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Migration and small towns in China

Power hierarchy and resource allocation

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Contents

Introduction	1
1 Definition of key terms	1
1.1 Small towns in China.....	1
1.1.1 Officially recognized towns (Jianzhizhen)	1
1.1.2 Urban towns and rural towns.....	2
1.2 Definitions of migrants in China.....	2
2 Part I: The changing role of small towns - a historical review	3
2.1 Bottom-up rural industrialization.....	3
2.1.1 Township enterprises	4
2.2 Small town development as a strategy.....	5
2.2.1 Industrialization	5
2.2.2 Urbanization	6
3 Part II: Small towns and migration—the analytical framework	8
3.1 Power hierarchy in the Chinese urban administration system	8
3.1.1 The historical status of small towns.....	8
3.1.2 From 1949 to the present.....	9
3.2 Hierarchy of administration.....	10
3.3 Town development planning	10
3.4 State intervention in small town development.....	12
3.5 The resource allocation system.....	15
3.5.1 Merging village authorities into towns	19
3.6 Small town authorities and fundraising.....	20
3.6.1 Township enterprises	20
3.6.2 Mixed funding for social services	22
3.6.3 Land as a source of income	22
3.6.4 Other fundraising efforts.....	22
4 Part III: Four small towns in Shanxi	23
4.1 The central provinces and Shanxi.....	23
4.1.1 Shanxi Province	27
4.1.2 Financing small town development	30
4.1.3 Small town development plans.....	30
4.2 The case studies	31
4.3 Case 1: Xinghuacun	32
4.3.1 Social and economic background	32
4.3.2 The alcohol industry	34
4.3.3 Other economic activities	37
4.3.4 Research findings in Xinghuacun.....	37
4.3.5 The relationship between Fenjiu Group and the local authorities	43
4.3.6 Summary of the case of Xinghuacun	44
4.4 Case 2: Qikou.....	44
4.4.1 Social and economic background	44
4.4.2 Migration.....	48
4.4.3 Research findings in Qikou	49
4.4.4 Summary.....	55
4.5 Case 3: Pingyao Ancient Town—Gutao	55
4.5.1 Social and economic background	55
4.5.2 The relationship between authorities at different levels	61
4.5.3 Problems faced by the town government.....	62

4.5.4	Summary	66
4.6	Case 4: Xugou.....	66
4.6.1	Social and economic background	66
4.6.2	Migration and population	68
4.6.3	Influence from central government.....	71
4.6.4	The role of the province in migration in Xugou	72
4.6.5	The dilemma of Xugou authorities.....	72
4.6.6	Summary	73
5	Conclusion	73

Figures

Figure 1	The government hierarchy	12
Figure 2	Different types of state interventions in small towns	14
Figure 3	Central and local governments' revenue	16
Figure 4	Fiscal spending of the Central and Local Governments	17
Figure 5	Central government's extra-budgetary revenue and expenditure	18
Figure 6	Local government's extra-budgetary revenue and expenditure	18
Figure 7	Number of villages and towns, 1978- 2005	19
Figure 8	Number of towns 1985-2005	20
Figure 9	Employees working in township enterprises	21
Figure 10	A framework for governing migration in small towns	23
Figure 11	Central Provinces	24
Figure 12	Shanxi Province	27
Figure 13	Public expenditure by type of spending, Shanxi	30
Figure 14	Towns in Shanxi	31
Figure 15	Location of Xinghuacun	32
Figure 16	Xinghuacun town map	33
Figure 17	In-migrants by year	34
Figure 14	Status of Xinghuacun and its population structure	36
Figure 19	Household income per person	39
Figure 20	Qikou and its surrounding areas	45
Figure 21	Qikou	45
Figure 22	Pingyao in Shanxi Province	56
Figure 23	Ping Yao Ancient Town	56
Figure 24	Tasks, costs and financing of Gutao conservation	65
Figure 25	Qingxu County	67

Pictures

Picture 1	Workshop in the alcohol factory	35
Picture 2	Tourist site built by Fenjiu Group	37
Picture 3	Entrance to Fenjiu Group	39
Picture 4	Part of Xinghuacun	40
Picture 5	The road to Qikou	48
Picture 6	Handcrafts made by women at home to sell to tourists	50
Picture 7	Elderly people collecting drift wood from the river to make money	51
Picture 8	A hostel in Qikou	54
Picture 9	Unrenovated houses in Qikou	54
Picture 10	The wall of Pingyao Ancient Town	57
Picture 11	Tourism has become the main source of income	58
Picture 12	Street vendors in the town	60

Picture 13 Old town residents 1	62
Picture 14 Old town residents 2	63
Picture 15 Gas supply to the town by the Xinghuo project which uses animal manure	68
Picture 16 Xugou High School	69
Picture 17 A private nursery built with investment from a successful businessmen, who is now based in Taiyuan	71
Picture 18 An ancient temple badly in need of renovation. The town authorities thought it might attract tourists in the future	73

Tables

Table 1 Per capita disposable income of urban households by region and province (yuan)	25
Table 2 Per capita annual net income of rural households by regions and provinces (yuan)	26
Table 3 Total population and household number in Shanxi (million)	28
Table 4 Tax revenue and expenditure in Shanxi (million yuan)	28
Table 5 Annual incomes per capita in rural households (yuan), Shanxi	29
Table 6 Towns in Shanxi	29
Table 7 Work status by sex	38
Table 8 Income by subgroup	40
Table 9 Housing for the floating population in Xinghuacun	42
Table 10 The growth of tourism	58
Table 11 Implementation of the Resettlement Scheme of Gutao (end of 2007)	60
Table 12 Population in Xugou, end of 2006	68
Table 13 Migrants' origin by job sectors	69
Table 14 Gender and age group of migrants	70
Table 15 Educational levels of the interviewees	70

Introduction

Towns play a significant role in the Chinese economy. Between 1978 and 2007, the number of towns rose from 2,173 to 19,249 (China Statistical Yearbook, 2008). Between 1978 and 1998, the proportion of people in China living in the built-up areas of small towns also increased, from 5.5 percent to 13.6 percent. People living in small towns as a proportion of the urban population increased from 20 percent to 45 percent between 1978 and 2007 (National Bureau of Statistics of China, 2008). As some small towns prospered, they attracted migrants from rural areas and other towns. Prosperous small towns may also expand their administrative boundaries into peripheral rural areas and absorb the population of nearby villages. At the same time, some small town dwellers move out to seek higher incomes or different lifestyles in large cities. Migrants can have a significant impact on the social and economic circumstances of their destinations, especially when their numbers are large. They often contribute to the local economy, but can also bring new challenges to governance and social harmony.

This paper examines how small towns in China cope with migration flows, with a focus on the role of local government, using a power hierarchy-resource allocation framework. The ability of small town governments to manage migration is largely dependent on their capacity to promote local economic development and provide public services. The key argument is that how well small town authorities deal with migration is a combined result of the power they may enjoy in the government hierarchy and the resources they can acquire. When small towns obtain sufficient power and resources, they may be able to use migration as an engine of social and economic development. However, when the necessary power and resources are not available or are not sufficient, small towns may suffer. Drawing on four case studies of small towns in Shanxi Province - Xinghuacun, Xugou, Gutao (Pingyao Ancient Town) and Qikou - we examine how power hierarchy and resources can constrain the ability of small towns to turn migration into a force for development and how these small towns have coped. The fieldwork was carried out between September 2007 and June 2008 by the authors and further visits were carried out by local collaborators.

1 Definition of key terms

1.1 Small towns in China

The term 'small towns' (*xiaochengzhen*) in China can have different meanings. It can refer to: 1) small cities, officially recognized towns and market towns; 2) small cities and officially recognized towns; 3) officially recognized towns; or 4) officially recognized towns and market towns. More precisely small towns are defined as small urban centres of different scales and administrative types. To avoid confusion, in this report the term 'small towns' does not include market towns.

1.1.1 Officially recognized towns (*Jianzhizhen*)

The detailed definition of *jianzhizhen* changed over time. Prior to 1964, 'town' meant an area with more than 2,000 permanent residents, of which 50 percent or more not working in agriculture. Between 1964 and 1984, 'town' meant: (a) an area with more than 3,000 permanent residents, of which 70 percent or more not working in agriculture or (b) an area with more than 2,500, but less than 3,000 permanent residents, of which 85 percent or more not working in agriculture (Ma, 1992, p120). In 1984, the definition of a 'town' changed to: (a) an area hosting a county-level government; (b) a township with fewer than 20,000 people and 2,000 or more of whom not working in agriculture; or (c) a township with more than 20,000 people and more than 10 percent of the population not engaged in agriculture; or (d) if in a remote area, mountainous area, small-sized mining area, small harbour, tourism area

or border area, a settlement with fewer than 2,000 people employed in non-agricultural work may also be approved as a town (National Bureau of Statistics of China, *China Statistical Yearbook*, 2005). It is always important to note that the word town in China is an administratively defined concept. It does not only include built-up areas, but also surrounding rural areas and the population living in both the town centre and the more rural settlements (Whiting, 2001).

1.1.2 Urban towns and rural towns

Officially recognized towns may not include all towns. There are also rural towns (market towns, *nongcunjizhen*), where village authorities are located and which usually govern several villages. According to the Regulation on the Construction of Villages and Market Towns (*Cunzhuang he Jizhen Guihua Jianshe Guanli Tiaoli*, 1993), rural towns originally developed from rural markets but are not officially recognized as towns, whereas urban towns are generally also *Jianzhizhen* (officially recognized towns) and are administratively governed by county or higher level authorities. Urban towns include county seats, whereas rural towns are below county level. According to the Urban Planning Law of the People's Republic of China (*Zhonghua Renmin Gongheguo Chengshi Guihua Fa*, 1989), officially recognized towns are the centres of political, economic and cultural life and provide services for rural areas. The division between urban and rural towns is also administratively defined. Some rural towns can be larger than urban towns in terms of population size and economic scale. It is also important to note that the status of a town, either rural or urban, can change. Reforms promoting or limiting the development of small towns have led to the upgrading or merging of centres.

1.2 Definitions of migrants in China

There are a number of ways to describe migrants living in Chinese cities. To control population flows, the government established the Household Registration System, also known as the *Hukou* System.¹ Permanent migration within China usually involves changing the place of household registration. Once certain criteria are met, a person can be registered as a migrant. Fixed residency, employment and legal income are normally necessary for resettling in the destination permanently and changing the household registration. As larger cities have stricter criteria, however, it is easier for rural migrants to register in small towns (Zhao, 2004).

Another term often used in the literature is 'floating population' (*liudong rekou*). This usually means 1) rural to urban migrants who have worked in towns for a very long time but still hold rural *Hukou*; and 2) the transient or mobile population, people who stay in a place for a short time for the purpose of travelling, business trips or visiting relatives or friends. The broadest definition is anyone who has lived outside the place of household registration for more than 30 days (Wang, et al., 2004). Constrained by the *Hukou* system, some rural to urban migrants cannot acquire long term residency in town even if they have worked and lived there for many years. In this sense, a rural to urban migrant might, in essence, be 'floating'

¹ The household registration system (*Hukou*) is a system of government population control. It was introduced during the Central Planning era. The household registration system, divided people into 'rural' and 'urban' populations and they were not able to move to a different part of the country permanently or seek employment without officially changing their household registration. For the 20 years following the economic reform, *Hukou* continued to play a big role in determining whether a person could obtain residence, employment and welfare rights in cities. This system was repressive and seriously limited the ability of rural to urban migrants to work and settle properly in cities. Since 2000, a series of reforms were introduced to decouple *Hukou* from citizen's rights. Today, *Hukou* is not used to prevent people from migrating to a different part of the country. However, in large cities there are still differences in the entitlements to some welfare benefits between people with rural or urban *Hukou*. Officially, in small towns there should be no difference. *Hukou* merely functions as a form of residency registration.

for a long time without really changing his/her place of residency (Duda and Li, 2008;Li, 2006a).

'People from the outside' (*wailai renkou*, or outsiders) is a term that is often used interchangeably with 'floating population'. However, it does not necessarily mean rural to urban migration. It generally means that a person's place of residence is different from the place shown in his/her Household Registration (*Hukou*) (Cai, 2004). Administratively, it is a term which distinguishes outsiders from long term local residents who have local *Hukou*. More specifically, outsiders either have lived in the place of residency for more than six months, but with a *Hukou* from other places; or they have not yet lived in the current place of residency for six months, but have left the place of *Hukou* registration for more than half a year. Outsiders can hold either a rural or an urban *Hukou* (Zhu, 2008).

Despite the differences, the floating population (*liudong renkou*) and people from the outside (*wailai renkou*) are often used interchangeably in the Chinese literature to mean rural to urban migrants.

