we find that the remaining collectively owned enterprises are those with a strong tendency to upgrade themselves into modern firms. Their human resource policies thus decide that their recruitment would be based on a more market-oriented principle rather than the "old style" job-assignment from the local government. In addition, the reform of local collective enterprises' property rights has completely cut off the links between the local

government and former collective enterprises. Job-assignment from the local government is indeed a “past tense” expression. The dynamic labour market in Beijing also provides a broader selection-base for recruiting desirable employees. Based on this situation, the old “being local and thus entitled to work in local industry” logic is greatly diminished. The two respondents described their views on local residents’ employment perspectives in the remaining collective enterprises:

When you are over 40, it is difficult to find another job, even in the former collective enterprises. Here in Beijing, many people want to work, and they can recruit lots of college students from Beijing, so who wants those old guys with few skills? (Mr. Zheng, entrepreneur)

I always told my son to study hard and get a degree certificate. Why? I know Mr. Chen, the boss of Xingguang Group, but I can’t simply ask him to arrange a job for my son because of our friendship. Those enterprises are opening doors to make profit; they need the appropriate person rather than some acquaintance...If you don’t have any skills or a degree certificate, even if your father is the town’s leader, it doesn’t help a lot.. (Mr. Fang, self-employer)

Given the fact that the private sector is also developing very quickly, would it be the major job source for local residents? The answer is still no: almost none of the local residents join these private firms, and some of the interview respondents explain the reasons for this:

Those companies (privately owned) have mostly moved to Xihongmen town from outside of Beijing, and they normally bring their own people with them.

If they want to recruit people, they will recruit migrant workers. Why? 400-600 RMB per month is enough to hire a migrant worker, but our town's people would never accept that... (Mr Wang, worker)

The above two factors are the "entry barriers" that make it difficult for local residents to seek jobs in local collective and private firms. A number of other factors also contribute to local residents' choices to be self-employed. The advantage of being local is very helpful when launching small businesses. Physical assets, such as houses, can be used to make money directly, and their kinship and social network is also helpful in running businesses locally. One respondent described the advantage of having a house near the main road.

10 years ago, nobody wanted to live near the road, too noisy, but now if your house is alongside the road...that means money. You can open a shop, a restaurant, even a bath centre...then stay at home and look after the business, very convenient and comfortable..... (Mrs. Ma, housewife)

The changing view towards living near main roads is a clear sign of how market forces change local residents' traditional values and judgement. The change has coincided with the increasingly urbanised, market-oriented local socio-economic environment. People now think and act differently in comparison with their past farming life. One respondent remarked on the local residents' changing values and attitude in comparison with the past:

"Nowadays, you can blame no one if you suffer from poverty; there are always opportunities to earn money in this place. It is not like our past ...farming on the land, relying on the climate (kaotianchifan).....at that

time, you could blame bad weather, bad rainfall, bad seeds, or bad policies from the government...but now who is to blame? You need to find your own way to survive and there are plenty of chances here..." (Mr. Huang, entrepreneur)

Being a local also means more than just possessing some physical assets in the local area, such as a house, land share etc. It also means possessing a great deal of "social capital". A young respondent I interviewed is now making living by driving an "illegal taxi" (in Chinese, *heiche*, literally means "black car"); he described how helpful his local contacts were for his business.

Living here for such a long time, I know almost everybody here. I park the car alongside the road and take people to the city or other places. I charge them less than those taxis with installed meters. The local policemen are all my friends, they just ignore me, but if you are an outsider, they might catch you... (Mr. Fang, self-employer)

Apart from the self-employed, there are also some people (mainly women) who stay at home without formal jobs, and one female respondent told me about her decision to stay at home rather than having a job.

I once got a cleaning job recommended by the town's job centre. The job was to clean the newly developed apartments. To be honest, it was not a tiring job, but it was time-consuming... I couldn't go back home for lunch or look after my husband's parents. I also let 5 rooms to migrant workers. As you know, the security here is not good... I finally decided to give up this job and stay at home. To me, staying at home is not relaxing at all, I need to look after

elderly relatives, feed the dog and also keep an eye on my property...so, staying at home is my job...(Ms Liu, housewife)

To sum up, local residents' employment status under conditions of rapid development has undergone some substantial changes. The patterns that emerged through in-depth interviews can be summarised into two veins. First, the local government is no longer the major job provider, since the local collective enterprises have either stopped production or have been privatised. Second, most people work in the local tertiary sectors as self-employed, because the rapid local urbanisation process has created numerous chances for them to do so; local residents also possess some "comparative advantages" with regard to self-employment because of their local housing, social and kinship networks.

Zhulin: At Zhulin town, the local collective industry has been the sole job provider for local residents for the last two decades. Recently, some private enterprises or self-employed individuals have emerged, but they only employ a tiny proportion of local residents. Basically, the employment status of local residents can be explained from three aspects.

First, local employment relies heavily on the performance of local collective enterprises. The fluctuations of local industrial development have had a great impact on local residents' lives. During my fieldwork, I found that a local washing powder factory had closed down in 2003. It laid off more than 800 people, over 500 of whom were local residents. Now, the local government is negotiating with a company from Guangxi province to try to sell the factory to this company. As one local governmental official said, the factory will reopen as soon as the deal is done, although how long this would take remains unknown. The factory gave its

employees three months' extra salary and asked them to wait for further notice. I interviewed two former employees of this factory. Both of them were worried about their job prospects.

I am now working three days a week at the town's fire-resistance factory...a temporary job; I am waiting for news from our factory. I believe the town government can sort it out and arrange a job for me soon... (Mr. Li, worker)

We have no idea about Guangxi's company; maybe they will not retain all the workers...If so, people like me would have no chance to work at the factory again. I am 54 years old; I am now preparing to buy two cows and plant some vegetables ... (Mrs. Yu, worker)

The above descriptions show the importance of local collective enterprises, since local residents normally have few employment opportunities out of the collective enterprises.

Secondly, as a small rural community, getting a job is strongly influenced by the local kinship and social network. Ninety percent of the town's population shares the same surname of "Li". In this sense, we can view the whole town as a huge extended family. Most of the young people had joined the local industry through their parents or relatives' recommendations. People from local influential families normally have more chances to obtain those jobs with higher salaries or good training opportunities. The local government also promotes a "progressive culture" to encourage the younger generation to learn skills and work hard. People with skills or qualifications are always welcomed by the local factories. One of the interview respondents described his career path. From his experiences, we can

identify some of the distinctive characteristics of the employment process for local residents:

I once worked at a packaging factory. In 1988, the town was preparing to launch the pharmaceutical factory. My uncle worked in the town government and he told me that people with certificates in Chinese medicine would be needed... I decided to take a two-year course at Zhengzhou Chinese Medical College. After two years' study, I returned to town and got this job... (Mr. Fang, pharmacist)

In such a small community with rapid industrial development, the workers are normally recruited within the community. Many people join the local industry without essential training and skills; most of my interview participants described their working experience as a "learning by doing" process. Jobs are normally obtained on the basis of the town leaders' impressions or other people's recommendations rather than the skills that people actually have. As a town leader told me, they always choose young people who have good personalities and are trustworthy and hardworking, and put them into key positions or send them to college to study. In this sense, the local labour market shares many similarities with giant corporations with a sizeable "internal labour market". There are some "invisible hierarchies" within the local community, based on family backgrounds, and relationships with local leaders are always crucial for getting good jobs. In order to get an ideal job, every local resident needs to show a loyalty to the local government, and especially to key leaders. The town has a unique culture similar to the army, in which personal interests are always secondary to leaders' commands. One interesting example that reflects this "army style" culture is the comment made by the lady who was responsible for arranging my fieldwork, Miss Yu, who

had just changed her job from local junior school teacher to liaison manager at the local government two days before I arrived at town. Her decision to change career came about because of a phone call from a local leader. When I asked her opinion on her career change, she answered:

In Zhulin town, people seldom say that they "like" or "dislike" their jobs; our principle is to obey leaders' arrangements and do the job well... (Miss Yu, local government official)

Thirdly, a very distinctive feature of local residents' employment is that increasing numbers of people are currently working outside of Zhulin town territory. There are two groups of people in this category. One is the town's major pharmaceutical production company, which is currently based in Zhengzhou, the capital city of Henan province. It employs over 600 people, half of whom are originally from Zhulin town, and most employees' family members still live in Zhulin town. The other group of people are sales representatives in different cities of China. Although their firms are still based at Zhulin town, these sales representatives help local firms to build market networks covering most regions of China. Taking the local fire-resistance material factory as an example, they have 24 marketing offices in Beijing, Shanghai and many other provincial capital cities. More than 80 people work at those offices as sales representatives. One of the ladies I interviewed told me that her husband was working at Guangzhou's office, and returns home only 3-4 times each year (up to 30 days in total). These people are crucial to the local firms, so they are normally given high salaries, and competition for such positions is fierce.

Summary comparison: In this section, the in-depth interviews conducted at both locations present very different pictures of local residents' employment. The

differences are manifest and the underlying reasons can be attributed to the towns' contrasting spatial features and responses to market forces. For both cases, one similar point is that rural industrialisation was the initial driving force to "pull" local residents out of farming work, but this force has eventually faded out in Xihongmen town and given way to the market forces. Local residents nowadays enjoy more job choices and most of them work in the tertiary sectors, being either self-employed or engaged in flexible work. By contrast, the job choices for local residents at Zhulin town are still rigid and largely reliant on local government provision. The government-led entrepreneurial activities still remain as the major employment sources for local residents. The differences of employment status at the two sites also have a strong influence on the town's social structures. In Xihongmen town, people are more aware of market forces, lucrative business opportunities and free choice; their relationship with the government has changed a lot. However, the local residents at Zhulin town are very likely to be working at large organisations with rigid rules and hierarchies. The authoritative figures (local leaders) are central in local residents' socio-economic lives. The organisation of local society reflects a more traditional Chinese rural community, based on kinship and extended family rather than a modern, industrialised and market-oriented urban society, although one common fact is that both towns have achieved a great deal in terms of economic growth.

6.4 Income and Welfare

Income and welfare are important means of support for local residents' livelihoods. In rural China, income and welfare vary greatly among provinces, regions and even villages in the same county. The major source of Chinese rural households' income is generally income from farming, rural industrial jobs', sideline income (raising

livestock or small crafts) and migrant workers' remittance (if a family member work at outside of hometown). The major source of welfare could be either the local government's welfare provision or support from the traditional family, kinship and social network in the local community. It is crucial to clearly locate these sources at both towns in order to understand local residents' livelihoods and well-being; this section thus devotes attention to these issues.

Xihongmen: To clearly distinguish income and welfare at Xihongmen town is a difficult task. Through interviews with local residents, I found that their income sources are quite diversified. There are basically four main categories of local residents' income: the first is land-related income. This income stream was mentioned in the previous section on "people-land relationships" and financial details will be introduced in this section. Second are the various incomes in the form of welfare. Third is the income from letting rooms to migrants, while the fourth category is income from formal employment. Among these four categories, the first two are allocated by the town government and village committees, which are universal to each local resident in this area, and the latter two are more "context-specific" in terms of each family's own conditions.

The above four categories are described vividly by local residents as "four pockets", a localised expression that might remind people about the traditional Chinese Sun Yat Sen uniform – a suit with four pockets. For local residents, these "four pockets" can also ensure a decent livelihood. Here, I want to utilize one interview respondent's family as an example to show the composition of these "four pockets".

One of my interview respondents, Mrs. Zhang, is a 56-year-old housewife. Her husband works for a local firm as a driver. Both she and her husband get annual

dividends from their entitlement to a land-shareholding scheme at 12,000 RMB per person. As she has passed her 55th birthday, she is also entitled to a pension provided by the village, at 450 RMB per month. Her husband's annual salary (formal employment) is about 11,000 RMB from the company he is working for as a driver. Mrs. Zhang also has six small rooms let to migrants. The rent from these six rooms brings in a total rental income of 850 RMB/month. If we add these figures together, this couple's annual income exceeds 50,000 RMB. This income is actually far higher than the average income level of 12,350 RMB per person, which was reported by the county's statistical bureau in 2004.

Apart from the above-mentioned "four pockets" income, the villages and town government also have some occasional welfare programs. Taking village one as an example, a benefit known as the "festival fee" (*guojiefei*) is dispensed to village members before important Chinese festivals, including the Chinese spring festival, mid-autumn day and national day. The amount of welfare ranges from 600-1,000RMB according to the villages' financial conditions. The town government also mobilizes some financial resources to set up programs such as the free training program mentioned above (see section 6.2). The government also formed a policy in 2001 that unemployed residents can claim 2,450 RMB in unemployment compensation; this is very similar to the urban unemployment benefit. The town government also started a program, known as the "Improving population quality" program, which includes some funds that specifically target improving the human capital of children and youngsters in local areas. The specific policies include nutrition fees, textbook fees and studentships for students with good academic achievements. For example, any student who receives a college offer will be rewarded with a 10,000RMB studentship. The purpose of these welfare programs, in official terms, is to ensure the local peasants' "smooth transition to urbanites".