The term 'migrants' in this report means people who work and live in places which are not their places of origin (*Hukou* registration) for longer than half a year. Tourists, even if they may stay in a place for a quite long time, are not counted as migrants.

2 Part I: The changing role of small towns - a historical review

Throughout Chinese history, the growth of small towns has been underpinned by bottom up market forces rather than centralized planning, even under Mao's rule. However, heavy state control over industrialization and urbanization during the Central Planning era made it impossible for small towns to develop. Deliberately using small town development to achieve national social and economic goals is a quite recent policy which only emerged in the 1980s. Since then, a series of new policies and policy revisions have been published to form and reform small town development strategies. These strategies interact with patterns of industrialization and urbanization and are an integral part of national social and economic reforms.

2.1 Bottom-up rural industrialization

According to Fei (1996) industrial activities existed in rural China even before the Communists came into power. In the 1930s, in many rural areas, people were already working in traditional small scale village workshops. Rural family enterprises were particularly popular in the coastal areas in south and southeast China. Later, traditional rural production was challenged by competition from modern industry, and workers in these small industries often suffered from poverty exacerbated by long periods of war. Many rural enterprises were on the verge of collapse when Fei carried out his fieldwork in the 1940s. However, this model of rural industrialization inspired later policies.

After the Communist Party came into power, rural enterprises continued to develop. Before 1958, they grew 'organically' to serve rural areas, generally by processing farm produce. However, when the state began to buy large quantities of farm produce for urban processing, the supply of raw materials to rural processors was cut off (Wang, 2007).

In the mid 1950s, rural cooperatives appeared, carrying out a variety of activities, including agricultural and industrial production. In 1958, the state decided to encourage smaller cooperatives and production teams to merge into People's Communes so that the scale of production could increase (People's Daily, 04-09-1958). However, conflicts inside the Central Communist Party spilled over into the economic sector. In 1958, Mao criticized his

political competitors for killing off workers' and farmers' enthusiasm by restricting rapid economic growth and production. This bolstered the already strong culture of boasting about increased outputs and led to the Great Leap Forward (1958-1960), when unreasonable targets were set for China's economy, so that it might quickly catch up with British and US outputs. In order to please the Central Government, local officials mobilized large numbers of people to produce iron and steel and reported non-existent high agricultural outputs. In rural areas, millions of farmers were asked to stop working the land and to set up their own kilns to produce iron. The impact of the Great Leap Forward was disastrous. The country suffered from extremely low productivity and a serious waste of resources. To address this situation, in 1961 rural enterprises were placed under tight control and the number of rural factories was reduced from more than six million in 1958 to less than fifty thousand. From 1961 to 1963, following a serious famine, the focus of rural economic recovery shifted to food production, and rural industries were only allowed to produce on a small scale. By the mid 1960s, food production had recovered but, as the rural population grew, pressures to generate employment outside the agricultural sector re-emerged. With the acknowledgement of the Central Government, some farmers, supported by the village authorities, started again to set up small factories. Rural industrial production in the late 1960s and the early 1970s was no longer limited to processing farm produce. In some coastal areas with a well-established tradition of small rural enterprises, such as Jiangsu and Zhejiang, non-farm enterprises supplying urban markets began to emerge (Wang, 2007).

As Wang (2007) argues, while rural industrialization appeared to be driven by state policy, in fact it developed as a result of some successful local experiences. What really went wrong during the Central Planning era was the intention to bring about changes too quickly.

2.1.1 Township enterprises

The rapid growth of township enterprises in the 1980s transformed some villages into small urban centres in a relatively short time. These urban centres are different from traditional rural market towns. Instead of serving as the distribution centre for rural-based industry, these newly developed small towns contain factories and businesses that mainly supply markets in cities. A large proportion of the population lives in the town centre, works in the town's industries, and leads an urban lifestyle. The rest of the population still lives in the nearby rural areas and commutes to work in town. In this way small towns have become an unprecedented important linkage between rural and urban economies.

When the Rural Household Responsibility System² was set up in the late 1970s, rural productivity was initially enhanced as a result of improved incentives.³ Consequently, fewer rural workers were needed on the farm and unemployment became a serious issue. The initial response from the state was to deter migration for fear of losing control of population flows. The result was a rampant increase in black market activities in the labour market. Urban employers secretly offered jobs to workers who managed to stay in the city "illegally" (Smith, 2003). To enforce the law, migration control was often accompanied by heavy handed policing. Overtime, however, the state began to see the potential of small towns for relieving the pressure of mass migration to large cities.

² In the past, rural land belonged to villages or other forms of collectives. Farmers worked on the land in groups. The Rural Household Responsibility System was introduced in the late 1970s, marking the beginning of economic reforms in China. The collectively owned land was split into smaller plots which were then allocated to households that were granted farming rights to them. Since then, farmers can keep the profits in excess of the procurement quota obligations. Rural Household Responsibility literally means each household is responsible for the input, production and output of the allocated land.

³ The potential for further improvement later turned out to be seriously limited by the small scale of production.

In 1983 and 1984, the Chinese government published a series of policies for the development of small towns. First, in 1983, village and town authorities were set up with permanent staff members. The inclusion of rural towns into the administrative hierarchy is a major step in China's modernization process. Before this, top-down policies and public services only reached the county level. Second, in 1984, the criteria for defining a town were relaxed. The new criteria set out some basic conditions and allowed local discretion during the approval procedure, triggering a rapid increase in the number of towns. The 1984 reform also established the system of towns governing nearby villages, to facilitate the flow of resources from rural areas to non-agricultural sectors and to small towns (Luo, 2002).

Despite these changes, before the early 1990s, there was no policy specifically governing the development of small towns. Setting up township enterprises was regarded by many local authorities as a good way to take advantage of rural labour resources in order to achieve industrialization and a higher GDP. The prospect of farmers working in factories but living in villages seemed to be an easy and attractive option for town authorities. It was also appealing to policy makers at the top. The hope was that rural industrialization could increase rural incomes while avoiding massive migration and state investment. Rural areas could urbanize *in situ* without generating pressure on bigger cities (Fei, 2004).

Township enterprises are, in essence, local initiatives to overcome the legacy of the Central Planning era. The idea of 'leaving the land without leaving the village' was initially an attractive one, reinforced by three factors. The first was a sense of uncertainty. People did not yet realize the potential of economic reform under the Open Door policy. For some time, the majority of people, including farmers, were not sure whether it would last. People were worried that the reform would backtrack and those who took advantage of the opportunities offered might lose out in another round of political turmoil. Therefore, the journey to city life seemed safer if it started from somewhere near home. The ability to travel back home when something goes wrong is valued by most migrant workers. The second factor was the availability of job opportunities. The Open Door policy did not immediately generate as much employment in cities as today. When township enterprises began to appear, it was much easier for farmers to find a job in small towns. The third factor was the possibility for township enterprises to thrive. In comparison to the rigid urban economic system in place during the early 1980s, rural industry had its advantages in terms of meeting urban market demands. However, all this changed over time as the potential to earn money in the city quickly and save for the future started to become a better option.

2.2 Small town development as a strategy

2.2.1 Industrialization

Since the 1990s, there have been some major changes to the policies governing small town development. The first was to encourage township enterprises to locate close to each other and around small towns, therefore contributing to the economic growth of the latter. The second was to discourage the establishment of small towns away from transportation networks, resource suppliers or markets. The third was to emphasize market principles, whereby the Central Government encouraged local governments in facilitating and guiding private enterprises to face up the challenges of market competition rather than resorting to the command and control approach (State Council, 1993). These changes were based on lessons learnt in the 1980s. Scattered rural industries, which were set up in response to state encouragement but did not have any competitive advantage, turned out to be inefficient and found it hard to survive (Li, 2008a).

In 1994, six ministries and central government commissions jointly published a document titled "Suggestions on strengthening the construction of small towns". This document highlighted the principle of using township enterprises to facilitate small town development, and was the first policy that specifically addressed the governance of small towns. In 1995,

eleven ministries and commissions published “The Guidance on Piloting Comprehensive Reforms in Small Towns”. As a result, 57 towns in 20 provinces were appointed as pilot cases for these small town development plans (Li, 2008b).

In the late 1990s, small town development entered a new phase. In 1998, the state began to deliberately use small towns to tackle rural development, especially in the western provinces. In 2000, the Central Government re-iterated the importance of small town development. One of the major tasks for small town authorities was to attract township enterprises that had been scattered in rural areas in order for them to relocate to their towns. Another role was to encourage enterprises in large cities to outsource production to small towns.

In 2004, the state decided to further encourage the development of small towns (Office of the National Development and Reform Committee, 2004; Li, 2008b) as stepping stones towards the urbanization of the rural population. Six ministries (including the Ministry of Construction, the National Development and Reform Committee, the Ministry of Civil Affairs, the Ministry of Land and Resources, Ministry of Agriculture and the Ministry of Science and Technology) published a List of Beacon Towns in the Country (2004). Beacon Towns, according to the Central Government, will be key players in boosting rural prosperity, facilitating urbanization and increasing farmers’ income. 1,887 towns from all provinces in China were listed. During the 11th Five Year Plan period, the Ministry of Finance allocated 350 billion RMB yuan (≈US\$51 billion)⁴ to the development of Beacon Towns, to be used in projects to develop local agriculture, boost the regional economy and accelerate small town construction. Agricultural projects included farming as well as the processing of agricultural produce.

The reform reflects a shift whereby rural industrialization is no longer considered an outcome of its own, but rather a means to achieve a greater level of urbanization. In this new relationship, small town development becomes increasingly important.

2.2.2 Urbanization

When the People’s Republic of China was established in 1949, 10.6 percent of the total population lived in cities. Between 1949 and 1980, this increased by only 8.8 percent. The average growth was 0.28 percentage point per year (Xu, 2004b). During this period, the State prioritized the development of heavy urban industries. There was a strong rural urban divide imposed by the Central Planning System. This divide was not only about strictly controlling population mobility, but also about public finance, which affected the allocation of resources and availability of public services.

The restriction of labour mobility through a household registration system (*hukou*) allowed the state to control the size and growth of populations in towns and cities (Asian Development Bank, 2005). Not only did it criminalize working and living in cities without permission, but it also guaranteed urban residents’ entitlement to welfare benefits which were not accessible to the rural population. At the same time, rural areas subsidized urban consumption through the price control system (Li, 2005). As a result, the gap between rural and urban development grew during the Central Planning Era (Lin, et al., 1996).

There were some efforts to develop industries in the relatively poorer areas before the Cultural Revolution (1966-1976). However, national policy favoured smaller settlements over larger settlements in rural areas. In addition, for security reasons, some industries which were considered to be strategically important were located in remote mountainous areas. As a result, even if there were some newly built industrial towns, industrial facilities in rural areas were mostly scattered and remained isolated. They were not an integral part of the urban industrialization process.

⁴ The exchange rate used throughout this paper is 1US\$= RMB ¥6.85.

The economic reforms of the 1970s did not remove the rural urban divide. On the contrary, they continued to reinforce the legacy of the Central Planning period. A guiding principle was to discourage large-scale rural-to-urban migration into large cities. The National Urban Planning Conference in 1980 decided 'to control the scale of large cities, develop medium cities at a reasonable pace and actively develop small cities' (China Urban Construction Yearbook, 1989). From 1995, a number of pilot programmes for institutional reform in selected towns were established to experiment with policies that would help facilitate urbanization. The experiences of several towns were presented as success stories, but their success was hotly debated. Success could be the result of unexpected economic growth in the regions where the towns were located (Asian Development Bank, 2005), or the successful towns could be geographically close to large and medium-sized cities, which could have helped them attract outside investment (Li, 2003). After 2000, a series of guidelines were published by the Central Government to make the policy of actively promoting town development official.

Throughout this period, the Household Registration System was reformed gradually and very cautiously. In 1984, farmers were allowed to work in market towns and the people who had secured long term jobs could obtain township *Hukou* and enjoy access to subsidized food which at the time was only available to urban residents. Local authorities were required to provide housing and services to the new migrants. As a result, between 1984 and 1988, about 5 million farmers settled in small towns (Zhu, 1996, p81). Based on population size, several of these market towns were soon upgraded to urban towns (*jianzhi zhen*).

However, government promises to guarantee migrants equal access to welfare and services in small towns did not fully materialize. Residency most often did not entail subsidized food supply (Zhu, 2004), forcing migrants to buy food on the much more expensive private market. By the end of 1993, more than 10,250 towns offered this less attractive residency status. In addition, not every farmer who wanted to live in a small town was able to find a long term job and settle permanently. As a result, the number of people who worked in towns was much larger than the number of registered migrants, with many ex-farmers commuting between the town and their village.

In 1995, some of the discriminatory policies were removed, and migrant workers were able to gain full citizenship in small towns as long as they could secure long term employment or owned newly built private houses bought at market prices. A two-year pilot was carried out in some small towns and this practice later spread to other parts of the country. However, many small towns imposed quotas on the number of migrants that could gain full citizenship and required farmers to give up their village land after they had lived in town for some years. This was not warmly received, as farmers considered it crucial to keep the land as a source of protection should they lose their livelihood in town (Xu, 2004a).

In 2000, the state decided to offer equal rights to migrants in towns below county level. This included children's access to free education, equal access to employment opportunities and allowing soldiers from rural areas to retire in small towns with urban resident status. Ex-farmers could retain the right to use their village land and could transfer use rights. The difference between the 2000 and the 1984 regulations is that farmers were only allowed to settle in market towns in 1984. Nearly 200 county seats and several hundred cities were not included in the earlier regulations. In 2000, the policy extended to county level towns. However, the removal of urban food subsidies in 2001 made small town household registration less attractive. The consequence was that many farmers chose to work in towns and were not interested in acquiring small town *Hukou*. This clearly did not help small towns achieve their urbanization targets.

In 2004, small towns were required to project their population growth in terms of their ability to attract rural people from nearby villages, formalizing the role of small towns in facilitating localized urbanization and relieving the pressure on large cities. It is estimated that 39 percent of China's floating population is in small towns and 58 percent of the rural population have found jobs outside the farming sector without moving out of the region governed by their local town (Xinhua News Agency, 2006).

The growing importance of small towns during the reform period shows an increased awareness by the Chinese government of the potential of small towns in serving development. It has moved from passively allowing small towns to grow to actively engaging with the urbanization process, with the aim of using them as a reservoir to ease pressure on large cities.

3 Part II: Small towns and migration—the analytical framework

In this section, we examine the role of small town authorities in meeting the needs generated by migration in the light of administrative reforms and government financing systems. It is argued that because of their status and the incentives generated in the urban government system, small towns will find it unavoidably difficult to muster the necessary resources and administrative capacity to deal with migration.

3.1 Power hierarchy in the Chinese urban administration system

The Chinese government has a five tier structure, central, provincial, prefectural, county, city and township (or community in cities). There are several layers between the central and the lowest level of authority and it is particularly difficult for central government to directly control local administrative affairs. The attempt to do so during the Central Planning era failed. As a result, during the reform era, decentralization became unavoidable. Although decentralization appeared to be top down, in essence it happened as a result of pressure to legitimize earlier local innovations. Once decentralization took place, the central government or higher authorities no longer controlled all the funding for the activities they wanted lower authorities to implement. The relationship between the central and the local governments changed. It was no longer a relationship between funder and service provider. For the central government, the central-local relationship was increasingly about how to encourage local governments to provide goods and services without getting extra money from the centre. Correspondingly, for local governments, governing their affairs effectively was about handling tasks imposed by higher authorities.

3.1.1 *The historical status of small towns*

During the Qing Dynasty (1644 to 1911), cities and towns were sorted into a five level administrative hierarchy: the capital, provincial capital, regional capital, prefecture (*zhou*) capital and county seat. The borders between these cities and towns and the outside world were defined by a city/town wall. There were also smaller towns within each county which usually did not have a wall. Most towns developed as a result of business concentration and although some large towns did not have the status of a capital they might well have been more prosperous than the county seat. In some places, local people donated money voluntarily to build up towns and their defense walls. Market towns became particularly prosperous in the Qing Dynasty (Gu, 1992), providing work opportunities for redundant labourers from rural areas. However, many academic researchers have found it difficult to clearly delineate the exact features of these small urban centres. On the one hand, culturally, these towns were deeply rooted in rural areas and were very similar to rural society. On the other hand, they were no longer villages by nature. Therefore, market towns, the link between villages and larger towns, could not be easily categorized as either rural or urban (Fei, 1996).

Rural urban linkages in the history of the Chinese Empire were quite different from current urban centred perceptions. Mobility between large towns and villages was not as high during the Ming and Qing dynasties when compared to modern society. Many business activities, such as cloth trading were circumscribed to rural areas, and goods might not reach large towns at all. In Ming and Qing dynasties (1368-1840, before the Opium War), rural elites had an important impact on the life of both villages and towns because of the importance of rural businesses (Li, 2008c). They were the middle men between rural and urban life. In North China, government officials and people who excelled in national exams were considered to be the rural elite, the upper class in rural society (Zhong, 2005a). Respected elderly and women, who were loyal to their dead husbands and parents, enjoyed moral authority.⁵ They were called the *Xiangshen* class or gentry and were at the centre of rural politics. *Xiangshen* and respected elderly people formed an important force of control which helped to carry out village administrative tasks. It was not necessary for higher authorities to appoint officials to rule the villages (Fei, 1946; Hsu, 1954). The gentry were the backbone of the long lasting autonomous governance of villages and small towns during this time.

According to research carried out by Guangdan Pan and Xiaotong Fei (Fei, 1946), of the 915 people who excelled in exams at different levels during the Qing Dynasty, 52.5 percent were from cities, 41.2 percent from rural villages and only 6.3 percent from towns. These people often travelled between towns and their villages. Rural gentry from the big families were often rich and powerful. Their influence could reach towns or even county seats. In this sense, towns were full of people coming from villages. They kept their rural roots and could influence decision making in towns (Elman, 2000; Hsu, 1949; Gu, 1992). Back in the village, the gentry often used their social connections or moral influence to control village affairs without using legal means (Wang, 2008; Chen, 2008; Du and Wang, 2004; Zhong, 2005b). In this sense, through their travelling and business activities, the gentry used their power to bond towns and villages.

Under National Party control (Minguo Period, Republic of China, 1911-1949) the administration of towns was more formalized. An extra layer of government under county level was set up. It was called *Qu*, district. In each *Qu*, there were village towns and urban towns. However, the definition of *Qu* was quite confusing and not all village towns were smaller than urban towns. As a result, the financing of towns and rural areas became a serious problem. The governing structure was unclear, and local revenues were not stable. In many places, the *Qu* authorities were not properly established. This caused difficulties for local authorities and directly led to serious tensions between farmers and the government, undermining the governing party during the Communist revolution (Wang, 1991; Yin, 2007).

3.1.2 From 1949 to the present

When the Communists came into power, there were no major changes to the government hierarchy. The government was still a five-tier administrative structure with small towns at the bottom. Rural towns were at the same level as villages, both under the control of towns at the higher level. Despite many reforms, the power hierarchy within the government administration system has not changed very much.

⁵ The role of women in traditional society was usually not political. Women who remained unmarried after their husband died were seen as good moral examples. The purpose was to promote loyalty to men. The role they might play was marginal comparing to male gentry and the elderly as a whole. The role of these women was mainly to help sort out family disputes or to provide moral control over disobedient women. Even their role in helping with family disputes was very class based. Lower class people would not have a say in the issues of higher class families.

3.2 Hierarchy of administration

In the present government system, the top layer of the hierarchy is the State Council, the standing governing body of the central government. Within the central government, there are a number of ministries, each with its own office dealing with small town development. When necessary, these ministries make policies jointly. For example, the Ministry of Housing and Urban-Rural Development (previously Ministry of Construction) is in charge of small town construction. The Ministry of Land and Resources has an office to deal with land use in small towns which approves land supply in these areas. The Ministry of Agriculture has a department specialized in township enterprise which plays an important role in the industrialization of rural areas and has a great impact on the urbanization of the rural population. The Economic Reform and Development Commission has a department which works on small town development. Though there is no specific office that is dedicated to small towns in the other ministries, such as the Ministry of Personnel and Social Security (previously the Ministry of Labour and Social Security) and the Ministry of Civil Affairs, the issues they deal with such as social protection and poverty relief are unavoidably related to the affairs of small towns (Zhang, 2001). State policies are mostly in the form of guidelines and principles for reform. Local authorities below the ministries are often allowed to exercise discretion in the execution of their authority and duty.

Below the central government, there are authorities at provincial, prefectural (regional) and county levels. The structure of the lower authorities mirrors the structure of the central government (Huang, 2002). However, this similarity only reaches county level. Small town authorities do not have the same structure as upper level governments, but are treated as grass-root level authorities even though the size of the towns can vary widely. For some administrative tasks such as education, the county sends staff members to towns to monitor schools and carry out audits. Officials from higher authorities are considered to be superior to local government officials. Therefore, small town officials cannot intervene or get seriously involved in the work of officials or auditors from higher authorities. The officials collect information and make sure that the money (taxes, fees or contributions) they expect to receive from small towns are duly collected. Small town officials need to host these higher officials and make sure that inspections are not interrupted. After the inspections or collections are done, small town authorities are not necessarily informed of the results of the inspection, especially the details of statistical surveys (Yuan, 2008). Therefore, if someone needs information about an individual small town, they would need to approach higher authorities.

The responsibilities of small town authorities are not clearly defined. The town authorities have to deal with whatever the higher authorities do not. Many public services are provided by the higher authorities, for example, business registration and administration, public security, electricity supply, land management. Because of the incentives generated by the taxation system, discussed later in this report, higher authorities are keen to hold on to the tasks which generate revenue. The businesses concerned report directly to the higher authorities and do not contribute to local revenues. Therefore, small town authorities are left with very little taxation power, undermining their ability to provide public services and infrastructure.

3.3 Town development planning

In the past, each level of authority from county to central levels would be responsible for the planning of areas under their control. Small town development plans were made at the county level. In a way, small towns did not have the power to plan for their own development. In each county, there would be a number of small towns. It was not possible for the counties to write detailed plans for each town. As a result, plans for towns were only a small part of

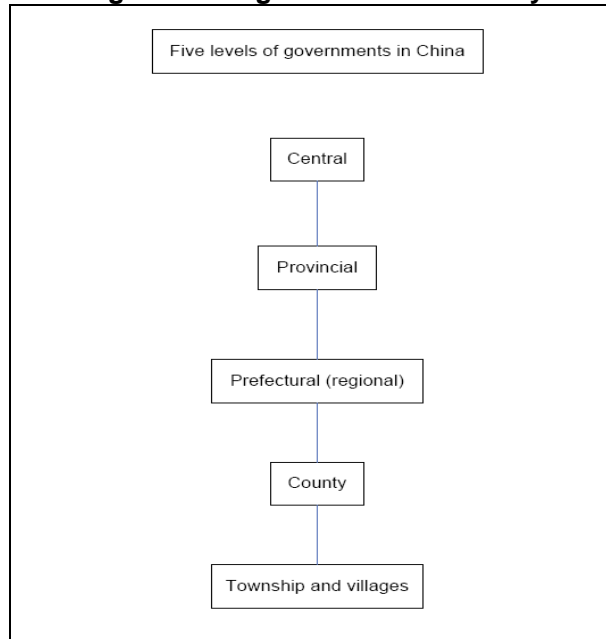
larger plans at the higher levels. The higher up it went, the more generalized the plans were. If a town was a county level town or a town that might have economic importance, the county would put a lot of effort into planning its future. However, if it was a rural town which was considered insignificant in terms of economic potential, the planning process would be very brief. Sometimes, a small town's plan would be only a few lines in the county plan. In order to make plans at the higher levels more coherent, there was often an overarching theme for each document, showing the long term vision for the county, prefecture or province concerned. The plans of small towns were tailored to fit into the larger vision. It was impossible for higher authorities to take into account the specific needs of each small town. As a result, general principles were used to replace specific plans which might not be relevant to the reality of small towns. What is more, the town plans were not legally binding (Tang, 2007). The actions of small town authorities were not checked against original plans. Therefore, small town development planning was literally a large quantity of paperwork which was not expected to be turned into reality.

The lack of clearly defined responsibilities for small town authorities created some interesting phenomena. The seemingly powerless small town governments got involved in all sorts of tasks. Small town officials were literally street level bureaucrats. They dealt with problems, but did not really have a vision of how towns should develop. They often depended on higher authorities to make plans and allocate resources for their future development (Yuan, 2008).

In 2007, the state published 'The Urban and Rural Planning Law of the People's Republic of China'. In this new regulation, small towns may also carry out detailed planning as long as it is 'feasible'. According to the law, county authorities decide which towns need to make new plans. Towns are expected to play a more active role in their own future. However, as commentators point out, even with the new regulation, the role of small towns is still quite vague (Tang, 2007). There is a lack of detail specifying the responsibilities to be taken up by towns and counties.