The corresponding opinions from interview respondents are varied. One respondent described these policies as replications from other Beijing's suburban towns. He also described the local government as being under pressure to deliver welfare to local residents:

Those welfare programs should have been delivered to us earlier.....It only began four years ago (from 2001). Fangshan district started 3 years earlier than us. The peasants there are satisfied and the town' leader got promotion... Now, many suburban towns of Beijing are doing similar things. If they don't do it...they will be in trouble... (Mr, Ma, worker)

Although the respondents have some suspicions about the motivation behind the welfare programs set up by the local government, they show overwhelming support for these programs. Many of them say that the programs make them feel more secure in this fast-developing era.

Life is much easier in recent years, we feel safe and stable (tashi) in our life... (Mrs. Liu, Housewife)

To be honest, we should be very satisfied with our life. Our income is even a lot better than inner city's people.....now what we expect is that those good polices can be sustained in the future...(Mr. Huang, small business owner)

In this section, local residents' income and welfare are detailed based on in-depth interviews. We can conclude that there are two distinctive features of local residents' income and welfare at Xihongmen town. First, local residents' income sources are diverse, and income from formal employment constitutes only a small

proportion (less than 50%) of their income in comparison with other sources (land-related income, rooms-letting, benefits). Second, the various welfare packages delivered by the local government have increased the local residents' livelihood security during the rapid transitional period. The respondents also show great satisfaction and support for those policies.

Zhulin: The salary from local industry is the main income source for local residents at Zhulin town. Some other supplementary income sources might be derived from farming or raising livestock, but these sources make only a small contribution. Different families have different livelihood strategies in terms of allocating their labour and income levels vary among different factories. Profitable firms normally pay high salaries. The normal salary range is between 400-1,100RMB per month. Some people in managerial positions have annual salaries exceeding 100,000RMB. The salary is entirely decided by each factory's operational status, which also means that variations in income between different factories can be huge. Most respondents accept these variations of income level and consider them necessary and understandable because people working in profitable enterprises normally possess advanced skills and contribute more to the local economy.

Due to the great reliance on collective enterprises for providing jobs, local residents' income sources can sometimes be unstable when the enterprises are short of cash or running in an uncertain status. One respondent described his early experience in establishing the local fire-resistant material factory:

In 1983, we spent the whole year producing fire-resistant bricks. We had no money because all the money was used to purchase the equipment. During that period, a rural enterprise also had no chance to get bank loan...We had no choice, so everyone agreed to continue to work without salary. It lasted

about 11 month until our first brick products were sold ... (Mr. Li, factory line Manager)

The above story is frequently described by the local government as an example of "Zhulin spirit". This spirit, in essence, is a positive attitude towards working for local collective enterprises; everybody should work bitterly hard at first and enjoy the outcome later (*chikuzaiqian, xiangshouzaihou* in Chinese). The town leader, Ms Li Shuzhuan, told me that Zhulin town's economic success could be well explained by this "Zhulin spirit". It is also because of this spirit that employees show understanding when local firms are in trouble. As the previous section mentioned, the local washing powder factory gave three months' salary when it laid off its employees on a temporary basis. The reactions from those employees were basically calm and everybody just tried to find something else to do or waited for further notice from the local government.

Regarding welfare, the town government gives 100 kilograms of grain to each registered local resident. This is the only town-based welfare program. The town government provided free education to junior school students from 1985 but the policy was abolished in 1997. Ms Li explained the reasons why this policy was abolished: because many students didn't study hard, charging a tuition fee is a "tough gesture" to put them under pressure to work harder. The local government also has no town-based pension scheme. Some enterprises have their own pension schemes, but they are only factory-based. In order to resolve the problem of care for the elderly, the local government uses two methods. The first is to promote family-based support for the aged. If a family looks after its elder dependants well, the family will be probably awarded an honourable title and some cash at the end of the year. On the contrary, if someone were to leave their parents neglected and

mistreated, this household would be despised and condemned by the local community, and it could even trigger governmental intervention such as a penalty or reduced salary, since local factors are controlled by the local government. The second method is to establish a local charity to support those aged, disabled people with no one to look after them. The town leader told me that the funding for this charity normally comes from donations made by local firms. Currently, the town's party secretary, Mr. Zhao Minen, is the chairman of this charity.

Summary comparison: The above investigation of income and welfare at the two towns has revealed a number of differences. At Xihongmen town, local residents' income sources are quite diversified and the town government, together with village committees, acts like a small "welfare state" in the provision of welfare and social support. It thus provides essential security for local residents' livelihoods in the transitional period. By contrast, local residents at Zhulin town rely heavily on wages from local collective enterprises and the local government delivers very few welfare programs. In order to ensure social coherence and continuity, the local government utilizes the family, kinship and social network in supporting local elder dependents. These traditional means of social support are fundamentally rural and reflect Chinese rural traditions rather than the modern approaches.

6.5 Attitude towards Migrants

Most studies on urbanisation in developing countries emphasise migration. The settlement of migrants in urban areas normally causes many changes to urban communities. Although the direct investigation of migrants was not the focus of my research design (see chapter 3 for details), their existence and influence can never

be underrated. In this section, migrants are mainly investigated through the eyes of local residents. Therefore, the major aim of this part is to understand the interaction of migrants with local residents and their impact on the changes to the local community from local residents' points of view.

Xihongmen: In Xihongmen town, one of most significant changes to have occurred in the local community is the huge degree of in-migration in recent years. The number of migrants is still rising and even official statistics are unable reveal the exact number due to the fluid nature of this phenomenon. The town's leader told me that according to public security office report, the number of migrants and others is estimated at around 100 thousand, while the number of local residents (2005) is 15,946¹³. Migrants thus definitely outnumber local residents. This demographic transition has a far-reaching impact on the local community. The study of migrants at Xihongmen town itself is a very important undertaking. However, my main task here is to investigate how local residents respond to them.

The interaction between local residents and migrants at Xihongmen town is a very interesting topic. Normally, the settlement of migrants in the city is associated with slums, shanty-towns or so-called "ethnic enclaves". These phenomena have been widely reported in Mexico City, Delhi and many other metropolitan regions in developing countries. However, the settlement of migrants in Beijing is more complicated and is influenced by the interplay of political, social and economic factors. A number of researchers report that the pattern of settlement of migrants is normally on the fringe of the city because the suburbs of big cities in China always have lower rent and relatively loose control in comparison with the inner

¹³ This number includes Jinxing Township's population. It is officially merged with Xihongmen town in 2000.

cities (Ma and Xiang, 1998; Jong-ho, 2002). It is evident that the suburban towns of Beijing undertake a very important "accommodation function" to host a large scale of in-migration from all parts of China.

Xihongmen town is no exception, as it has accumulated a large number of migrants in recent years. One distinctive feature of this town is that migrants normally reside in small rooms built within local residents' houses. Most local residents have houses with sizeable back yards. In recent years, many small rooms have been built in these yards to meet migrants' housing demands. As such, the physical distance between landlords and tenants is very short. This arrangement is described by local residents as "living under the same roof" (*tongzai yige wuyanxia*). The short distance between local residents and migrants increases the chances of social interaction between the two groups. The relationship between local residents and migrants is very different from those found in developing countries with urban ghettos, ethnic enclaves or widespread social segregation.

In Xihongmen town, most local residents' relationships with migrants are landlord-tenant relationships; to a degree, this kind of market relationship leads residents to view migrants as rent-payers or important sources of income. During my interviews, there was consensus among the interviewees that the migrants do more good than harm. Migrants are commonly described as hard-working, busy people trying to make living; their value to local residents is also occasionally emphasized. The following comments are typical:

They work hard and try to save money to return home...So, you rarely see them during the daytime... (Mrs Li, housewife)

They are just rent-payers to me, they are too busy and we have few chances to chat... (Mr. Liu, worker)

If there were no migrants, my shop would have no business. So the migrants are important to our life...(Mr. Yang, local grocery owner)

Although there is consensus about migrants' contribution to local residents' livelihoods, people also show concerns about these migrants' existence. Some respondents complain that some types of migrant, or migrants from certain regions, are not trustworthy. These concerns lead to a very careful selection process for tenants. Several respondents comment on their criteria to select tenants:

Sometimes, it is not only about money. You have to be selective about those people (migrants). My principle is that I don't rent my home to young guys...some of them might be thieves...I also don't rent my home to people from Henan province, as they have a very bad reputation in Beijing...(Mrs Liu, housewife)

I prefer people with family here, as they are normally mature and have responsibility...they are seriously settled here to make a living and won't be troublemakers... (Mr Zheng, entrepreneur)

My former tenants were a couple from Jiangsu Province. They were good people, hardworking and easy-going...when they left they introduced their friends to replace them...they are good too...choosing good tenants is very important... (Mrs Huang, worker)

Although some friction in social interaction between local residents and migrants is inevitable, the above analysis shows that people's opinions of migrants are basically positive. This is somewhat surprising because the local community has actually suffered a great deal from increasing criminal offences, and most of the local residents are of the view that this is due to the increasing number of migrants. The town leader told me that almost every household in Xihongmen town had experienced the loss of three or four bicycles each year. During the interviews, I also raised the same question with the respondents, asking their opinions about the soaring number of criminal offences and their connection with the presence of migrants. One interesting finding was that the local residents drew clear distinctions between migrant workers (*dagongde*) and criminals. As one respondent says:

It is normal for those things (increasing criminal offences) to happen, because lots of people are living here. It is not fair to blame the migrants: most of them are just making a living here...there are always criminals no matter in cities or the countryside...the key issue is that the government should take tough measures to tackle those problems...(Mr, Zhang, driver)

In short, the local residents' attitude towards migrants is quite positive, since most interview respondents view them as hard-working people even though they have had a marked influence on local public security. Two reasons might contribute to this attitude. First, the landlord-tenant relationship means that migrants are a valuable income resource for local residents. The direct economic benefit from the migrants allows people to take a neutral and rational view towards those migrants. Second, the short social distance between local residents and migrants increases their chances to get to know each other, and thus reduces bias and misunderstanding between the two groups.

Zhulin: Strictly speaking, there were very few migrants in Zhulin town at the initial developmental stage. In 1984, there were 30 workers from outside Zhulin; this number had increased to 650 by 1989. In 1996, the number of workers from outside of Zhulin reached 3000, but this number dropped sharply from 1997 because local enterprises suffered from the recession. Most of these workers were from surrounding rural villages and only a few were from other provinces. These workers joined Zhulin town's factories when there were jobs available and left when these jobs ended. Thus, they were still very "temporal" in nature. Since most people still had land to farm in the surrounding villages, nobody changed their household register status to Zhulin town. Some of these workers were the local residents' relatives or friends, or just occasional labourers for local factories. They normally did not view them as "migrants" as the following remarks show:

They are good helpers when our factories are busy... (Mrs Li, worker)

My wife's two brothers at Dayugou township once worked at a box factory in town when the factory's business was good...they lived at our home and earned some money and went back home later... (Mr. Li, governmental official)

There is also a small stream of people hired by the local government as highly skilled experts. The town government has built special accommodation for those people; they also enjoy much higher salaries than local people. In 2004, there were 43 such experts living in Zhulin. Most of them travelled frequently between their homes and Zhulin. The local residents see these experts as knowledgeable, respectable people. Most respondents also thought they deserve good treatment from the town's government.

They are all experts... they make a great contribution to our town...(Mr. Xie, driver)

We need to treat them well...our town is a small place, it is not like in Beijing or Shanghai, where you can easily hire experts...here we provide good living and working conditions, good salaries, and most importantly, we respect them from the depths of our hearts; they get lots of respect from us...(Mr, Li, manager)

In this section, two streams of “migrants” at Zhulin town are identified and local residents’ attitudes towards them are also examined. From the above analysis, we can hardly define those people from outside of Zhulin as “migrants”, since they normally work in the town on a temporary basis. Although the town government has launched a new policy to give migrants local household registered status, this policy is not seen as attractive. Consequently, very few of them have converted their household registration to Zhulin town and the population of Zhulin town has remained stable over years.

Summary Comparison: The above analysis shows that the meaning of “migrants” is different in the two towns. In Xihongmen town, the number of migrants has soared in recent years; most of them have come from outside Beijing to seek long-term and permanent jobs. The local residents’ perceptions of this group of people are mainly positive, since their presence contributes to their livelihoods (by being their tenants) and they also have a certain level of social interaction because of this landlord-tenant relationship. At Zhulin town, the concept of migrants is problematic, since few people from outside Zhulin town are seeking long-term settlement. Two

streams of people are identified: occasional workers from nearby villages and experts hired by the town government to work for local industry. The presence or absence of migrants in the towns has a strong impact on the local society. The former (Xihongmen town) is undoubtedly a more open, market-oriented, rationality-based and dynamic place and the local community has also experienced a dramatic departure from their traditional rural life. By contrast, the latter (Zhulin town) remains static in terms of social life. Although the production mode has been shifted from farming to working in factories, the local social structure remains “uncontaminated” and many traditional rural traditions are still very influential on local residents’ lives.

6.6 Concerns on Local Community Change

The above section illustrates local residents’ perceptions of “outsiders” in their hometowns. The process of local development is inevitably associated with the emergence of certain “public issues”, which cause concern to everybody. In this part, I use open-ended questions to ask the interview respondents to talk freely about their worries about the issues that concern them the most. The analysis in the previous sections has already shown that there is significant variation in terms of livelihoods at individual/household level. In this section, the local residents’ concerns about changes to their own communities are the major issues under examination.

Xihongmen town: The rapid urbanisation process has changed the local community in various ways. Many social problems have also emerged in association with this process. The local residents’ attitudes towards the local community during

the interviews were always associated with their views on the local government (town government, village committees). In their view, the government should play a key role in resolving local socio-economic problems. As a consequence, when they talk about their own community's problem, they always attribute the various acute social problems to local governmental incapacity. The interview respondents exhibited a very outspoken and critical attitude towards various local policies. Among others, three problems received particularly intensive attention and discussion from the respondents. They were public hygiene, public security and new residential plans. The following parts will explore these problems respectively.

The problem of poor public hygiene is an inevitable result when a large number of migrants move into a local community. The population size has expanded by 6-8 times the level of 5 years ago. However, the numbers of public toilets (there are no toilets in households), rubbish sites and sewage facilities remain the same. The situation worsens considerably in winter. The pavements and toilets are covered with ice and become very slippery. Some of the older respondents described their terrible experiences in winter.

To go to the toilet is like fighting a war, especially for the elderly ...the outside and inside the toilet is full of ice... the state of the toilets is also disgusting...(Mr, Huang, retired worker)

The winter is very bad, especially the Spring festival period: nobody cleans the streets or the toilets...it is just awful...(Mrs Huang, housewife)

Some respondents also hold the view that such bad public hygiene conditions would eventually bring about an epidemic in the local community. Most of them also

blame the local government's slow action in tackling these issues. As one respondent pointed out, the local government regards these problems (public hygiene) as a piece of cake (an easy task). However, their ignorance has caused a major nuisance for local residents.

Another problem is the worsening of public security. The problem of public security mentioned in the former part is viewed as an "externality" of the significant degree of in-migration. Although at the household level, most respondents pay more attention to selecting appropriate tenants in order to ensure safe homes and neighbourhoods, the social environment outside their households is very dangerous or even out of control, in their view. Some respondents described changes that they had made to their ways of life because of the increasing number of criminal offences.

"Ten years ago, you could ride a bicycle and put a handbag in the basket...now nobody dares to do that...because many people's bags have been snatched by those bad guys..."(Mrs Li, accountant)

*"I never bring more than 10 RMB cash when shopping at the local vegetable market. It is too dangerous...there are gangsters acting collectively...someone distracts your and someone else steals your money ...
(Mrs Liu, housewife)*

Most respondents attributed these widespread criminal offences to two causes. One is that the location of Xihongmen town is desirable for these kinds of criminal offence because criminals can easily run away from Beijing to other places after committing an offence. The other reason is the local public security office's incapacity to prevent them. One respondent told me that when the National

People's Congress is held in central Beijing, the local public security is always good because the local government pays great attention to it, but afterwards, the government starts to ignore these problems again. One respondent even described her "conspiracy theory" about secretive links between gangsters and local policemen. As she described it, when the local police take some random actions such as searching criminals, you can virtually see that no offence has been committed, so obviously they were informed before the action.

The above two problems - public hygiene and public security - received considerable attention from the respondents, but they also agreed that these problems are inevitable because of rapid economic development. So far, the most disputed issue for local residents is the government's new residential plan (NRP). The local government plans to demolish the local residents' current houses in order to create more space for further commercial development. A new residential site has already been built and is ready for residents to move in (see picture 6.2 & 6.3). Although the local residents can claim compensation from the local government, the money can also help them to purchase these newly established flats, with a little surplus. Still, the local residents show strong resistance towards this new residential plan. There are two reasons for this resistance. I classify them as "**exit**" and "**entry**" barriers. The bright side of "exit" (moving out) from their current residential areas is that it will easily resolve the public hygiene and security problems, because the new residential sites are quite modern (with toilets) and offer better community service. However, moving away from the current residential sites will cause some damage to people's livelihoods. The first issue here is the compensation problem: many respondents consider that they have been under-compensated by the local government. They are also very unhappy with the method of calculating the size of their property, since the compensation will be

made based on this calculation. The current policy only recognises 75% of the total area of each property as the "legal area" for which they will receive compensation. One respondent criticized the use of the term "legal area":

What is the "legal area"? Why is 25% of the area not counted in calculating our property size...this is ridiculous... if 75% of the space is legal, as they said, that means that 25% is illegal...then show us the law that states that it is illegal! (Mr, Zheng, entrepreneur)

The other factor that makes local residents very reluctant to move out is the loss of rental income from migrant tenants. In some households with nobody working or only one person working, this income stream appears to be extremely important for people's livelihoods. Moving out would put a complete end to this stream of income. The above two factors are "exit" barriers, since moving out from their current properties means unfair compensation and reduction of a current regular source of income.

With regard to "**entry**" barriers, the various costs associated with entry (moving in) to the new flats are also important factors that affect local residents' attitudes. Although most of them think that living in newly built flats will be exciting, with better hygienic conditions and safer neighbourhoods, the cost of living is too high. One big change is that they will need to pay estate management fees (*Wuyefei*) for community services such as the collection of rubbish, maintenance of the environment and security guards. Moreover, they have not needed to pay water bills while dwelling in self-built houses. However, living in modern flats means that they will definitely be required to pay water bills. All of these negative elements mean that the local residents hold very mixed views on moving to the flats. As a

result, the local residents have taken collective action to refuse to move from their current houses. Many of them told me that better policies are desperately needed to secure local residents' future livelihood before they are fully ready to move.

The above three categories constitute the major problems that local residents regarded as acute issues for the local community. Apart from these issues, some respondents also mentioned other problems, such as the teaching quality at the local school. One respondent complained that the local school did not offer English courses to young pupils, which rendered them less capable of studying at middle and high school. She thought that this was the biggest mistake that the local government had ever made. Some respondents also criticized the rural cooperative medical program for being of little help with regard to purchasing medicines, because the principle of this program only ensured financial support for severe health problems. Given that these problems share many similarities with issues faced in other rural areas across China, I will not extend my discussion on these matters in this section. The focus of this section is on issues that are specific to this particular suburban town. The above three problems are closely associated with the local rapid urbanisation process, which can be attributed directly to Xihongmen's spatial proximity to the nearby city. The former rural town's public sphere has been greatly enlarged and transformed to an urban place with the arrival of various new actors and interest groups. There is great demand from the local residents for public services, governmental protection of their property rights and entitlement to proper compensation. This also supports the point discussed in Chapter One that local governmental functions have been shaped by local social forces.

Zhulin Town: Through 20 years' ongoing entrepreneurial activities, *Zhulin* town has built itself up from a poor rural place to a modern industrial town. Local

residents enjoy better living standards in comparison with other surrounding villages. Most respondents showed their deep appreciation and satisfaction for their local community, especially to the key leaders from the local government. In this sense, it was almost impossible to elicit any negative comments or criticisms from those respondents. However, through the interviews, some respondents still expressed some concerns and worries about the future of the local community. I have classified them into the following three aspects:

The first is the “continuity” of the local community as a united entity. This concern is mainly associated with two issues that have arisen in the local community. One is the stability of local leadership. As a former chapter (Chapter 1: Government) shows, the local leadership has remained stable throughout the entire economic reform process (1980-present). The party secretary, Mr. Zhao Minen, and the town leader, Ms Li Shuzhuan, have played key roles in creating Zhulin town’s economic miracle. In 2005, Mr. Zhao turned 66 years old and had already passed the legitimate age of retirement according to the law. Ms Li is also approaching her retirement age in the next two years. I asked local governmental officials about the leadership change problem and they said that both Mr. Zhao and Mr. Li would continue working and had no plans to retire at the moment. However, this remains a problem. Interviews with some respondents revealed some worries about this issue. One respondent had this to say:

Now Zhulin is rich, but people are changing as well...It is because of Mr. Zhao and Ms Li, some problems and conflicts can be solved smoothly. I don't know what might happen to the town after they retire...(Mr. Zhao, retired worker)

The other factor causing concern is that the town's major firm (*Zhongshen* Pharmaceutical Group) has been located outside *Zhulin* since 1994 and is running at a very profitable status. The links between the *Zhongshen* Group and the town are becoming weaker over the years. As the previous chapter (Government) shows, the *Zhongsheng* group is not willing to pay large sums of money to support the town because it is located in *Zhengzhou*. The only reason why it is still supporting *Zhulin* town financially is because the manager of the *Zhongshen* group is the son of Mr. Zhao Minen, the town's party secretary. Since this is very sensitive issue, I asked for respondents' opinions about people working in the *Zhongshen* group. Most of them saw these people as belonging to a different group.

"They are based in Zhengzhou city and seldom come back to Zhulin. The leaders of Zhongshen are all living there, and their children are studying in Zhengzhou's school. I haven't seen Mr. Zhao Qingxin, the leader of Zhongshen group, for two years, although he is still the deputy town director...(Mrs Li, worker)

"Zhongshen group is famous and profitable, it is a publicly listed enterprise: the people working there are different from us...(Mr Fang, worker)

The third aspect that worries people is unemployment. In the town leader's words, local residents rely too much on the local government to resolve their employment problems. From 2001, the town created policies to promote the development of private firms, but they have had little effects so far. Most respondents take a dim view on the perspective of self-employment. One respondent concluded that the reason for not being self-employed is related to local residents' personalities.

Here, the people are not as brave, smart and knowledgeable as people in the city. We are basically followers...town leaders always have great ideas and it is very difficult for us to start businesses on our own... (Mrs Li, housewife)

Another respondent also thinks that the local environment is not ideal for seeking self-employment opportunities. He says:

I just saw few opportunities here; I once considered selling clothes in town. But the town's people normally buy clothes from Gongyi and Zhengzhou city. It is very risky to open a shop here, since you cannot compete with the city department stores on any terms...(Mr. Zhao, worker)

This part has outlined local residents' various concerns about some acute issues faced by the local community. Problems such as the unity of the local community, the stability of local leadership, the relationship between the town and its outside enterprises and ongoing job creation by the local government are the most concerning issues for local residents. All of these problems are actually associated with the *Zhulin* town's unique industrialisation path, which can be described as an indigenous, government-led, community-based development model. This path showed great strength and viability in the initial stages of the economic reform during the 1980s, but is facing increasing challenges at present. The town's unfavourable rural location places constraints on its ability to launch high-tech based firms, which normally require high human/financial capital. The strong reliance on the local elites' personal ability also jeopardises the continuity of the local community when a change of leadership is inevitable. These issues are critically important for local residents, since their livelihoods are closely linked to them.

Summary Comparison: From the above analysis, we find that the local residents' concerns about the local community are very much associated with their views on local government. However, the most concerning issues at the two towns exhibit very different features. At Xihongmen town, local residents are mainly concerned about the negative impact of rapid local urbanisation, such as the problems of worsening public security, public hygiene and governmental plans for relocating local residents' residential site. The role of local government as a good local public service provider and a protector of property rights and economic interests is the major demand from local residents. By contrast, the local residents at Zhulin town are mainly concerned about leadership changes in the local government and its further job-creation ability. The role that they desire from their local government is still very much "paternalistic" or "corporatist".

6.7 Urban Identity Formation

Social identity has been a central concern in sociological research. It is closely associated with the concept of socialization, which can be understood as occurring when "someone learns to be a member of a particular society" (Fulcher & Scott, 1999; 2003). As such, the process of urbanisation, at its ultimate end, should be understood as the conversion of individuals' rural identity to an urban one, alongside occupational and lifestyle changes. The urban identity problem is particularly interesting in China for two reasons. First, in China, the government decides whether a person is officially classified as an "urbanite" or a "rural person" based on his or her birthplace. This is the well-known *Hokou* system (Household Register System). Second, because "urbanites" are entitled to many welfare

programs, during the planning period and at present, an urban identity in always means a better socio-economic status than its rural counterpart. Market-oriented reform over the last two decades has gradually blurred boundaries between urban and rural in many ways. Rural industrialisation, in particular, has caused many former peasants to shift their occupational status from farming to non-farming. All of these macro- and micro-factors have had an impact on former peasants' self-perception of their own identity. For the two sites under examination, I am interested in how local residents give themselves identities along with the rapid local development process. The following sections examine this problem at both sites.