At the moment, there is much debate over whether small towns should indeed be playing a greater part in the planning system, or whether small town officials should just function as street level bureaucrats and carry out the tasks imposed by counties. Those supporting the idea of small towns carrying out their own planning argue that they have a better understanding of local affairs and should be more involved in planning and decision making for their own future (Yuan, 2008; Tang, 2007). The opposite view is that small towns often operate at a rather small scale. There is little room for bureaucratic complexity, and officials handle many tasks and deal with *ad hoc* requests. When official responsibilities are specifically defined and become specialized, administrative costs will be much higher. Therefore, it is better to remove town level authority and let the county authorities appoint officials to deal with small town administration (Xu, 2002). The argument against a too detailed division of responsibilities in the small town authorities has its merit. However, the argument is a bit off-track. What is needed now is not a division of labour between different services, but rather between different levels of authority. Whichever direction the reform may go, either centralizing or decentralizing, it will always require a clearer division between the responsibilities of county level and town level authorities.

Figure 1 The government hierarchy



3.4 State intervention in small town development

The state can intervene in small town development in various ways. When we talk about the state, we refer to government at different levels. State interventions can be in the form of financial control or support, personnel arrangements or regulations. The intervention can be direct or indirect. The focus of state interventions also changes over time.

First, we look at control over personnel. It is often considered that decentralization weakens state control over local affairs. However, it is important to note that although the central state government has withdrawn from many responsibilities, the strict hierarchical relationship between authorities at different levels continues to affect personnel arrangements at the bottom of the government system. Town government officials are still appointed and can be removed if the higher level officials are unhappy about their work. As argued by Edin (2003, p35), reforms actually made the old cadre management system developed during the Central Planning era more effective: 'Higher levels of the party-state have improved monitoring and strengthened political control through promoting successful township leaders to hold concurrent positions at higher levels and by rotating them between different administrative levels and geographical areas.' This rotation system for personnel also worked for small towns, but within the county.

Second, we examine direct investment in which the state played a particularly strong role during the Central Planning era. In the remote areas of the western provinces of China (the Backline provinces), the state had strategically located some of its major state industrial enterprises. In making these decisions the state considered several factors. Firstly, some industries were built close to natural resources. The southwest provinces were rich in resources, such as water power, metals, chemical elements, forests which were crucial to heavy industry state investment. Secondly, some industries were strategically important such as military manufacturing and the industries that might be targets for foreign invaders if there were a war. Major investment in these kinds of projects occurred in the 1960s. By the end of 1970s, state investment increased from 29.2 billion yuan (US\$0.43 billion) to 154.3 billion yuan (US\$26.6 billion), about one third of total national investment. A large number of skilled workers were moved from other parts of the country to these provinces. The total number of employees increased from 3.26 million before the development of these industries

to 11.30 million by the end of the 1970s. The total industrial output also increased from 25.8 billion yuan (US\$3.77 billion) to 127 billion yuan (US\$ 18.5 billion) (Chen, 1997). As a result of economic reform, state funded relocation of large enterprises also helped small towns to develop quickly (Wang, 2004b). This kind of massive government investment in small towns had a mixed impact. On the one hand, apart from the employment directly generated by the factory, small businesses often emerged in the towns to support the life of factory employees and the business activities of the factory. For example, the investment in Three Gorges Dam was a major force, pushing the surrounding rural areas to urbanize quickly. On the other hand, it also generated economic dependence. For example, when the giant automobile factory Dongfeng was relocated from Sichuan to Hubei in 2004, overnight a series of purpose-built small towns in Sichuan lost their economic lifeline (Shen and Ma, 2005).

Generally, the state has been reducing investment in new small towns for strategic purposes, unless these have geographic advantages, for example, if they are close to resources or are more suitable locations for polluting industries than heavily populated large cities. To support private investment, small towns are not encouraged to set up their own state owned enterprises.

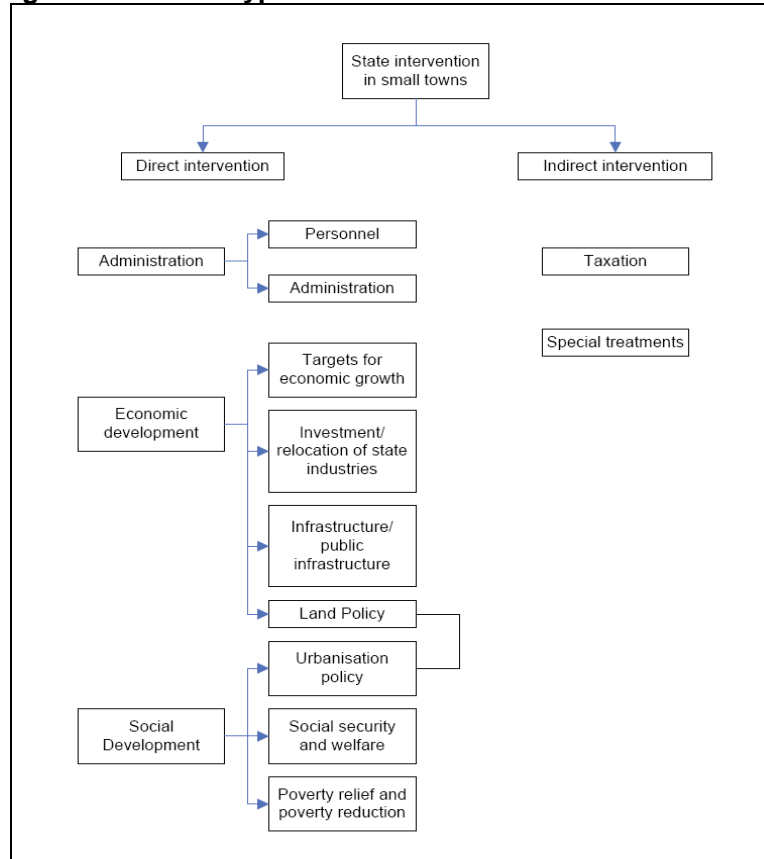
Thirdly, we look at economic strategies to promote small town development. Before 2002, there had been constant growth in the overall number of towns. This increase was driven by economic growth and mainly focused on the construction of infrastructure, but it proved costly and unsustainable. Apart from real estate development and infrastructure construction, local governments treated the development of towns and cities as an achievement which should be appreciated by the higher authorities, and thousands of small development zones were designated in order to attract investors (Xinhua Net, 2004). Local governments were eager to build towns but did not think carefully about local employment opportunities. In many instances, local industries were unable to survive because of their slow response to changes in demand, poor technology, small scale of production and long distances from markets. As a result, some small towns remained empty after they were constructed (Gu, 2004). Even in the provinces that had prosperous industries, such as Zhejiang, at the end of 2000, 70 percent of the one million small industries remained located in the countryside with no intention of moving to towns (Wang, 2004b). Towns also suffered from poor infrastructure, poor environmental conditions, poor education services and limited social security systems, and were not as attractive to farmers as the authorities had thought (Zhu, 2004).

A fourth consideration is social development. Social development has become one of the most important aspects of both rural and urban development. In large cities, urban residents began to enjoy a social security system in which both the individuals and their employers contributed to individual accounts. In contrast although the rural social protection system largely collapsed during the economic reform, a new system is under construction. Small towns are between rural and urban areas. In some regions such as coastal areas near Shanghai, small town populations benefited from town social insurance (*zhenbao*) which has a lower level of protection than that for people living in cities. So far, town social insurance is better organized than the rural social protection.⁶ However, the system is not yet equally developed nationwide.

⁶ Town insurance in Shanghai area began in 2003. It includes a basic social insurance funded by employer contribution (to cover pension, healthcare, unemployment, childbirth and industrial accidents) and a supplementary insurance funded by individual contribution to personal accounts. The format of town insurance is quite similar to urban social insurance, but the contribution rates and benefit level for each type of insurance were lower than the urban system. People living in suburban areas and without urban resident status could also join the insurance schemes. In this sense, farmers who lost their land and started to work in towns are covered by the social insurance schemes. It is considered to be a transitional solution before rural and urban systems can be fully integrated.

Finally, there is the question of sustainable development. In recent years environmental issues have become more important. Many township enterprises in rural areas were engaged in highly polluting industries without any means to treat the pollution. In the agricultural sector, China has been the largest user of chemical fertilizers and pesticides in the world. However, the efficiency of chemical usage was very low. Less than 30 percent was absorbed by the crops. The remaining chemicals polluted water supplies in many parts of the countryside. By the end of 2007, more than 90 million rural residents had no access to safe drinking water because of pollution. The use of natural resources such as minerals, energy and land was also wasteful and inefficient. The ecological system was seriously damaged in many rural areas. Because small towns are the centre of rural industrial activities, they are an important target for the state's anti-pollution campaign. Pollution problems had been largely ignored for many years, and even though there were policies to deal with environmental protection, implementation was very poor. This was mainly because the state either at the central or local levels was reluctant to hinder local economic growth. However, the number of public complaints about the deteriorating living environment and quality of life increased over time. Environmental problems are potentially a big threat to social stability and harmony, both top priorities since Hu and Wen came into power. In 2007, the central government finally decided to take serious steps to improve rural environmental protection. A series of measures have reduced pollution. Apart from improving public education and legislation, some factories which were detrimental to the environment and could not be effectively improved were forced to close down. Some other factories were required to introduce new technologies to control pollution. According to statistics, in the province of Shanxi alone 4,287 polluting factories were closed down in 2007. In 2008 another 1,798 enterprises were closed down.

Figure 2 Different types of state interventions in small towns



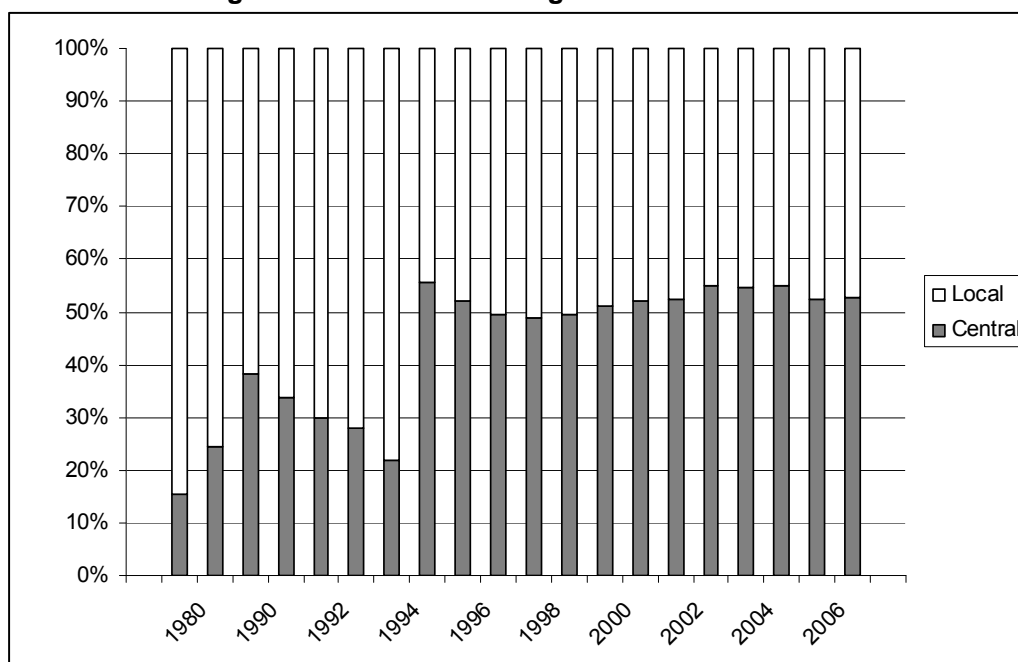
3.5 The resource allocation system

In the past, central government was not directly responsible for meeting the administrative costs of towns and villages below county level. As discussed in the previous section, historically, the administration of small towns was largely dependent on the local gentry who had power and also contributed financial resources to support local spending. The Republic of China (National Party regime) carried out some reforms, but did not fundamentally change the way rural villages and towns were governed.

The public finance system has been reformed several times since the Communists came into power. In 1949, a new centralized taxation and budgeting fiscal system was introduced which lasted for more than 20 years. In 1980, the fiscal structure was reformed. Different ministries in the central government were allowed to collect their own taxes to cover their own spending. In 1988, in order to improve incentives, power to tax and funding allocations were used to reward top economic performance. This generated great incentives for local governments to try harder to increase their GDP in order to gain access to as much money as possible. However, while local governments were motivated by access to money, the ability of central government to collect revenue was seriously undermined. As shown in Figure 3, by 1990, the money collected by central government as a proportion of the total revenue was much lower than in the past. In contrast, provincial governments were in a much better position. The problem with this fiscal system was that the central government was not as able to redistribute money across regions as in the past, leading to massive increases in regional inequality. From 1994, a major tax reform was put in place. The taxation power of central and the provincial governments was split. This restored the central government ability to tax. The reformers also hoped the division between central and local taxation would motivate local governments to collect more revenue.