Xihongmen: If we look at the official classification of rural or urban people, official demographic statistics at Xihongmen town show a very confused picture regarding the proportions of the local population. The pattern that this data represents is markedly inconsistent with Xihongmen's geographic location. According to official statistics for 2001, the total population of Xihongmen was 22585 in 2001: the agricultural population was 8150, the agricultural population was 14435, and the rural/urban ratio was 2.77:1. The figures had remained stable over the years when I visited the town in 2005. Given the reality that Xihongmen town is supposed to be the most urbanised place in the whole Daxing district, the fact that the majority of local residents are still officially classified as rural (holding rural hukou) seems particularly inexplicable. The local governmental officials also told me that almost no one in the town was currently engaging in farming activities. How can we explain this inconsistency between reality and the official data? Are there any underlying reasons behind this? These questions were eventually unlocked through interviews with the local residents.

The former analysis of local residents' livelihoods indicates that their lives are becoming urbanised in terms of their socio-economic status. The shifts of employment and the rapidly increasing and diversified income resource from non-farming activities strengthen the local residents' capability in coping with urban life. Thus, we can reasonably say that people at Xihongmen are "urbanites" simply judging from their material facts. However, two factors constitute great challenges to the formation of "urban identity". The first is the hukou system (Household Registration System). Most local residents are still classified as rural (holding a rural hukou). The extent to which this administrative measure affects local residents' identity needs to be seriously considered. Second, the people-land relationship has been tightened with the implementation of the land shareholding scheme (see Section 6.2 on the relationships between people and the land). Rights to the land and the connections with village committees and local government are regaining dominance in people's daily lives. But those institutions are fundamentally rural in terms of political culture. So, the extent to which these two factors affect the local residents' self-identity is indeed a complex issue. This was further confirmed during my fieldwork: interviews with respondents yielded a somewhat blurred picture of people's self-identity. I basically asked a simple question: "do you identify yourself as an urbanite?" Most respondents could not give me a direct "Yes" or "No" answer. At some thought, they normally explained their difficulties in defining themselves: they simply told me that they were still peasants, but should be distinguished from traditional farming peasants. Some typical responses are as follows:

"I have never thought of this problem before...I think we are still peasants because our hukou is still an agricultural one...I think we are Beijing's suburban peasants"(Mr. Yao, local grocer)

"We are peasants, but we have no land to farm. So, the government should consider this fact when they make any policies" (Mrs Chang, Housewife)

There is also a special identity that people commonly use to identify themselves: people from an urban-rural joint zone (*Chen Xiang Jie He Bu* in Chinese). This is a kind of transitional identity based on the spatial hierarchy of the metropolis. The spectrum ranges from the inner city to suburban, exurban and rural identities. This type of identity also has some socio-psychological factors because most local residents think they are neither "farming peasants" as people normally define them, nor "real urbanites" in the sense of "inner city" people. Therefore, they tend to identify themselves as something in between, as the following remark shows.

"We are people of a urban-rural joint zone (chengxiang jiehebu), or suburban peasants, as inner city people still call us. We don't do farming but we have land; the land is managed by our collective (jiti). (Mr. Wang, self-employer)

The above descriptions partly prove that the social positions of local residents coincide with their geographical positions, as suggested by the theory of rural-urban continuum (Redfield, 1941). In his work, Redfield suggests that there is a continuum from small rural villages (or folk societies) to large cities. People tend to give themselves identities based on the geographical features of their places of residence. This is partly true for this study, but more importantly, one finding that arose from local residents' discourse is that their identities are also strongly associated with their economic interests. That is to say, identities given by local residents are always connected, implicitly if not explicitly, with their entitlement to land resources. In the current Chinese land system, people are only entitled to land

resources when they are classified as “rural”. From this angle, local residents’ strong inclination to identify themselves as peasants or suburban peasants becomes understandable, since their entitlement to land resources is crucial to their livelihoods, as the previous section (Section 6.2 on relationships between people and the land) shows. To identify oneself as a peasant is actually an “affirming gesture” of one’s entitlement to land resources. In this sense, it is no wonder that a taxi driver from inner *Beijing* calls them new landlords rather than peasants.

*They are new landlords; they are very rich and better off. In this era, who cares whether you are peasants or urbanites as long as you have money
(a Beijing tax driver)*

The above analysis shows that local residents’ self-identification as urbanites is influenced by a wide range of issues. Their answers always reflect a degree of psychological conflict in deciding their own identity. On the one hand, the rapid urbanisation process has already fundamentally changed their socio-economic status. Most of them have been disconnected from the traditional farming activities for a long while. All of these changes are narrowing the difference between local residents and inner city urbanities in terms of income, employment and lifestyle. On the other hand, the land is becoming extremely valuable during this process. Their rights to the land need to be strengthened and emphasised. As a result, their peasant identities are very important, since the current land system only reorganises the peasants’ collective ownership. The village is regaining importance as the collective owner of land. Administrative measures, economic interests and institutional affiliation further prevent local residents from forming their new urban identities. In this sense, the people of Xihongmen can be well described as “urbanised peasants” or, as they define themselves, as people of the urban-rural

joint zone. It is foreseeable that their rural identity or transitional identity will persist if the current institutional arrangement remains unchanged.

Zhulin: The economic success of Zhulin town over the last two decades has been described as a “miracle” by many political leaders who have visited the town. The reason why Zhulin has been praised as a miracle is because of its highly unfavourable conditions for the development of modern industry. The town is situated in a mountainous area with a poor locality and scarce water resources. The industrial development in the town territory has been solely driven by endogenous entrepreneurial activities rather than investment from outside. Thus, the strength of the “human factor” seems to be the only reasonable explanation for its success. The social organisation of Zhulin’s community has remained static during the last two decades, since there has been no large-scale in-migration (see section 6.6 for detailed discussion). In 1994, the prosperity of local economic development led to the “administrative promotion” of the local community’s status. On 28th November 1994, the name Zhulin village was replaced by Zhulin town and all the local residents’ agricultural (*nongye*) household registration was changed to urban (*chengzhen*) household registration. The people of Zhulin became urbanites according to the official Chinese statistical definition. But has local residents’ self-identity changed alongside this process? This following section aims to explore these issues.

Questions such as “how do you identify yourself?” normally received variable responses from the interview respondents. Most respondents made it clear that they were different from people in the big cities. They tended to give themselves a simple identity as “Zhulin people” or “small town people”. The following responses are typical:

I think we are not urbanites like people in Zhengzhou...we are Zhulin people, we were born here and we work here...(Mr. Li, worker)

We are people from a small town, an industrial town ...(Mrs. Yao, secretary)

The above conversation was always accompanied by local residents' strong sense of community feeling. Their emotional ties to the place were repeatedly emphasised during these conversations. This is partly because of the town's humble background and its current successful local economy. An old respondent described his comparison of the current situation in Zhulin with situation 20 years ago.

Zhulin was very poor 20 years ago; the surrounding villages were all better off than us because their landscape was plain and suitable for farming...At that time, other villages' people underrated us severely...now, everybody admires our houses, jobs and income...we are very proud to be "Zhulin" people...(Mr. Zhao, retired worker)

From the above narrative accounts, we find that the local residents of Zhulin tend to identify themselves mainly on the basis of their emotional ties to the local community. In this sense, their self-identity has little to do with their classification as "urban" or "rural". The collective spirit and its subsequent economic success have created a sense of pride, which belongs solely to this community. During my visit, I also found that slogans promoting collectivism are the main decorations on the walls of Zhulin town. Phrases such as "Promote Zhulin's spirit" (*fayang zhulin jingsheng*), "To be a civilized Zhulin citizen" (*zuo wenming zhulinren*) and "Solidarity is power" (*tuanjie jiushi liliang*) are everywhere in the town. This might

remind people of the legacy of the People's Commune and the mania surrounding Chairman Mao's "little red book"¹⁴ during the Cultural Revolution, but it is working very well, according to town leader Ms *Li Shu Zhuan's* comments. She considers that the function of those slogans is essential in educating people in the "collective spirit" and "loyalty to their own hometown". She also thinks that Zhulin town's economic success can be largely explained by this sort of spirit. Therefore, the local residents' identities are firmly associated with their strong emotional ties to the place rather than with their status as urbanites or peasants. Being the people of Zhulin town is their identity

Summary comparison: In this part, a range of sources that influence urban identity formation at the two towns were explored and identified. At Xihongmen town, although the local residents' lives are already quite urbanised, the majority of local residents are still classified officially as peasants. The interviews also suggest that they are partly satisfied with their peasant identity, since this identity is closely related to their entitlement to land rights. These land rights, as previous analysis has shown, have become a very important source of local residents' livelihoods. On the contrary, the local residents at Zhulin town tend to identify themselves based on their emotional ties with the local community. There is a strong sense of belonging and pride among the interview respondents about their own community and it is therefore concluded that being Zhulin people means more than being urbanites or peasants.

6.8 Discussion and Conclusion

¹⁴ "The little red books" refer to the popular collections of quotation from Chairman Mao, which were printed as booklets with red covers. These books were widely read during the Cultural Revolution period.

The previous six sections have studied six key themes regarding local residents' lives based on interview data. Each section ends with a "summary comparison" presenting the main findings through comparison. What we can conclude directly from those comparisons is that local residents at the two towns are indeed different in many aspects, but the issue of how these diversities lead to theoretically significant issues remains untouched. This section thus undertakes the very important function of giving a general treatment to this diverse empirical evidence. Four main conclusions are drawn as follows:

Livelihoods at household/individual level: The most obvious findings obtained from the two towns are that the local residents of the suburban town (Xihongmen town) enjoy more secure livelihoods than those in the rural industrial town (Zhulin Town). The differences between the towns' locations play an important role in explaining these distinctions. For the suburban town, its proximity to the urban centre facilitates the development of the local land market. It thus pushes the issue of precisely defining local residents' entitlement to collective land forward. As a consequence, local residents have collectively adopted a "land-shareholding scheme", which can be regarded as type of "quasi private property right". This is also a big step forward in terms of land right reform, which is widely regarded as a very sluggish reform package in China's economic transition. The annual dividends from this scheme contribute significantly to local residents' livelihoods. With regard to employment, rapid urbanisation has also created enormous opportunities in the tertiary sector, meaning that people normally have more job choices and the majority of local residents are self-employed or doing flexible work. Local residents' income sources are quite diverse and constitute a stable structure for supporting people's daily lives. The local government also acts as a small "welfare state" in providing various welfare programs to reduce the various risks faced in people's

lives. These advantages are not found in the rural industrial town. Due to its location constraints, the local land market is seriously underdeveloped and it thus does not make any contribution to local residents' livelihoods. Local residents' employment is heavily reliant on the provision of work by collective enterprises and very few job opportunities are created by either the private or the tertiary sector. Local residents' income source is singular and the local government delivers almost no welfare programs. In this sense, we can reasonably conclude that local residents of the suburban town enjoy greater livelihood security than those in the rural industrial town.

Changes to the Local community: Changes to the local community at the two towns have been analysed primarily through local residents' attitudes towards migrants and their concerns about the acute issues faced by the local community. In the suburban town, the local community has a strong capacity to accumulate migrants. Although the presence of migrants is accompanied by some inevitable negative effects, such as problems of public hygiene and security, local residents mainly take positive and rational views on those issues; they also show a strong demand for better public services from the local government. In contrast, the local community of the rural industrial town has remained essentially unchanged over the years in terms of social structure, and there are very few people from outside of town who can be defined as "migrants". Local residents' main concerns are still centred on the unity of the local community, job creation by the local government and stable leadership. There are few signs to indicate that the social structures of the local community have undergone any significant changes; the various social institutions in the local town remain rural rather than showing any progressive movement towards urbanism.

Urban identity formation: Enquiries about local residents' urban identity formation yield one similar finding, which is that both towns' local residents are reluctant to give themselves a straightforward identity as urban people. However, the factors leading to this similarity are very different. For the suburban town, one important concern about residents' personal identity is linked to the local people's entitlement to land resources; we can thus say that self-interest or economic rationality plays a certain role in the creation of self-identities. In contrast, the local residents of the rural industrial town mainly give themselves identities based on sentiment, emphasising their emotional ties attached to the local community.