The reform did significantly enhance the power of central government to tax. In 1993, its tax revenues were about 22 percent of the total tax revenues in the country. However, in 2000, the ratio increased to 52.2 percent. The provincial level tax revenues also increased from 16.8 percent in 1993 to 28.8 percent in 2000, while tax revenues below provincial level dropped from 61.2 percent in 1993 to 19 percent in 2000. This trend continued until further reform was carried out in 2006 (Tang, 2004). However, the reform did not achieve its intent, as since local taxation power had decreased, most provincial governments continued to suffer deficits. Pressed by the need to cover costs at the provincial level, the budget allocation for local spending after 1994 was mainly in the form of tax refunds, of which a large proportion of the total was paid by the provinces. Thus, a large share of the tax revenues which was meant to be used as redistribution fund was returned to the original contributors because of fiscal pressure. As a result, the central government was not able to carry out significant redistribution of resources to poorer regions.

Figure 3 Central and local governments' revenue



Note:

- a) The revenue of central government and local governments each refer to their own revenue.
 - b) Revenue in this table does not include revenue from domestic and foreign borrowings.
- Data source: National Bureau of Statistics PRC (2007) Statistical Yearbook, Table 8-10

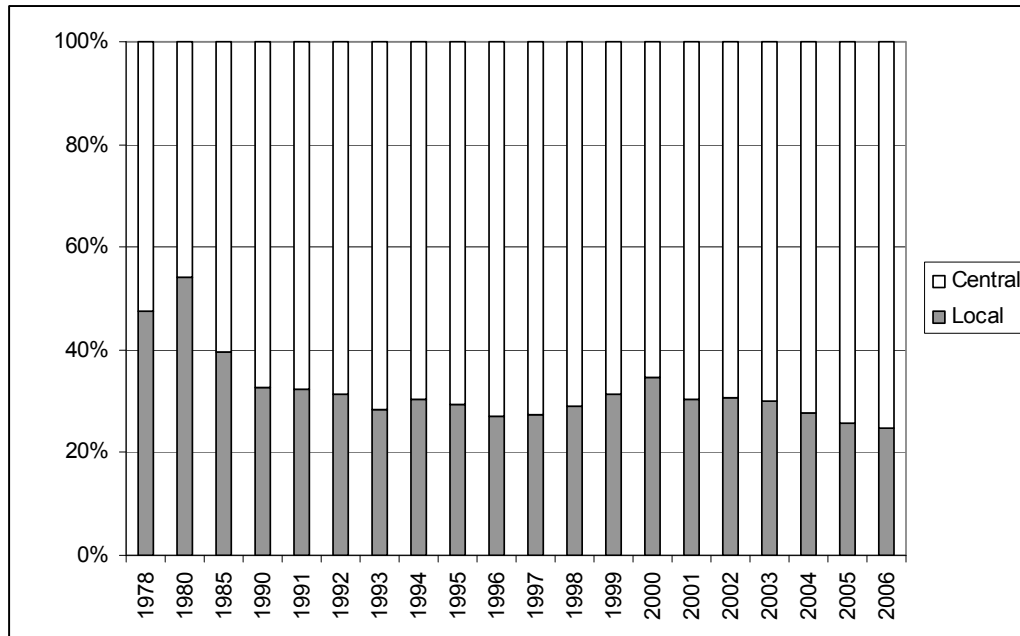
Small towns at the bottom end of the fiscal structure are supposed to contribute to the revenues of higher authorities. In theory, small towns are expected to pay taxes to the higher authorities first. They then receive a funding allocation from these authorities. However, because of the unclear labour division between small town and higher authorities, the amount small towns can claim from the higher authorities is arbitrarily decided. In addition, the funding allocation mechanism is operated through the top down administration system. Most funds are taken by the higher authorities while travelling to the bottom of the fiscal ladder. By the time they reach small towns, only a marginal amount is left. The higher authorities tend to underestimate the funding required for small town administration especially when they do not have their own strong funding position. Thus, many small towns are only partially funded and some authorities are heavily in debt even if the local economy is not poor. In 1998, the average amount of debt accumulated by each town was 3 million yuan. Despite the state policy to reduce agricultural tax and cut down on the number of officials employed, the amount of debt has continued to grow (Zhu et al., 2006, p2). The debt owed by local government is mainly in the form of 1) gaps in the social insurance reserve fund; 2) loss by food production industries; 3) overdue salaries to school teachers and 4) unpaid payment for construction projects. In general, the debt problem is more serious for lower level authorities than higher ones. The western provinces suffer more than the eastern provinces: the poorer the county, the more serious the debt problem (Wang, 2004a).

The direct consequence of this system is that small town authorities cannot function effectively and are not able to provide necessary services and facilities (Yuan, 2008). As for infrastructure, small town authorities are expected to use the money they collect to support construction. However, because of the taxation structure, small towns cannot hold revenue for their own use. Once the county collects taxes, they allocate very little money back to

towns, usually only enough for the salaries of a small number of officials. Unless a small town has its own source of funding, investment in infrastructure is extremely limited.

In 2000, the policy stated that land governed by small towns should be rented to users. The money collected from rent could then be invested in infrastructure. However, the policy was not respected at county level, where authorities insisted on taking the revenue obtained from renting land away from small towns which then had to claim this money back by proposing infrastructure projects. But because project approval was tightly controlled, the money was rarely refunded (China Construction Daily, 2006).

Figure 4 Fiscal spending of the Central and Local Governments

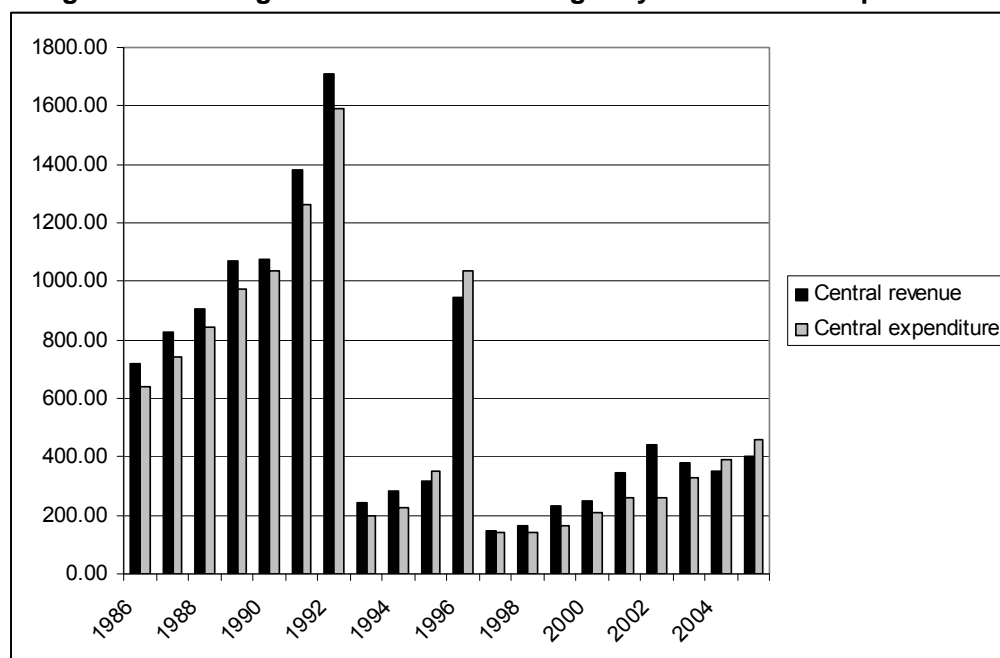


Notes:

- a) Central and local government expenditure refers to direct expenditure.
- b) Expenditure before 2000 does not include the payment of domestic and foreign debt (capital and interest payments) or the expenditure for capital construction using foreign loans. After 2000 central and local government expenditure includes all payment of domestic and foreign debt (capital and interest payments).

Data source: National Bureau of Statistics PRC (2007) Statistical Yearbook, Table 8-11

Figure 5 Central government's extra-budgetary revenue and expenditure

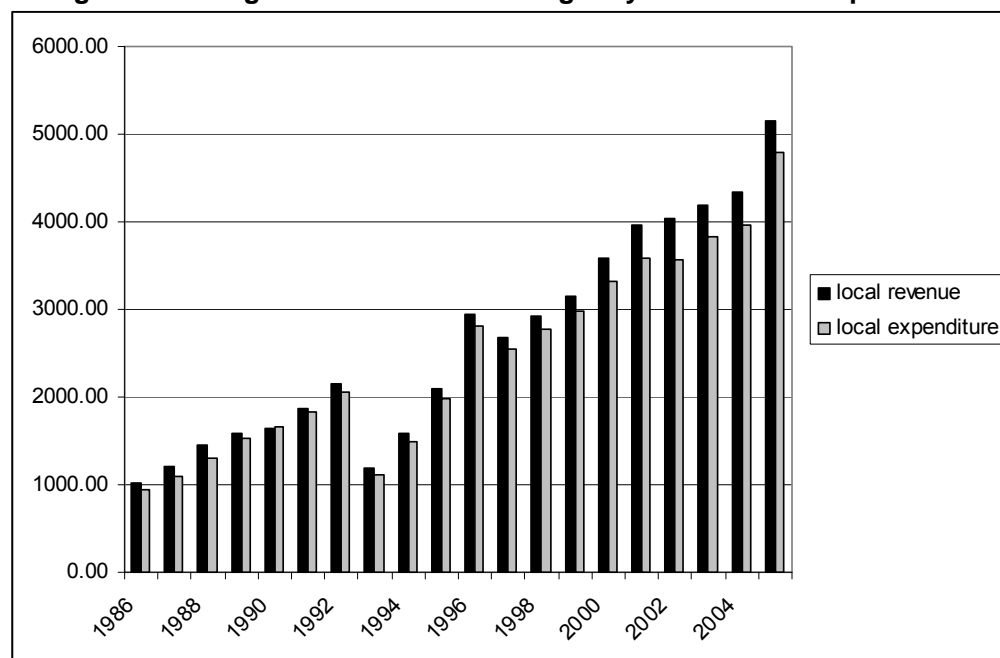


Notes:

a) The extra-budgetary revenue and expenditure from 1993 to 1995 and in 1998 have been adjusted because the original figures were not comparable with data for the previous years. After 1997, extra-budgetary revenue and expenditure does not include the intra-budgetary government fund (fee). After 2004, extra-budgetary revenue and expenditure include the fiscal extra-budgetary revenue and expenditure in special account.

Data source: National Bureau of Statistics PRC (2007) Statistical Yearbook Table 8-18

Figure 6 Local government's extra-budgetary revenue and expenditure



Note: The same as for figure 6.

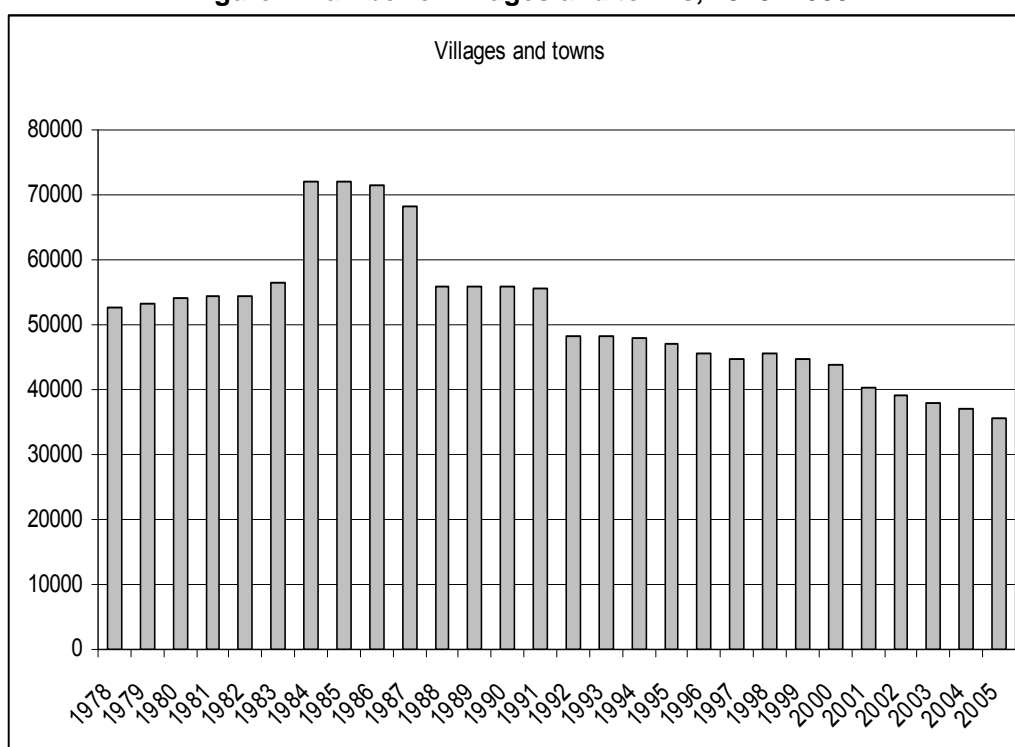
Data source: National Bureau of Statistics PRC (2007) Statistical Yearbook Table 8-18.

3.5.1 Merging village authorities into towns

By the late 1990s, small town authorities were heavily in debt and their staff was growing fast, increasing their financial burden. To pay for these costs and to meet taxation targets imposed by higher level authorities, local governments raised taxes. The result was that the tax burden on farmers was so heavy that they were often in debt, even in good harvest years. Unsurprisingly this caused serious resentment from the rural population. At the same time, people wanted to escape from rural areas and illegal migration to cities became uncontrollable. To reduce administration costs, in 1986 the central government ordered the abolition of village-level authorities and the transfer of administrative tasks to urban centres. Within a year, the number of towns and township authorities was reduced by 19,618 (Zhang, 2006), mostly through decreasing the number of rural township authorities. By 1996, another 28,409 township authorities were removed. Further changes, however, were slow as this would have meant that many local officials would have lost their jobs and not surprisingly resistance was strong.

In the early 2000s, under pressure to improve farmers' livelihoods, the central government completely abolished the agricultural tax, and many village authorities lost their power to raise any local revenue and were not able to cover their administration costs, getting seriously in debt. This new policy made it easier to accelerate the process of merging town and village authorities and there was a steady decline in the number of township level authorities. Between 2005 and 2007, the number of town and village authorities decreased from 35,484 to 34,379. The total number of towns also declined from 19,522 to 19,249 (China Statistical Yearbook, various issues).

Figure 7 Number of villages and towns, 1978- 2005

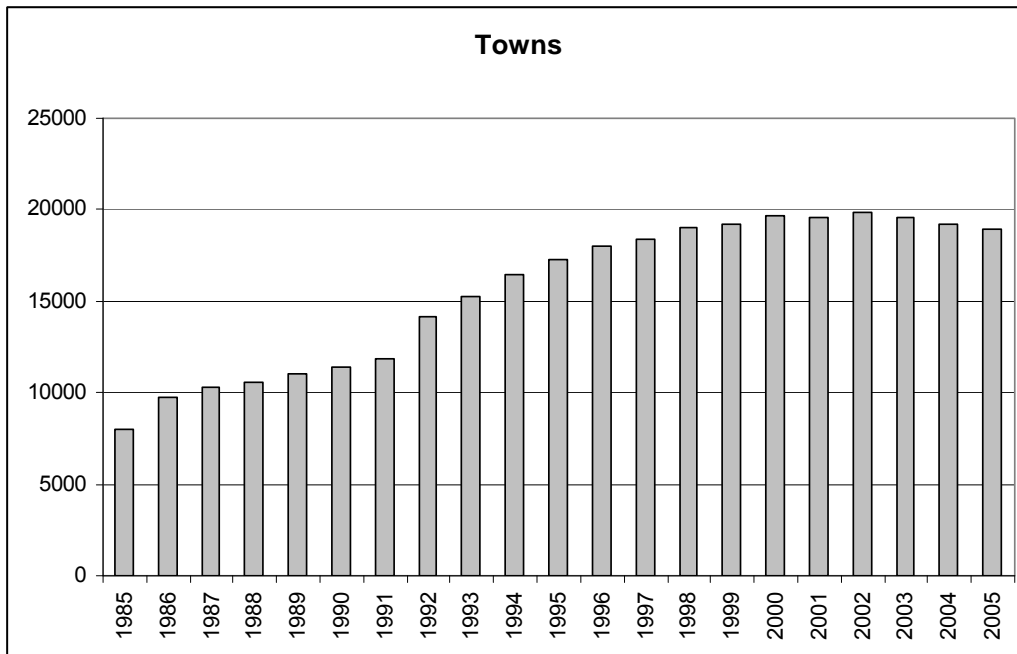


Note: The number of urban street communities is not included.

Source: National Bureau of Statistics PRC, Statistical Yearbook various issues.

Unfortunately, the impacts of merging rural authorities with urban towns were not positive. The administrative costs which had been allocated from the top no longer reached villages directly. Whether a village received fiscal support was totally dependent on decisions made by urban towns. This meant that town authorities tended to invest in high growth areas so that the return on the funding investment would appear to be better. It is reported that towns with a prosperous economy and a dense population experienced improved administrative efficiency. However, villages and small towns in remote areas, especially those with small populations, suffered tremendously. Villagers had to travel long distances to access public services. Schools and hospitals which used to be run locally were closed due to lack of funding. Because of the tax structure public infrastructure was less likely to be established in rural areas and small towns resulting in their marginalization and perhaps even decline (Guo, 2007).

Figure 8 Number of towns 1985-2005



Source: National Bureau of Statistics PRC, Statistical Yearbook various issues.

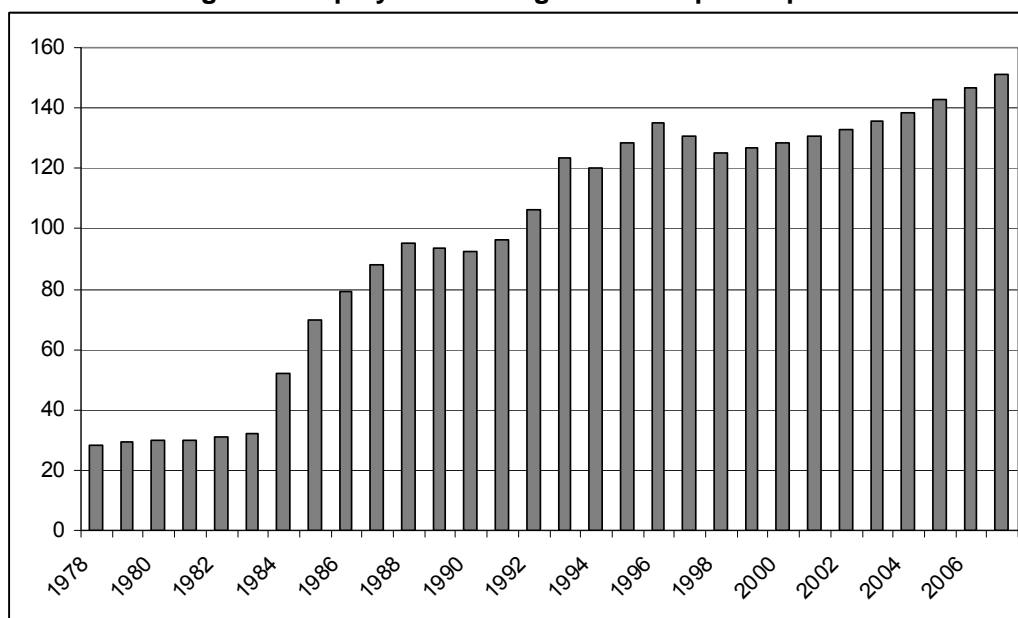
3.6 Small town authorities and fundraising

As discussed earlier, higher level authorities may not be able to provide sufficient funding to enable small towns to deal with the challenges of migration and a growing population. So what are the alternatives?

3.6.1 Township enterprises

Township enterprises are businesses in which village or town authorities invest. They are usually located in small towns, sometimes in villages, and employ rural labour. They are collectively owned by the village or small town population and are an important facilitator of urbanization from below (Naughton, 1994). Township enterprises were less prosperous in the early 1990s because of their lack of competitiveness and financial instruments (Park and Shen, 2003). In the last decade, they have become more competitive and remain an important rural employer, as shown in Figure 9.

Figure 9 Employees working in township enterprises



Source: National Bureau of Statistics PRC, Statistical Yearbook, various issues.

Most of these enterprises are set up in small towns located close to rural areas. Migrants from rural areas come to work in these enterprises and in order to improve productivity some businesses also hire skilled workers and highly educated people from larger cities. People from nearby villages may commute on a daily basis, whereas people from further away must settle in these towns. Sometimes, migrant workers come with their families and children. As they stay longer in town, they may consider settling down. Therefore, small towns with prosperous township enterprises have been able to attract more migrants.

These enterprises were later recognized by the state as an effective way to divert the flow of migrant workers to the cities and as an important source of revenue. In 1994, the Township Enterprise Law was published to clarify the rights and responsibilities of township enterprises.

Equally, local authorities especially at the county level recognize these businesses as a major source of revenue. According to Bu (2000), township enterprises were often treated differently from other enterprises. They had to pay much higher taxes and service charges. They did not receive equal treatment in terms of financing, export quota, public listing, technical changes and recruitment. Quite often, several different authorities controlled them, each authority trying to receive revenue from these enterprises. In addition, income tax for township enterprise employees was sometimes higher than for employees in other sectors. These differential treatments seriously affected the competitiveness of township enterprises, making it difficult for them to grow (Qiao, 1996; Williams, 2001).

It is important to note that, to a large extent, these practices were a result of the taxation system which encouraged local authorities to squeeze money out of local industries to fund their own poorly budgeted administration and project costs (Li, 2004). And because of the government funding shortages at town and county levels, it is almost impossible for the local authorities to provide the services needed by township enterprises.

This differential treatment disadvantages township enterprises, and therefore affects the ability of small towns to grow as hosts of businesses. As argued earlier, the ability of small towns to attract migrant workers and contributions from its emigrants depends upon being able to provide economic opportunities. Therefore, township enterprises are crucial to attaining urbanization targets.

3.6.2 *Mixed funding for social services*

Currently, local revenues contribute directly to the county treasury and county authorities are in charge of allocating funding to small towns. This is used only for the salaries of government officials and public sector employees (mainly teachers) and for administrative costs. Although county authorities may also provide funding for small town development, it is rarely a priority.

The existing fiscal structure makes it impossible for small towns to provide any services to in-migrants. At the moment, small towns mainly focus on enforcing the One Child Policy, maintaining public security and preventing default of migrant workers' salaries. All the other social services such as housing and employment are left entirely to the private sector.

3.6.3 *Land as a source of income*

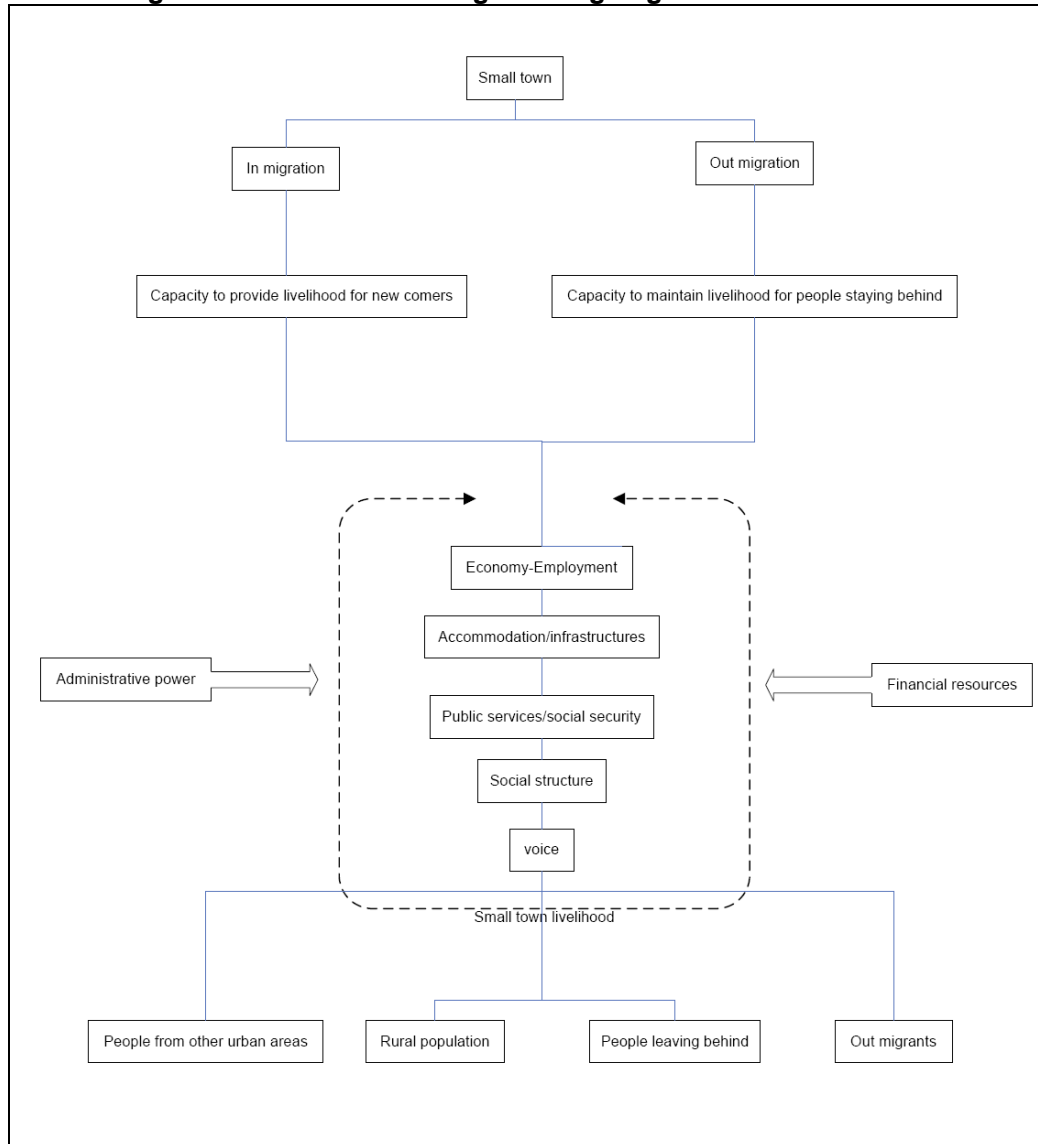
Selling land use rights to enterprises or developers in larger cities has become one of the most popular ways for towns to raise funds. Some town authorities thought that they were higher in the administration ladder than the village authorities and tried to confiscate land from villages for non-agricultural use, generating serious tensions between farmers and towns (Kong, 2000).