Social Change: *Gemeinschaft* and *Gesellschaft*: Classical sociological theories, especially in the field of urban sociology, continue to provide insights in explaining the current rural-urban transformation in China. Here, I would like to pay particular attention to Ferdinand Tonnies' ideas (1887) about the distinction between community (*Gemeinschaft*) and association (*Gesellschaft*). *Gemeinschaft* describes forms of collective life in which people are tied together through tradition, interpersonal contacts, informal relationships and particular affinities, interests or similarities; while *Gesellschaft* describes an interactional system characterized by self-interest and competition, which is anonymous, rule-bound and demands more transparent, formal and universalistic principles. The concepts of *Gemeinschaft* and *Gesellschaft* are treated as "ideal types" in theoretical discussion, with little empirical research having been done so far. The empirical evidence from this chapter, generated from two Chinese towns, has great relevance to this theory. Although both towns have experienced a certain level of industrialisation and urbanisation, the local society of the suburban town has undergone some radical social changes, such as the redefinition of ambiguous property rights (by adopting land-shareholding scheme), local residents' changing relationships with the local

government and rational feelings towards migrants, with rationality even playing a role in people's self-identity (peasant identity). All of these changes reflect a social trend towards a *Gesellschaft* type society. By contrast, the local society of the rural industrial town remains static in terms of its rural society nature, local residents' relationships with the local government share many common characteristics with traditional "paternalistic governance in traditional rural society" (Fei, 1939) and the local society is characterised by intimacy and connected by blood ties, interpersonal contacts and informal relationships. Residents' common background also results in strong emotional bonds with the local community, as interviews suggest that people identify themselves first and foremost as Zhulin people, a decision that is based on their sentiment and sense of belonging. In this sense, the local society can be well described as a *Gemeinschaft* type society.

Chapter 7: Conclusion

7.1 Introduction

As a concluding chapter, this chapter sets out to fulfil several important tasks: 1) To summarize and reconcile the scattered empirical evidence presented in the previous chapters; 2) To link the research findings from government, firms and people and construct the connections among them in an attempt to reflect the fundamental characteristics of local society at the two towns; 3) To revisit the core research problems and evaluate to what extent the research questions were answered by the empirical research; 4) To summarize the main contributions of this thesis to theory and methodology; 5) To discuss the policy implications of the research.

The chapter is organised as follows: section 7.2 synthesizes the research findings generated in Chapters 4, 5 and 6. Section 7.3 probes the connections among the three key elements of the two towns and builds models to explain how social structures/orders differ at the two towns and how they are connected to the economic development at each locality. Section 7.4 revisits the research problems and concludes to what extent the research problems have been answered. Sections 7.5 and 7.6 outline the major theoretical and methodological contributions of this thesis and finally section 7.7 discusses the major policy implications.

7.2 A Synthesis of Research Findings

In the previous three chapters, a comparative analysis of three key elements of small town development (Government, Firms and People) was conducted and the

empirical evidence revealed that huge variations exist in the two towns. Through the analysis, one view that has been repeatedly emphasized is that urban proximity plays a key role in explaining such variations. The analysis was conducted by treating each element as a self-contained, discrete unit. Although this approach can ensure a clear focus on each element, it also comes with a cost. The connections among these elements have been largely overlooked and under-discussed. Several questions can be raised, such as, “What are the relationships among the government, firms and people in the two towns? How have these relationships changed during the course of industrialisation and urbanisation? What are the consequences of those changes for the local community?” In order to answer these questions, this section aims to synthesize the research findings generated in the previous chapters in an attempt to constitute a foundation for the further investigation of the interrelationship among these elements.

The first step towards further discussion of the relationships among the three elements is to take account of what we have done so far. Table 7.1 summarises the key research findings generated in the previous chapters. Comparisons can be drawn readily by comparing the two columns.

Table 7.1: The Research findings: a Synthesis

	Xihongmen Town	Zhulin Town
Degree of Urban Proximity	High: Being a suburban town under the jurisdiction of Daxing District, Beijing	Low: Being a rural town under the jurisdiction of Gongyi city (county-level city), Henan Province
Government	Radical changes of local socioeconomic environment in the last two decades, with	The local social environment has remained stable and population composition has altered little

	<p>the majority of the population now coming from outside the local community: the high level of social heterogeneity puts heavy pressures on the daily operation of local government</p> <p>Local governmental structures have undergone several waves of transformation to respond to changes of the local socio-economic environment, resulting in the gradual construction of an institutionalised, bureaucratized and complex organisation with multiple functional units.</p> <p>The local leadership has been changed several times and the role of leadership has been shifted from entrepreneurship-centred to administration-oriented, with local economic development relying less on the personal ability of key leaders.</p>	<p>during the course of industrialisation. High levels of social homogeneity mean that the governance of local society is relatively easy and autonomous, relying on kinship and localism</p> <p>There is a simple and hybrid organisational structure with many functions either undertaken by kinship-based social institutions or the local collective firms</p> <p>The local leadership has been firmly established and maintained until the present day (since 1977). Local economic development relies heavily on the key leaders' vision and strategy. The context of leadership also goes beyond the duties of public administration <i>per se</i> and combines with business talent, charisma, political skills and moral power</p>
Firms	<p>Firm-formation is ultimately determined by the market forces from the inner city. The first local collective firms and later emerging private firms are all made possible</p>	<p>The local natural resource is the original impetus of rural industrialisation and local leadership, while kinship/social networks and labour resources are the key elements to sustain the</p>

	<p>by utilizing the local connections with the nearby city</p> <p>Firms are organised loosely and their inter-firm ties are principally governed by the economic interest-based market force</p> <p>The number of firms has experienced rapid growth and the local industrial structure has been shifting away from the primary sector to the secondary and tertiary sectors</p>	<p>ongoing entrepreneurship. All those factors also contribute to the strong sense of localism</p> <p>Firms are organised and interlinked as well-structured business groups and their directorships are heavily penetrated by the local kinship/social network</p> <p>The number of firms has remained stable and the local industrial structure has seen little change. The local economy relies heavily on the profitability of key firms. Some profitable firms are now located outside of towns, which could potentially "hollow out" the local economy in the long run.</p>
<p>People</p>	<p>The relationship between land and people has been tightened by the ongoing urbanisation process. The adoption of the land-shareholding scheme marks some progressive changes in the establishment of land ownership.</p> <p>Local jobs are mostly offered by the non-public sectors and a high percentage of local residents are self-employed</p> <p>The multiple income streams</p>	<p>The relationship between people and the land has weakened and become insignificant during the course of industrialisation. Farmers' land dependency has been replaced by worker-factory dependency during industrialisation.</p> <p>The local collective firms are the major sources of local jobs and local residents are heavily dependent on the job generation capacity of the local government</p> <p>Single streams of income from</p>

	<p>and the institutionalised welfare package reduce the shocks of rapid urbanisation on people's livelihoods</p> <p>There has been an explosive growth of migrants from outside the community and most local residents view migrants rationally as rent-payers or workers, although deteriorating public security can also be attributed to the appearance of migrants.</p> <p>The local residents are very vocal and enthusiastic on participation in various local affairs, including local elections, and have no reservations about criticizing the local government on various issues</p> <p>The way of life is very urbanised, but residents still identify themselves as peasants (suburban peasants) because of rational concerns regarding the entitlement of land rights</p>	<p>industrial jobs are occasionally supplemented by earnings from sideline businesses such as cash crops and livestock. No universal welfare programs are available at town level</p> <p>There are almost no migrants from outside the province, only temporary workers from adjacent villages and a small group of experts hired by the local government to assist the local industrial development. Local residents have no strong feelings about the appearance of these people</p> <p>The local residents are docile followers of local leaders and rarely show critical attitudes towards local government.</p> <p>The way of life is still quite rural; residents share a strong identity based on the local community (Zhulin People). The identity is constructed on the basis of kinship, togetherness, sentiment and pride attached to the locality</p>
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The above table presents the key research findings about the two selected towns, although some missing dimensions are inevitable in such a confined space. Each

simplified summary can be correspondingly matched with the detailed discussion of empirical evidence in the corresponding chapters; thus I will not further elaborate on them here. The summary of the research findings presented in the above table sets the groundwork for the next section, which aims to explore the connections among those key elements.

7.3 Connections of Three Elements: Reflections on Local Society

Section 7.1 summarised the key research findings generated in the previous chapters. The contrasts between the two towns are evident but the connections among the three elements (government, firms and people) are still unclear; thus, the aim of this section is to try to reveal the linkages among them by connecting the three elements together to summarize the fundamental characteristics of the two local societies. The relationships among the three elements are essential if we are to understand how the two local societies are organised and function and how the social structures/orders and economic development are interlinked in the two towns.

The two models below are graphical presentations of the basic characteristics of the local societies in the two towns, developed by synthesising the empirical evidence.

These two models constitute the core contributions of this thesis:

Figure 7.2A: Xihongmen Town: A Divergent Model

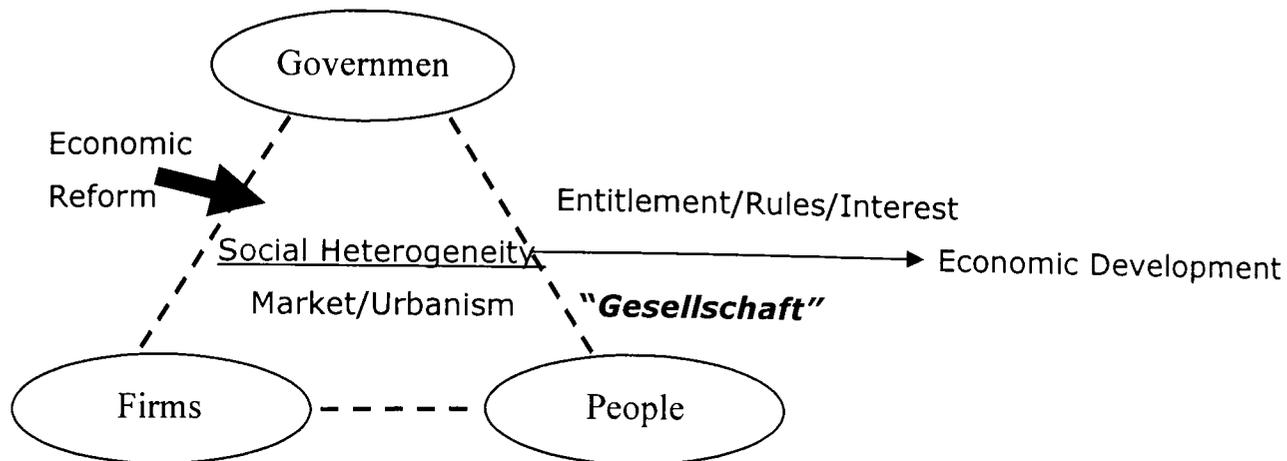
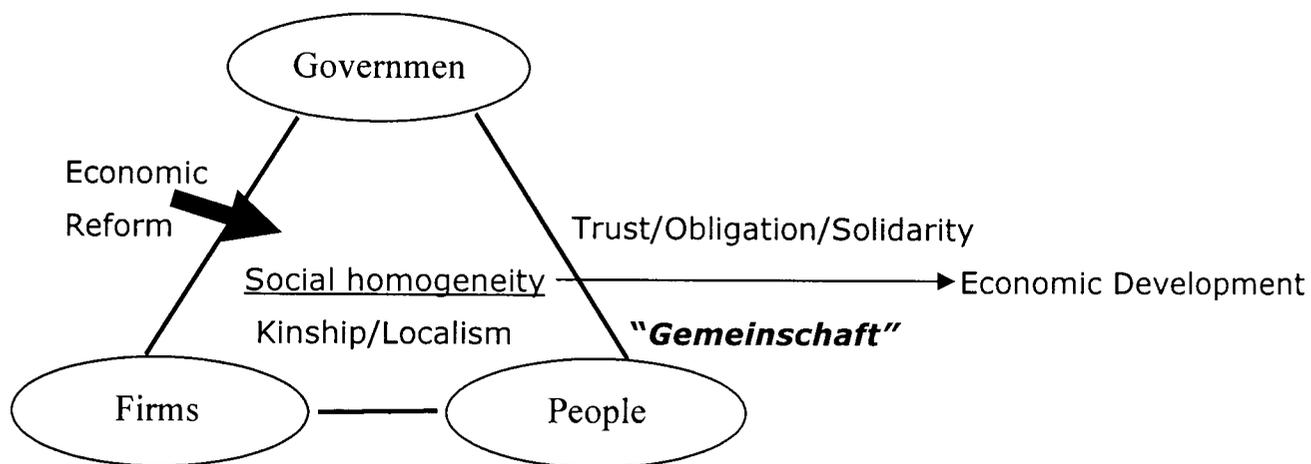


Figure 7.2B: Zhulin Town: A Convergent Model



The above two figures - Figure 7.2A & 7.2B - present two models to simplify the key characteristics of the current status of the local societies in the two towns. Before the detailed explanation proceeds, I will firstly state the limits of such models. First, the models are abstract and highly simplified. Thus, they do not attempt to reflect the true reality of the local society, but rather to provide an explanatory mechanism through which to understand the key features of the local society. Second, the models are static rather than dynamic: they characterize the current status of the two towns, but we should also bear in mind that the relationships among the three key elements depicted by the models have been the

results of two decades of gradual evolution triggered by the national economic reform and they are still constantly changing, subject to wider forces, such as institutional changes and market forces. Although the models have such constraints, they are still very useful to explain the developmental patterns of the two towns. The following parts give detailed explanations of the two models with support from the empirical evidence gathered at the two towns.