This situation lasted for many years, until 2004 when the Central Government shifted the goals for small town development from construction and GDP growth to urbanization. This means that now small town development should focus on accommodating the long term settlement of rural to urban migrants. However, this policy has not really addressed the administrative costs and budget constraints faced by small towns. Therefore, the battle for land between towns and villages continues (Liu, 2007).

3.6.4 *Other fundraising efforts*

Other ways for small town authorities to raise revenue include fees for Household Registration of farmers or expanding public services to non-local residents at a higher price, for example education for non-local students or road tolls (Zhu, 2002). Not all these activities are legal, a reflection of the constraints small town authorities face in funding their costs within the existing financing framework.

Figure 10 A framework for governing migration in small towns



4 Part III: Four small towns in Shanxi

4.1 The central provinces and Shanxi

In the past few decades, considerable resources have been devoted to the development of coastal provinces. Since 2000, attention has turned to the western provinces, where national investment has accelerated economic growth. The central provinces (Shanxi, Hubei, Hunan, Henan, Anhui and Jiangxi) on the other hand, were not considered a national priority for economic development. By 2004, their GDP had fallen behind the western and the north-eastern provinces which used to be much poorer (An and Liu, 2006). At the same time, sustained growth in the eastern and coastal areas began to suffer from high labour costs. In order to remain competitive, manufacturers started relocating their businesses to inland areas, making the central provinces, with their cheaper but skilled labour force, strategically more important (Table 1). This transition did not happen earlier because the infrastructure

and services in the central provinces were not comparable to those in coastal areas, a situation which persists to this day.

Figure 11 Central Provinces



Note: The six provinces of central China are highlighted in the map (clockwise): Shanxi, Henan, Anhui, Jiangxi, Hunan and Hubei.

Source: Xinhua News Agency, http://news.xinhuanet.com/fortune/2007-04/25/xinsrc_5420404250722078187602.jpg

The importance of in economic growth in the central provinces should not be underestimated. They are home to more than 361 million people, equivalent to 28.1 percent of the total national population. They also contain 244 million rural people, about 1/3 of the total. On average, people are better educated than in the western provinces. Central provinces have a lower rate of illiteracy (7.16%) than both the western (10.21%) and the eastern provinces (8.07%) (Duan, 2006).⁷ These six provinces are important food production areas, are rich in natural resources and hold a large population of skilled workers.

⁷ The numbers are calculated from the 2004 population change survey.

Table 1 Per capita disposable income of urban households by region and province (yuan)

	2002	2003	2004	2005	2006	2007	Growth 2002-07 (%)
Eastern							
Beijing	12,463.9	13,882.6	15,637.8	17,653.0	19,977.5	21,988.7	76.4
Tianjin	9,337.6	10,312.9	11,467.2	12,638.6	14,283.1	16,357.4	75.2
Hebei	6,679.7	7,239.1	7,951.3	9,107.1	10,304.6	11,690.5	75.0
Shanghai	13,249.8	14,867.5	16,682.8	18,645.0	20,667.9	23,622.7	78.3
Jiangsu	8,177.6	9,262.5	10,481.9	12,318.6	14,084.3	16,378.0	100.3
Zhejiang	11,715.6	13,179.5	14,546.4	16,293.8	18,265.1	20,573.8	75.6
Fujian	9,189.4	9,999.5	11,175.4	12,321.3	13,753.3	15,505.4	68.7
Shandong	7,614.4	8,399.9	9,437.8	10,744.8	12,192.2	14,264.7	87.3
Guangdong	11,137.2	12,380.4	13,627.7	14,769.9	16,015.6	17,699.3	58.9
Hainan	6,822.7	7,259.3	7,735.8	8,123.9	9,395.1	10,996.9	61.2
Central							
Shanxi	6,234.4	7,005.0	7,902.9	8,913.9	10,027.7	11,565.0	85.5
Anhui	6,032.4	6,778.0	7,511.4	8,470.7	9,771.1	11,473.6	90.2
Jiangxi	6,335.6	6,901.4	7,559.6	8,619.7	9,551.1	11,451.7	80.8
Henan	6,245.4	6,926.1	7,704.9	8,668.0	9,810.3	11,477.1	83.8
Hubei	6,788.5	7,322.0	8,022.8	8,785.9	9,802.7	11,485.8	69.2
Hunan	6,958.6	7,674.2	8,617.5	9,524.0	10,504.7	12,293.5	76.7
Western							
Inner Mongolia	6,051.0	7,012.9	8,123.0	9,136.8	10,358.0	12,377.8	104.6
Guangxi	7,315.3	7,785.0	8,690.0	9,286.7	9,898.8	12,200.4	66.8
Chongqing	7,238.0	8,093.7	9,221.0	10,243.5	11,569.7	12,590.8	74.0
Sichuan	6,610.8	7,041.9	7,709.9	8,386.0	9,350.1	11,098.3	67.9
Guizhou	5,944.1	6,569.2	7,322.1	8,151.1	9,116.6	10,678.4	79.6
Yunnan	7,240.6	7,643.6	8,870.9	9,265.9	10,069.9	11,496.1	58.8
Tibet	8,079.1	8,765.5	9,167.4	9,431.2	8,941.1	11,130.9	37.8
Shaanxi	6,330.8	6,806.4	7,492.5	8,272.0	9,267.7	10,763.3	70.0
Gansu	6,151.4	6,657.2	7,376.7	8,086.8	8,920.6	10,012.3	62.8
Qinghai	6,170.5	6,745.3	7,319.7	8,057.9	9,000.4	10,276.1	66.5
Ningxia	6,067.4	6,530.5	7,217.9	8,093.6	9,177.3	10,859.3	79.0
Xinjiang	6,899.6	7,173.5	7,503.4	7,990.2	8,871.3	10,313.4	49.5
North-eastern							
Liaoning	6,524.5	7,240.6	8,007.6	9,107.6	10,369.6	12,300.4	88.5
Jilin	6,260.2	7,005.2	7,840.6	8,690.6	9,775.1	11,285.5	80.3
Heilongjiang	6,100.6	6,678.9	7,470.7	8,272.5	9,182.3	10,245.3	67.9

Source: National Bureau of Statistics PRC, Statistical Yearbook, various issues.

**Table 2 Per capita annual net income of rural households by regions and provinces
(yuan)**

	2000	2001	2002	2003	2004	2005	2006	2007	Growth 2000-07 (%)
Eastern									
Beijing	4,604.6	5,025.5	5,398.5	5,601.5	6,170.3	7,346.3	8,275.5	9,439.6	105.0
Tianjin	3,622.4	3,947.7	4,278.7	4,566.0	5,019.5	5,579.9	6,227.9	7,010.1	93.5
Hebei	2,478.9	2,603.6	2,685.2	2,853.4	3,171.1	3,481.6	3,801.8	4,293.4	73.2
Shanghai	5,596.4	5,870.9	6,223.6	6,653.9	7,066.3	8,247.8	9,138.6	10,144.6	81.3
Jiangsu	3,595.1	3,784.7	3,979.8	4,239.3	4,753.9	5,276.3	5,813.2	6,561.0	82.5
Zhejiang	4,253.7	4,582.3	4,940.4	5,389.0	5,944.1	6,660.0	7,334.8	8,265.2	94.3
Fujian	3,230.5	3,380.7	3,538.8	3,733.9	4,089.4	4,450.4	4,834.8	5,467.1	69.2
Shandong	2,659.2	2,804.5	2,947.6	3,150.5	3,507.4	3,930.5	4,368.3	4,985.3	87.5
Guangdong	3,654.5	3,769.8	3,911.9	4,054.6	4,365.9	4,690.5	5,079.8	5,624.0	53.9
Hainan	2,182.3	2,226.5	2,423.2	2,588.1	2,817.6	3,004.0	3,255.5	3,791.4	73.7
Central									
Shanxi	1,905.6	1,956.0	2,149.8	2,299.2	2,589.6	2,890.7	3,180.9	3,665.7	92.4
Anhui	1,934.6	2,020.0	2,117.6	2,127.5	2,499.3	2,641.0	2,969.1	3,556.3	83.8
Jiangxi	2,135.3	2,231.6	2,306.5	2,457.5	2,786.8	3,128.9	3,459.5	4,044.7	89.4
Henan	1,985.8	2,097.9	2,215.7	2,235.7	2,553.1	2,870.6	3,261.0	3,851.6	94.0
Hubei	2,268.6	2,352.2	2,444.1	2,566.8	2,890.0	3,099.2	3,419.4	3,997.5	76.2
Hunan	2,197.2	2,299.5	2,397.9	2,532.9	2,837.8	3,117.7	3,389.6	3,904.2	77.7
Western									
Inner Mongolia	2,038.2	1,973.4	2,086.0	2,267.6	2,606.4	2,988.9	3,341.9	3,953.1	94.0
Guangxi	1,864.5	1,944.3	2,012.6	2,094.5	2,305.2	2,494.7	2,770.5	3,224.1	72.9
Chongqing	1,892.4	1,971.2	2,097.6	2,214.5	2,510.4	2,809.3	2,873.8	3,509.3	85.4
Sichuan	1,903.6	1,987.0	2,107.6	2,229.9	2,518.9	2,802.8	3,002.4	3,546.7	86.3
Guizhou	1,374.2	1,411.7	1,489.9	1,564.7	1,721.6	1,877.0	1,984.6	2,374.0	72.8
Yunnan	1,478.6	1,533.7	1,608.6	1,697.1	1,864.2	2,041.8	2,250.5	2,634.1	78.1
Xizang	1,330.8	1,404.0	1,462.3	1,690.8	1,861.3	2,077.9	2,435.0	2,788.2	109.5
Shanxi	1,443.9	1,490.8	1,596.2	1,675.7	1,866.5	2,052.6	2,260.2	2,644.7	83.2
Gansu	1,428.7	1,508.6	1,590.3	1,673.0	1,852.2	1,979.9	2,134.0	2,328.9	63.0
Qinghai	1,490.5	1,557.3	1,668.9	1,794.1	1,957.7	2,151.5	2,358.4	2,683.8	80.1
Ningxia	1,724.3	1,823.1	1,917.4	2,043.3	2,320.0	2,508.9	2,760.1	3,180.8	84.5
Xinjiang	1,618.1	1,710.4	1,863.3	2,106.2	2,244.9	2,482.2	2,737.3	3,183.0	96.7
North-eastern									
Liaoning	2,355.6	2,557.9	2,751.3	2,934.4	3,307.1	3,690.2	4,090.4	4,773.4	102.6
Jilin	2,022.5	2,182.2	2,301.0	2,530.4	2,999.6	3,264.0	3,641.1	4,191.3	107.2
Heilongjiang	2,148.2	2,280.3	2,405.2	2,508.9	3,005.2	3,221.3	3,552.4	4,132.3	92.4

Source: National Bureau of Statistics PRC, Statistical Yearbook, various issues.

4.1.1 Shanxi Province

The total area of Shanxi Province is 156 thousand square kilometres. The population is 33.75 million. It has 11 prefecture level cities, 119 counties, county level cities and districts. Eighty percent of the province is in mountain areas. Shanxi is known for its reserves of coal and was an important historical transportation link and business centre in North China. It holds one third of the coal resources in China. As the nation became the “workshop of the world”, the demand for coal increased dramatically. In the last two decades or so, Shanxi has been able to achieve high economic growth and prosperity just by exporting coal. The total GDP in 2007 has reached 0.57 trillion yuan (approximately US\$83.6 billion), 14.4 percent higher than 2006. Key industries include coal mining and processing, metal mining and processing, machinery, power supply and chemicals.