In Figure 7.2A, the model is entitled a “divergent model” and summarises the key characteristics of the local society of Xihongmen town. By using the term “divergent”, I mean that the connections among the three elements are shifted away from the rural, clan-like, intimate community to a more diversified and loosely connected urban society. One notable feature of this model is that the lines used to connect the government, firms and people are dashed rather than solid, which indicates that the linkages among them are loose and weakening. At the core of the model is the market force, which results in the parallel development of a high level of social heterogeneity because of the rapid influx of migrants and investors from outside of town. All those socioeconomic changes have given rise to a ***Gesellschaft***-style social order, in which the interactions among people are increasingly governed by self-interest, market rules, regulations and modern socioeconomic institutions, as the traditional familiarity and intimacy attached to a small rural community has been replaced by a “world of strangers”. Thus, a new social order that is compatible with the modern market economy has been established. For example, local residents demand clear-cut property rights (land ownership) and well-defined boundaries between public and private spheres. The government also focuses more on the provision of public goods and individuals obtain their employment through competition in an increasingly functioning labour

market. Therefore, economic development can be achieved through the establishment and operation of those modern socioeconomic institutions.

On closer examination, it is evident that the threefold relationship depicted in the model has changed and evolved. First, the linkage between local government and firms has been greatly weakened. The previous collective enterprises have been entirely privatised (estimated 99% in 2001 and 100% in 2003). The post-reform enterprises share very loose links with the local government and compete in the market as independent units; the newly emerged private firms in the local area share almost no links with local government apart from being taxpayers. The roles of the government as public goods-provider and firms as taxpayers are becoming the norm. The second link is between the government and the people. As the government does not directly run the firms and a functioning labour market has been established in the local area, the relationship between the government and the people has been weakened. Alternatively, a strong demand from local people for the government to act as a public service provider or the guardian of local people's interests has risen. Local residents are increasingly vocal in criticizing various actions/policies delivered by the local government, demonstrating that the relationship between the people and the state has undergone some substantial changes. The local people's dependence on the local government has been replaced by a more democratic state-citizen style relationship. The local residents can also influence the local government through village-level elections or other collective actions. This could be regarded as a starting point towards so-called "governance" and "civil society". The third linkage relates to local firms and people, and is predominantly regulated by market forces and economic rationality: people choose their jobs based on rational concerns regarding wages rather than anything else (whereas two decades ago, jobs were assigned by the local government). The

advantages of being local also enable them to easily utilize their own physical assets and social connections to pursue self-employment or engage in flexible work in the local area. As a result, their income resources are diversified; thus, the risks have been largely reduced and sustainable livelihoods can be maintained during the rapid urbanisation process. All of these transformed relationships suggest a profound change in the local society from a traditional agrarian-based society to a modern, urbanised one. Therefore, the term **Gesellschaft** captures a number of the key societal characteristics of Xihongmen town, as the local society is increasingly dominated by market forces and urbanism. Although the interviewees also revealed anxiety, frustration and dissatisfaction during the interviews, they agreed that the overall trend of their locality to develop towards a market-oriented and highly urbanised society seems inevitable.

Figure 7.2B depicts the key features of local society in Zhulin town, which is described as a “convergent model”. What we can observe from this figure is that during the rural industrialisation phase, the relationships among the three elements are actually reinforced rather than weakened. The reinforcement of relationships among the three key elements actually shares many similarities with the **Gemeinschaft**-style society, in which kinship and blood ties still play an important role in local residents’ lives. Although the production mode has been shifted away from agriculture to modern industry, the core principles by which such production is organised have remain unchanged. Trust and obligation derived from kinship and blood ties are still the key drivers to achieve common goals. As Ferdinand Tönnies remarked, “Community by blood, indicating primal unity of existence, develops more specifically into community of place, which is expressed first of all as living in close proximity to one another. This in turn becomes community of spirit, working together for the same end and purpose” (2002, pp 27). At Zhulin town, the “same

end and purpose" were initially set as "escape from poverty" when the first local collective enterprise were launched, since the poor local natural conditions had trapped people in poverty for decades. Under resourceful leadership and with a high level of solidarity in the local community, Zhulin town has achieved incredible economic development despite the fact that its location and landscape seem very incompatible with the development of modern industries.

Under close examination, the three sets of relationships all show a certain level of reinforcement during the last two decades. First, it is hard to distinguish clearly what is local government and what are the local firms. The boundary between the two is ambiguous. The evidence shows that many public goods and services are provided by local business groups and firms, while the local government is the spearhead to start up new business ventures and the key local government leaders also take key corporate positions in local business groups. Moreover, the government also tries to use its political resources to help local firms to secure preferential treatment, such as loans, credit and permission to develop certain industries (e.g. permission to produce medicines from the central government). Thus we can conclude that the government and firms are interdependent and mutually beneficial. Second, the relationships between firms and people are also strengthened, since local residents have few alternatives other than joining local industries when they look for jobs. The firms are powerful figures in local society, providing the only means of prosperous livelihoods for local residents. Third, the relationship between government and people is also tightly linked, since the government is the only legitimate owner of all the local firms and land resources. The government has the final say over the various local affairs. Thus, a strong dependent relationship between the two has formed. As a result, the local community is quite unified and works together for their common interest. This kind

of “convergent” relationship resembles a lot of the characteristics of **Gemeinschaft**-type society. The subsequent social order, although derived from agrarian-based village life, fits exceptionally well to the context of industrial development; thus, the desirable economic development can also be achieved despite the poor natural and geographical conditions.

So, what are the fundamental reasons to explain such huge variations between the two towns? Although historical and cultural factors are certainly helpful in explaining the towns’ developmental paths, one view that has been raised in this thesis is that their different degrees of urban proximity play an important role in explaining the variations, since this is the key factor that determines the extent of market forces and the social homogeneity/heterogeneity of the locality. Urban proximity used to be a less important factor under the centrally planned economic system because the transfer of various resources between urban and rural sectors was allocated administratively. Since 1978, market-oriented economic reform has reinforced the advantages of existing cities and the towns close to them have become target destinations for both migrants and investors, thus resulting in a high level of social heterogeneity, which could fundamentally alter the social structures/orders of the locality. On the contrary, a lower degree of urban proximity, as evidenced in the case of Zhulin town, adversely reinforces the traditional social structures/orders, which also facilitates economic development through the utilisation of high levels of community solidarity, although some prerequisites are also needed in this scenario, such as resourceful leadership, timely political support from upper levels of government and the unique social organisation of the local community.

The above two types of social structures/orders both lead to economic development, which indicates that economic development can be achieved in very different social contexts. At before, this stance has been largely overlooked and theories normally assume that rural areas are relatively incompatible with modern industrial development. But the case of Zhulin town, or to a larger extent, rural industrialisation in China, can be viewed as a case where local governments, responding to the economic incentive introduced by central government, with the support of local communities, can transform rural areas into industrialised and urbanised places through their indigenous power. The ultimate outcome of such processes, reflected spatially, is the robust growth of small towns.

7.4 Research Problems Revisited

The previous two sections have summarised and discussed the major research findings of this thesis. All these findings have been generated from the initial concerns about the paradoxical impact of urban proximity on small towns during the current economic era (1978-present), which constitutes the core research question of this thesis. Recalling the research design at the beginning of the thesis, one key task of the research has been to explain a paradox: **“why can two towns with different degrees of urban proximity both achieve prosperous economic development?”** The previous chapters set out to answer this question by studying local governments, firms and people separately, but a conclusive answer to the question can only be drawn in this chapter based on the integration of investigations on the evolving policy framework at national level and empirical findings derived from the two selected towns.

First and foremost, the institutional changes since 1978 constitute the foundation for small town development. The rise of small town development as a viable urbanisation model is a result of a series of reform measures introduced within the framework of the centrally planned economic system. Under the incremental changes of various institutions, the national government created a strong incentive for local government to pursue local economic development. The ambiguous and experimental nature of such policy frameworks also left spaces for local governments to act differently, based on the practicality of their own local geographical and socioeconomic conditions. In the interest of optimising revenue and the context of a highly competitive market for investment capital, local authorities have had to work to articulate the comparative advantages of their own localities, thus leading to the various developmental models.

Second, urban proximity is an important factor in determining the extent of market force that small towns are exposed to. The strong presence of proximity is an important factor that attracts both firms and migrants into towns' territories, which could help these towns to build a strong economic base. Generally speaking, small towns with close proximity to existing metropolises enjoy various advantages that cannot be replicated by their rural counterparts. By contrast, the low degree of urban proximity makes the economic development of small towns more difficult and most small towns with poor access to existing cities are struggling to build their local industries and relying on agriculture as their major source of livelihood. The positive effect of urban proximity is very tangible and well supported by national-level evidence. As the introductory chapter shows, over 80% of the most developed towns in China are located in the three major metropolitan zones.

Third, although the proximity is an important variable in deciding the economic prosperity of small towns in a crude sense, it still cannot explain the fact that some small towns with poor access to the major metropolitan areas can achieve prosperous economic development. In order to explain this unique phenomenon, we should also take a look at some of the intangible impacts of urban proximity on small towns. This thesis argues that urban proximity is also a key factor that influences the social heterogeneity/homogeneity of the local community. Proximity to the city causes a high level of social heterogeneity, thus facilitating the rise of a **Gesellschaft**-style social order. Low degrees of urban proximity mean that small towns retain high levels of social homogeneity, which result in a reinforcement of a **Gemeinschaft**-style social order. The latter can also be used as an important source to generate economic growth, since it provides an important mechanism to coordinate people.

In conclusion, small town development cannot happen without market force, introduced through the shift of national policies in the early 1980s, but market force alone cannot explain why small town development has become a viable route for Chinese urbanisation. This thesis argues that the centrally planned institutions, albeit reformed, have remained intact in many aspects, as reviewed in the evolving policy frameworks section in the Chapter 2. Those reformed institutions have provided the essential context to shape the actions taken by local governments. For example, the hukou system and the Household Responsibility System (HRS) have always been the major barriers and incentives preventing rural-urban migration, partly reinforcing the economic bases of small towns by supplying stable labour resources. On further examination of the social context of small towns, we also find that the proximity variable could be influential to the social structures/orders of small towns. In the case of Zhulin and many other rural communities, local

residents are organised through strong clan/kinship networks, which could be utilised by the government as an important mechanism to generate economic development.

7.5 Contributions to Theories

Throughout the research, I have been influenced by a range of theoretical perspectives and have drawn upon the work of many theorists, both within the field of sociology and outside of it. Whilst it is not possible to review all of the theories that have guided me throughout this process, some of the major influential theories are outlined in this section.

Three theoretical strands drawn from economics have been particularly emphasised in the literature review. They are Lewis's (1954, 1979) "dual economy" model, Todaro's (1969) "expected income" model and "new economy geography", which stresses the economic externalities and increasing returns to scale associated with spatial clustering and specialization (Porter, 1994; Krugman, 1995). All these strands are relevant to my research and have provided valuable insights, since they give very solid economic reasons for the causes of industrialisation and urban development. However, they are inadequate to explain the phenomenon of Chinese small town development, since they make several key assumptions (e.g. free labour flow, minimum governmental intervention) that do not fit into the reality of the current situation in China. Theories from sociology and other disciplines address the problem from another direction with more focus on the socio-cultural dimension rather than the causes of economic development. Urban sociology has a long tradition of focusing on the social structures/orders associated with urban development and makes a distinction between urban and rural ways of life (Wirth, 1938).

limited attempts have been made to connect the argument of social structures/orders to economic development.

This thesis rediscovers the classic theory of ***Gesellschaft*** and ***Gemeinschaft*** (1887) coined by Ferdinand Tönnies as a useful theoretical tool to analyse the social structures/orders of small towns. Meanwhile, I have also benefited from Michael Storper's (2005) insights into the relationship between two types of social order (***Gesellschaft*** and ***Gemeinschaft***) and their impact on economic development. Based on case studies conducted in Brazil and Mexico, Storper's analysis claims that both types of social order can generate economic development and that the co-existence of both orders is essential for long-term regional prosperity.

Existing theories derived mainly from the western context are illuminating in answering general research questions on the developing nations but only partly relevant to small town development in China. The thesis also uses the fruitful research outcomes generated in the field of China studies – an expanding and independent discipline - which have contributed enormously to the knowledge of contemporary China in the last two decades. China studies provide first-hand and detailed description and analysis of institutional shifts at both the national and the local level. These works have provided constant reminders that the central and local governments are the key drivers of institutional change and the state-led political economy is always the most important dimension when seeking to understand China. Therefore, this thesis does not interpret the reality of the Chinese situation by utilising western theoretical tools only. The analysis proceeds in combining the evolving policy frameworks at national level and empirical evidence gathered at local level to highlight the complicated nature of societal transformation in China. The current Chinese society is characterised by dual transitions: from an agrarian

to an industrial society and from a planning to a market economy. The current social orders/social structures of small towns are inevitably influenced by the inertia of both forces and the degree of urban proximity plays a key role in determining the extent of such influences. The distinction between **Gesellschaft** and **Gemeinschaft** needs to be further modified in the context of China by bringing in other factors, such as government and firms, since the original theory concentrates only on the interaction of people *per se*. In a transitional society like China, the role of government and firm dynamics (both collective and private firms) are also strongly influential in transforming the social structures/orders of small towns. Meanwhile, the trust and obligation derived from local kinship/social networks, which reflect the traditional rural community, can also generate high levels of solidarity at local level, which could be utilised as a key driver for small town development.

7.6 Contributions to Methodology

The key contribution of this thesis to methodology lies in its use of the comparative case method to fulfil two important functions: **exploration** and **explanation**. Regarding exploration, the two towns have been studied extensively and a considerable number of detailed facts have been revealed relating to their developmental processes over a time span of two decades. This approach has rarely been used in previous studies of Chinese small towns, to the best knowledge of the author. As regards explanation, the comparative analysis of the empirical evidence generated from the two towns focuses on the impact of urban proximity to the economic development of small towns. The social mechanism of small town development and its interaction with geographical location have been identified through the methods of systematic comparison.

Throughout the analysis, various research methods have been used, but they have all served the purpose of addressing the core research concern raised in the introductory chapter. The use of multiple research methods has proved to be an effective way to tackle the research question, since it has helped me to build a holistic perspective on the local development of the two towns. Although the analysis of official documents, firm-level data, formal and informal interviews and observation notes involves different techniques and procedures, at the stage of discussing the research findings and drawing conclusions, I found that these diversified findings were highly unified and mutually beneficial to the process of unpacking the research problems raised in the introductory chapter.

7.7 Policy Implications

Although the research problem of this thesis is partly inspired by the current Chinese urbanisation strategy and policies, the nature of this piece of research is not policy-oriented, since the focus of this study is not to evaluate any policies or make suggestions on what should be the ideal policy for small town development. However, when synthesising the major findings of this research, the research output clearly highlights certain aspects that could be beneficial for future policy-making. This section summarizes the two major policy implications of this research as follows:

First, the thesis reveals the importance of urban proximity for small town development and explores how this advantage influences local government, firms and people. Meanwhile, when conducting systematic comparisons with another

town, we should also bear in mind that urban proximity is a **relative** rather than an **absolute** measure of the extent of market forces. The national government can alter the extent of proximity through the development of basic infrastructures such as transportation and communication facilities. With the help of improved transportation and communication technology, even the most remote towns and villages can still enjoy the conveniences previously only associated with the city. The cost of communication technology can be driven down through market competition but the improvement of transportation systems lies more on the shoulders of the government. In order to make small town development more robust and sustainable, perhaps the best available option for the national government is to continuously build the necessary infrastructures within small towns and enhance the linkages between small towns and other urban entities through the ongoing improvement of transportation and communication systems.

Second, small towns can no longer be treated as a homogenous population. Programs and strategies must be tailored to fit each town's specific conditions. To do this, we need to differentiate small towns into more meaningful categories. In this study, I strongly advocate that urban proximity could be a key criterion by which to classify small towns. Urban proximity represents the socio-spatial relationships between small towns and other urban places. Under this criterion, small towns can be divided into at least two groups – towns with close proximity to cities and those without. Different types of attention need to be paid to these two categories and different policies need to be devised to tackle their specific problems.

As regards small towns with close proximity to cities, the national policy and local government need to pay more attention to the building of various institutions that are compatible with the market economy. The role of the government should be

shifted to the provision of public goods and resources should be directed towards increasing the quality of the local socio-economic environment, the protection of local residents' interests, and the drafting of various legislations and regulations to enhance the local institutional environment. Normally, towns of this type are also the net recipients of migrants and the current policy still discriminates against this group of people and denies their rights of access to educational and medical facilities. With the expansion of this group, local governments also need to adjust their policies to include them into local public service systems to ensure the stability of local society and the harmonious co-existence of different social groups.

Regarding small towns with low degrees of urban proximity, the policies should focus more on the empowerment of the local community, with concrete measures that should perhaps include appointing industrious and entrepreneurial local leaders or simply allowing the local residents to democratically elect leaders at town level (this currently only occurs at village level). In addition, local governments should also invest more in the basic infrastructures of small towns to create an enabling environment for rural industrialisation. The various local policies and financial institutions, such as banks and credit associations, should give priority to locally motivated, labour-intensive, small-scale, low cost, low-technique rural industry and allow rural farmers to gradually transfer themselves out of the agricultural sector.

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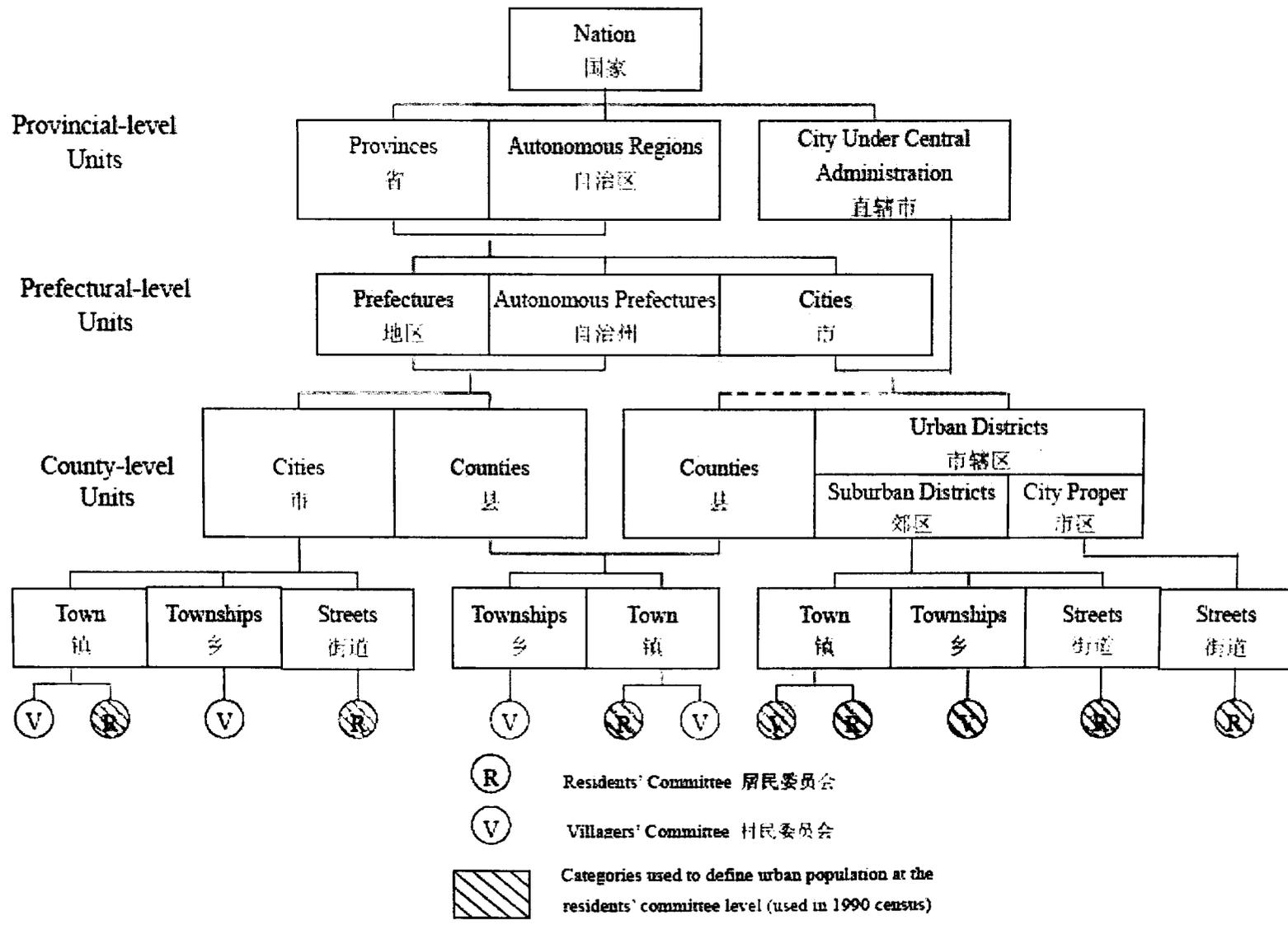
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Sources: Chan (1994)

Appendix 2: Urban definitions and their changes

1. Changes of urban definitions over years

In China there were no official urban definitions until 1955. Since then there have been three major changes.

1.1 1955 definitions

The first urban definition after the establishment of the PRC was promulgated in 1955 by the State Council (China, State Council 1986a:91; 1986b:92). According to its stipulation, places that met any of the following criteria could acquire urban status:

- (1) localities with 100,000 or more permanent residents;
- (2) localities with 20,000 or more permanent residents where local administrative offices at the county level or higher were situated;
- (3) localities that had 2,000 or more permanent residents, 50 percent of whom were non-agricultural;
- (4) localities with 1,000 to 2,000 permanent residents, 75 percent of whom were non-agricultural.

The stipulation made a distinction between cities and towns. Places fulfilling criterion (1) or (2) were defined as officially designated cities, while places fulfilling criterion (3) or (4) were defined as officially designated towns.

1.2 1963 definitions

In 1963 the Central Committee of the CCP and the State Council issued a directive in order to reduce the number of designated cities and towns and the scope of suburban areas of cities (Central Committee 1986:96-7). In this directive cities and

towns were defined more narrowly. Major modifications to the 1955 definition are as follows:

(1) Places with a population of more than 100,000 could remain as designated cities, but places with a population of fewer than 100,000 could retain the official city status only if they were provincial capitals, or important industrial or mining bases, or large scale goods and materials distributing centres, or important cities in border areas, where it was necessary for them to be under the leadership of the provincial government.

(2) Places could qualify as towns only if they had a minimum of 3,000 persons with 70 percent being non-agricultural, or if they had a population of 2,500 to 3,000 with more than 85 percent being non-agricultural. Commercial and handicraft centres with a population of less than 3,000 or non-agricultural population being less than 70 percent of the total population could be designated as towns if it was necessary for them to be under the leadership of the county-level government.

(3) The scope of the suburban area of a city should be reduced so that the agricultural population of the city would not be more than 20 percent of the total population of the city. Exceptions should be approved by the State Council.

1.3 1984 town definitions and 1986 city definitions

The third changes in town definition took place in 1984 (China, State Council 1984a). According to the new definition the following locations could be designated as towns:

(1) All seats of county-level governments.

(2) Townships with a total population of less than 20,000 and a non-agricultural population of more than 2,000 in the township government seat.

(3) Townships with a total population of more than 20,000 and the non-agricultural population in the township government seat being more than 10 percent of the total township population.

(4) Places in minority regions, sparsely populated remote areas, mountain areas, small industrial and mining areas, small ports, tourist points, and border ports with a non-agricultural population of less than 2,000, if necessary.

It was also stipulated that in areas where townships had been designated as towns, villages were to be put under the administration of towns.

Later in 1986 the State Council issued another document changing the city definition (China, State Council 1987:349-50). According to this document cities should be designated according to the following principles:

(1) A township with a non-agricultural population of at least 60,000 and an annual gross product of at least 200 million Yuan and that had already become a regional centre could become a city. Important towns in minority and remote regions, important industrial, mining and scientific research bases, famous tourist areas, hubs of communications, and border port with a non-agricultural population of less than 60,000 and an annual gross product of less than 200 million Yuan could be designated as cities if necessary.

(2) A county meeting the following conditions could be designated as a city: a total population of less than 500,000, a non-agricultural population of more than 100,000 in the town where the seat of the county government was situated, less than 40 percent of the permanent residents in that town being agricultural, and an annual gross product of at least 300 million Yuan. Villages and towns under the county's administration would be put under the city's administration.

(3) A county with a total population of more than 500,000, a non-agricultural population of more than 120,000 in the seat of the county government, and an annual gross product of more than 400 million Yuan could also be designated as a city.

(4) Counties with towns that were the seat of governments of autonomous prefectures (or leagues), although the non-agricultural population of these towns was less than 100,000 and the annual gross product was less than 300 million Yuan, were eligible to be designated as cities if necessary.

The document also stipulated that a medium-sized city (one with urban districts) that had a non-agricultural population of more than 250,000 in the urban districts and an annual gross product of 1,000 million Yuan and that had become a regional political, economic, scientific and cultural centre, exerting influence on and attraction to its surrounding counties, might implement the system of "city leading counties".

1.4 1993 city definitions

In 1993 the criteria for designating cities changed again (China, State Council 1993), while those for designating towns remain the same, The new criteria are as follows:

(1) Counties with a population density of more than 400 per square kilometre can be designated as cities if they meet the following conditions:

(1.1) The town where the county government is situated has a non-agricultural population of more than 120,000, among them at least 80,000 being non-agricultural by household registration. The non-agricultural population of the whole county should be no less than 30 percent of the total, and no less than 150,000.

(1.2) The county's gross output value of industry at the township level and above account for no less than 80 percent of the total gross output value of industry and agriculture, and is no less than 1,500,000,000 Yuan (at 1990 constant prices). The gross domestic product is more than 1,000,000,000 Yuan, with the value of the tertiary sector accounting for more than 20 percent; the local budgetary revenue is no less than 60,000,000 Yuan and the per capita revenue no less than 100 Yuan. A certain part of the revenue is turned over to the higher authorities.

(1.3) Public facilities and infrastructure are fairly good. Among other things no less than 65 percent of the population uses running water; 60 percent of the roads are paved; and there is a good drainage system.

(2) Counties with a population density of between 100 and 400 per square kilometre can be designated as cities if they meet the following conditions:

(2.1) The town where the county government is situated has a non-agricultural population of more than 100,000, among them at least 70,000 being non-agricultural by household registration. The non-agricultural population of the whole county should be no less than 25 percent of the total, and no less than 120,000.

(2.2) The county's gross output value of industry at the township level and above accounts for no less than 70 percent of the total gross output value of industry and agriculture, and is no less than 1,200,000,000 Yuan (at 1990 constant prices). The gross domestic product is more than 800,000,000 Yuan, with the value of the tertiary sector accounting for more than 20 percent; the local budgetary revenue is no less than 50,000,000 Yuan and the per capital revenue no less than 80 Yuan. A certain part of the revenue is turned over to the higher authorities.

(2.3) Public facilities and infrastructure are fairly good. Among other things no less than 60 percent of the population uses running water; 55 percent of the roads are paved; and there is a good drainage system.

(3) Counties with a population density of less than 100 can be designated as cities if they meet the following conditions:

(3.1) The town where the county government is situated has a non-agricultural population of more than 80,000, among them at least 60,000 being non-agricultural by household registration. The non-agricultural population of the whole county should be no less than 20 percent of the total, and no less than 100,000.

(3.2) The county's gross output value of industry at the township level and above accounts for no less than 60 percent of the total gross output value of industry and agriculture, and is no less than 800,000,000 Yuan (at 1990 constant prices). The gross domestic product is more than 600,000,000 Yuan, with the value of the tertiary sector accounting for more than 20 percent; the local budgetary revenue is no less than 40,000,000 Yuan and the per capita revenue no less than 60 Yuan. A certain part of the revenue is turned over to the higher authorities.

(3.3) Public facilities and infrastructure are fairly good. Among other things no less than 55 percent of the population uses running water; 50 percent of the roads are paved; and there is a good drainage system.

(4) The criteria for being designated as a city can be lowered if one of the following conditions is met:

(4.1) Places where a prefecture government is situated.

(4.2) Counties where the gross output value of industry at the township level and above is more than 4,000,000,000 Yuan; the gross domestic product value is no less than 2,500,000,000 Yuan; the local budgetary revenue is more than 100,000,000 Yuan, half of which is turned over to the higher authorities; the economy is developed and reasonably distributed.

(4.3) Important port and trading ports along coasts, rivers and borders; and places where there is a national key project.

(4.4) Places with special political, military, and diplomatic needs.

When being designated as a city because of the seat of prefecture (or league, county) should be more than 60,000, among which at least 40,000 should have non-agricultural household registration.

(5) A few economically developed towns that have become the regional economic centre can be designated as cities if necessary. The non-agricultural population should be no less than 100,000, among which 80,000 should have non-agricultural household registration. The local budgetary revenue per capita should be no less than 500 Yuan, at least 60 percent of which is turned over to the higher authorities. The gross output value of industry should account for more than 90 percent of the total gross output value.

(6) In principle, poverty-stricken counties receiving key support from the State, ministries and provincial governments, and counties receiving financial support will not be designated as cities.

(7) When designating cities the needs of urban systems and distribution should be met. There should be good geological and geographical conditions.

After being designated as a city townships and towns will be under the administration of the city.

Appendix 3: List of Documents

	Name of Documents	Type/The Number of Pages
Xihongmen Town	Annual Speech in Local People's Congress (1995-2001) & (2005)	Report 343 pages in total
	Daxing Yearbook (1998&2001)	Statistical Yearbook 187 pages in total
	Annual Report of local development (1996-2001)	Internal circulation report 287 pages in total
	The Guide on Investment on Xihongmen	Promotion Booklet 48 pages in total
	An introduction of Xihongmen town's development zone and small business mansion	Promotion booklet 31pages in total
	The record of Administrative Reform (1884-2002)	Internal memo 543 pages in total
	Let's talk about Xihongmen: The history of Xihongmen town (2 Volumes)	Published Book 735pages in total
	Xihongmen's Experiences on small town based urbanisation	Conference paper 14pages
	Report on Xihongmen town's future development	Internal report 77pages
	Zhulin Town	The road to prosperity: 10 years of Zhulin development in retrospect
Zhulin Town Development plan (1995-2005)		Internal Report 145pages
Gongyi City Yearbook (1994,1998-2001, 2004)		Statistical Yearbook 533pages
The historical Records of Zhuin's village (1987-1994)		Internal documents 345pages
Zhulin's community development		Unpublished Report 48pages
Zhuin's experiences on small town development		Conference paper 23pages
Annual Speech of local people congress (1997-2004)		Report 452pages
Zhongsheng's Road		Booklet 26pages

Appendix 4: Definition of variable and summary statistics

Table 5.1: A List of Variables

Variables	Description
observ	Observations (panel ID)
year	Year 1996-2001
sector	Industrial sectors (1 livestock, 2 Manufacture, 3 Transport, 4 Construction, 5 Commerce 6 Service 7 Agriculture)
tandv	Dummy variable to distinguish town and village firms (1=town firms; 0=village firms)
turnover	Total sale
scost	The cost of total sale
netprof	Net profit (after tax)
totwage	Total wage bill
employee	The number of employees
avawage	Average wage (totwage/employee)
npm	Net Profit Margin (netprof*100/turnover)
agriculture	Dummy variable (1=agriculture, 0=others)
Livestock	Dummy variable (1=livestock, 0=others)
manufacture	Dummy variable (1=manufacture, 0=others)
transport	Dummy variable (1=transport, 0=others)
construct	Dummy variable (1=construct, 0=others)
commerce	Dummy variable (1=commerce, 0=others)
service	Dummy variable (1=service, 0=others)
Year96	Year dummy (1=1996, 0=others)
Year97	Year dummy (1=1997, 0=others)
Year98	Year dummy (1=1998, 0=others)
Year99	Year dummy (1=1999, 0=others)
Year00	Year dummy (1=2000, 0=others)
Year01	Year dummy (1=2001, 0=others)

The below Table 5.1a and Table 5.1b shows the basic description of key variables:

Table 5.1a: Summary Statistics of Key variables

	Mean	Standard Deviation	minimum	maximum
Turnover (unit: 1000Yuan)	9332.915	24022.44	50	250000
Netprof (unit: 1000Yuan)	958.6335	2334.599	-70	18470
Totwage (unit: 1000Yuan)	369.2521	676.4044	0	8900
Avawage (unit: Yuan)	10285.56	4433.726	1000	35000
npm	13.50546	11.17769	-14.29	74.42
employee	34.98	54.47	0	560

Table5.1b: Summary Statistics of Key variables by Years

Variable	Time period	Mean	Standard Deviation	Minimum	Maximum
Turnover (unit: 1000Yuan)	1996	10133.08	19081.12	300	85620
	1997	11684.62	22972.22	140	102200
	1998	6339.075	15847.32	50	100000
	1999	13904.23	26189.01	110	98630
	2000	14072.2	28613.7	400	128790
	2001	9360.594	27376.48	70	250000
	total	9332.915	24022.44	50	250000
Net Profit (unit: 1000yuan)	1996	852.3077	1679.06	-70	6900
	1997	982.6923	1928.391	-50	7990
	1998	639.6119	1557.044	0	9500
	1999	1542.308	2708.065	20	11750
	2000	1558.78	3662.492	30	17200
	2001	981.9484	2464.091	0	18470
	total	958.6335	2334.599	-70	18470
Average Wage (unit: Yuan)	1996	7840.26	2749.514	3333	13333.3
	1997	9802.332	2919.686	2857.143	18125
	1998	8755.117	4460.905	1000	30000
	1999	11287.19	1460.438	9090.909	15121.95
	2000	9672.403	3290.429	2926.829	20000
	2001	11563.34	4711.079	1764.706	35000
	total	10285.56	4433.726	1000	35000
Net Profit Margin (npm)	1996	9.8	13.71	-8.7	50
	1997	12.73	16.9	-14.3	74.42
	1998	14.6	11.21	0	71.42
	1999	17.06	12.9	3.36	62.12
	2000	12.9	10.06	0.87	58.46
	2001	13.05	9.82	0	73.4
	total	13.5	11.18	-14.3	74.42
Number of Employee	1996	35.9	37.4	3	162
	1997	36.8	53	0	264
	1998	33.1	60.8	1	560
	1999	33.8	39.1	3	138
	2000	47.6	59.6	4	328
	2001	33.6	52.9	2	550
	total	34.9	54.5	0	560

Appendix 5: Interview Guide

The questions asked during the interviews centred on the three main categories: 1) livelihoods 2) view on the community changes 3) urban identity formation. The questions listed below are designed before the fieldwork. During the interview process, some new questions have been added in and some questions have been omitted or modified according to and each interviewee's own conditions in each town.

- 1) What kind of jobs are you doing at the moment?
- 2) Are you still holding agricultural hukou? If so, are you still doing farming work?
What is the relationship between land and your family? Does entitlement to land contribute to your life?
- 3) What is your employment history? How did you get your current job?
- 4) What kind of role did government play to ensure you get a job?
- 5) What is the annual income of your job and the income your whole family?
- 6) Are there any other income sources other than the salary from job?
- 7) Do you have any welfare? Such as pension, benefits and subsidy?
- 8) What are the biggest changes of your local community in your view?
- 9) Can you list something you dislike most about your living environment?
- 10) Can you list something you like most about your living environment?
- 11) Does the appearance of migrants bother you?
- 12) Do you think migrants do good or harm to your local community?
- 13) Do you personally know some of migrants and how did you get along with them?
- 14) What should government do in next 5-10 years to local development in your view?
- 15) Do you consider yourself as urbanite?
- 16) Why do you think you are urbanite or non-urbanite?

Appendix 6: List of Interviewees

Town	Participant	Occupation	Age
Xihongmen Town	Mr. Yang	Grocery's owner	53
	Mr. Liu	Entrepreneur	49
	Mr. Zheng	Accountant	42
	Mrs Li	Housewife	59
	Mr. Zhang	Factory Worker	32
	Mr. Chang	Governmental official	55
	Mrs. Xie	Housewife	53
	Mr. Zhang	Entrepreneur	49
	Mrs. Huang	Housewife	53
	Mr. Lu	Governmental officials	42
	Mrs Li	Manager	39
	Mrs Liu	Accountant	42
	Mr. Wang	Factory Worker	33
	Mrs. Ma	Housewife	47
	Mr. Fang	Self-employer	50
	Mr. Huang	Entrepreneur	60
	Mr. Fang	Driver	27
Zhulin Town	Mr. Li	Factory worker	45
	Mr. Wu	Factory worker	43
	Mrs. Yu	Factory worker	51
	Mr. Fang	Pharmacist	31
	Miss Yu	Governmental official	26
	Mr. Li	Line manager	39
	Mr. Li	Governmental official	41
	Mrs, Li	Factory worker	33
	Mr. Xie	driver	44
	Mr. Li	Manager	43
	Mr. Zhao	Retired worker	62
	Mr. Li	Factory worker	29
	Mrs. Xu	Housewife	47

	Mr. Zhao	Factory worker	35
	Mrs. Yao	Factory worker	46