Figure 12 Shanxi Province



Source: Asia Times, atimes.com/atimes/others/shanxi.html

In 2005, the provincial government published “The Outline for the Urbanization of Shanxi Province”, with the aim to “coordinate the development of cities and towns of different sizes”. By the end of 2006, there were 561 towns in the province of which 478 were in rural areas. Some towns grew very fast, and 43 percent of the province’s residents are classed as living in urban areas, only slightly less than the national level of 43.9 percent. The development of towns in Shanxi can be characterized by the following points.

**In 2006, total tax revenues from towns were 8,040 million yuan (US\$1,173.7 million), equivalent to 7.7 percent of total provincial revenues.

**At the end of 2006, the average built up area of an urban town was 2.26 square kilometres and that of rural towns was 1.58 square kilometres.

**The town population has increased overtime. At the end of 2006, the total number of people living in various towns was 5.32 million. In rural towns, the population increased to 2.39 million, 715,000 (42.7%) more than at the end of 1996.

**At the end of 2006, there were 120 towns with more than 10,000 people living in the town centre, 21.4 percent of the total number of towns. Of these towns, 47 were large rural towns.

Table 3 Total population and household number in Shanxi (million)

Year	Households	Population	By sex		By household registration	
			Male	Female	Non-agricultural	Agricultural
1952	3.5	14.0	7.4	6.6	1.4	12.5
1957	3.9	15.9	8.5	7.4	2.4	13.4
1962	4.3	17.5	9.2	8.2	2.3	15.1
1965	4.4	18.7	9.9	8.8	2.7	16.0
1970	4.9	21.1	11.1	10.0	3.1	18.0
1975	5.3	23.4	12.3	11.1	3.6	19.8
1978	5.6	24.2	12.7	11.5	3.9	20.3
1980	5.8	24.8	13.0	11.8	4.4	20.4
1985	6.3	26.7	14.0	12.7	5.4	21.4
1995	8.2	30.8	16.1	14.7	7.5	23.3
2000	8.9	32.5	16.8	15.7	8.6	23.3
2001	8.9	32.7	16.9	15.8	8.9	23.3
2002	9.3	32.9	17.0	15.9	9.2	23.2
2003	9.4	33.1	17.0	16.1	9.5	23.2
2004	9.6	33.4	17.1	16.2	9.8	23.2
2005	10.1	33.6	17.2	16.4	10.1	22.8
2006	10.5	33.7	17.3	16.5	10.5	22.9

Data source: Shanxi Statistical Yearbook, 2007, Table 2-1

Table 4 Tax revenue and expenditure in Shanxi (million yuan)

Year	Total Revenue	Total Expenditure	Balance	Indexes (preceding year=100)	
				Revenue	Expenditure
1952	183	109	74	138	185
1957	352	288	64	109	95
1962	540	364	176	79	50
1965	686	511	175	115	103
1970	921	942	-21	181	150
1975	1,239	1,498	-258	113	98
1978	1,964	2,111	-147	148	129
1980	2,096	1,961	135	103	95
1985	2,499	3,555	-1,056	92	119
1990	5,175	5,490	-315	107	108
1995	7,221	11,289	-4,069	134	127
2000	11,448	22,506	-11,058	105	121
2001	13,276	28,950	-15,674	116	129
2002	15,082	33,427	-18,345	114	115
2003	18,605	41,569	-22,963	123	124
2004	25,636	51,906	-26,269	138	125
2005	36,834	66,875	-30,041	144	129
2006	58,338	91,557	-33,219	158	137

Data source: Shanxi Statistical Yearbook, China Statistical Press, various issues.

Table 5 Annual incomes per capita in rural households (yuan), Shanxi

Economic activity	2000	%	2005	%	2006	%
Farming	646.61	58.07	922.60	59.01	969.74	59.76
Forestry	10.09	0.91	15.99	1.02	11.69	0.72
Animal husbandry	117.21	10.53	176.72	11.30	163.39	10.07
Fishery		0.00		0.00	0.07	0.00
Subtotal for agricultural income	773.91	69.50	1,115.31	71.33	1144.89	70.55
Industry	21.04	1.89	14.44	0.92	27.18	1.67
Construction	26.70	2.40	39.17	2.51	24.73	1.52
Transportation	112.63	10.11	166.42	10.64	169.71	10.46
Commerce & Catering	52.39	4.70	99.78	6.38	117.72	7.25
Service trade	22.10	1.98	57.52	3.68	74.56	4.59
Others	104.79	9.41	70.88	4.53	64.07	3.95
Subtotal of non-agricultural income	339.65	30.50	448.21	28.67	477.97	29.45
Total Income	1,113.56	100.00	1,563.52	100.00	1,622.86	100.00

Data source: Shanxi Statistical Yearbook 2007, Table 6-19, "Per Capita Cash Income of Rural Household", China Data Online, access date: 17/11/2008

Table 6 Towns in Shanxi⁸

Year	Type	Size	Population in town	No. of towns	% of the total number of towns of the same category
2006	Urban towns	Small	$x < 10,000$	441	78.6
		Medium	$10,000 \leq x < 30,000$	68	12.1
		Large	$x \geq 30,000$	52	9.3
	Rural towns	Small	$x < 10,000$	431	90.2
		Medium	$10,000 \leq x < 30,000$	41	8.6
		Large	$x \geq 30,000$	6	1.3
1996	Urban town	Small	$x < 10,000$	410	77.1
		Medium	$10,000 \leq x < 30,000$	56	10.5
		Large	$x \geq 30,000$	66	12.4
	Rural towns	Small	$x < 10,000$	399	93.4
		Medium	$10,000 \leq x < 30,000$	26	6.1
		Large	$x \geq 30,000$	2	0.5

Data source: The First and Second Shanxi Agriculture Census, 1996, 2006.
http://www.shanxigov.cn/structure/zwgk/tjxx/tjfx_84998_1.htm

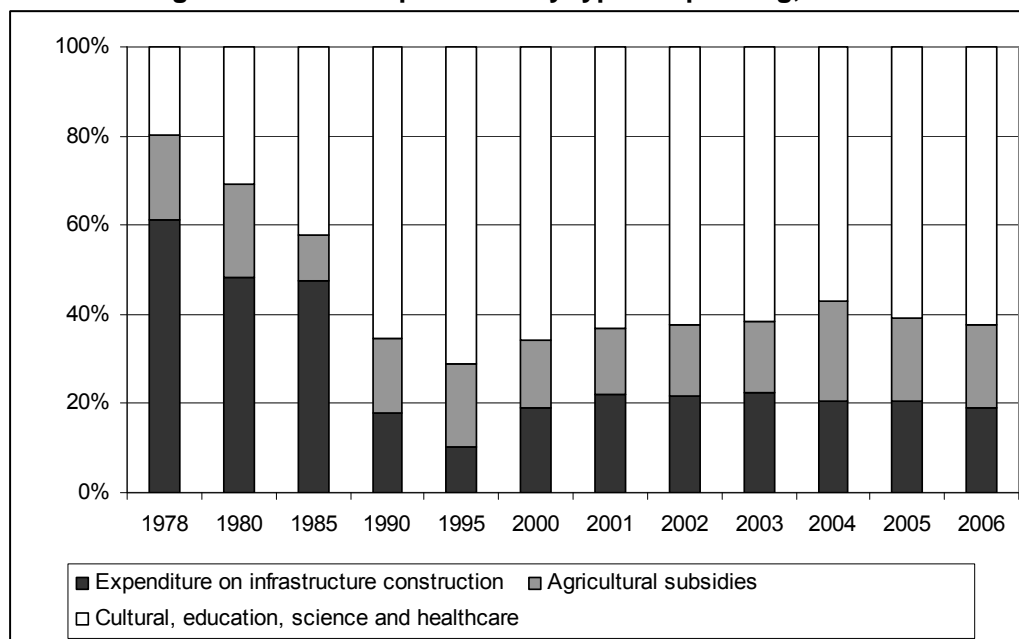
⁸ There is no officially published data for urban towns in 1996.

4.1.2 Financing small town development

At the provincial level, finance for developing small towns comes from two channels: fiscal budget and local contributions. Starting in 2001, the provincial government has allocated an annual 30 million yuan (US\$ 4.38 million) to small town development funds. The money is used for the construction of pilot towns and central small towns (*zhongxinzhen*). The fund is not directly spent on small towns. It is only paid as a reward to successful towns. The strategy used by provincial government is to use financial incentives to reward towns that perform well. Awards can be in the form of extra funding for the town, or as financial support to special projects. Local officials who have been successful also have better career prospects. These incentives worked: by the end of 2003, 815 billion yuan were invested in total. Most of the money was contributed by 35 central towns. This is a lot more money than the provincial government originally allocated for the project. This approach is a very powerful policy tool. It has motivated town authorities to devote more resources to construction projects that would otherwise not be funded.

However, the impact of these awards should be assessed with caution. Because there was no funding support at the beginning of the projects, participants had the potential to use the funds originally allocated for other purposes. The relatively concentrated regional distribution of prosperous areas suggests that the reward-based fiscal incentives would end up benefiting prosperous areas. As shown earlier, the amount of state investment was extremely small in comparison to actual investment by the central towns, i.e. they did not really need the money anyway, whereas small towns in relatively remote areas which were badly in need of improvement were left out of this competition.

Figure 13 Public expenditure by type of spending, Shanxi



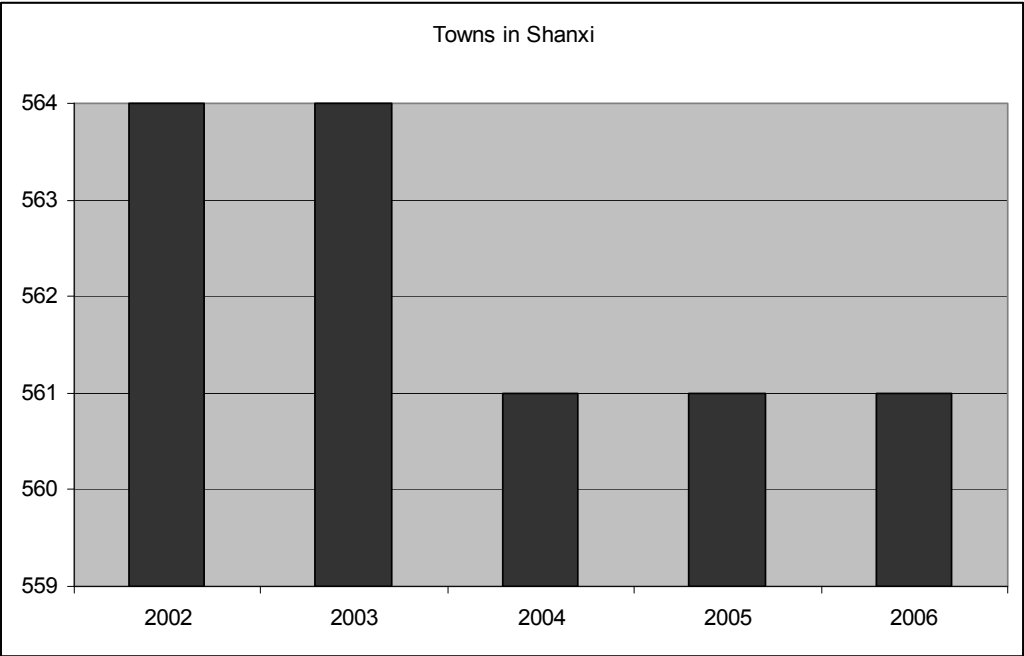
Data source: Shanxi Statistical Yearbook, China Statistical Press, various issues.

4.1.3 Small town development plans

Small town development in Shanxi follows a “123” programme: one goal (urbanization), two foci (beacon towns and historical towns) and three tier administration (provincial, city and county).

The most prosperous areas in Shanxi are located along the highway running from Taiyuan to Yuncheng and from Taiyuan to Jincheng. The provincial plan for the development of small towns focuses on these areas. The pilot scheme for small town development selected 100 small towns for the project of which 76 towns are in the prosperous area. Another programme called the Central Small Towns programme (*zhongxinzhen*), selects towns of regional importance and supports their future development. Sixty-two small towns from Shanxi are listed as Central Small Towns, of which 42 are in the prosperous areas.

Figure 14 Towns in Shanxi



Data source: Shanxi Statistical Yearbook, China Statistical Press, various issues.

The governance of Shanxi province highlights the constraints of the existing administration and fiscal structures. Even though Shanxi has a provincial development plan and tries to encourage the development of small towns, the three tier government system means that small towns themselves are not included in the planning system. This means that higher authorities decide how small towns should develop. If county authorities are eager to involve towns under their jurisdiction in the planning process, the towns are lucky. If the county authorities are not interested in hearing from town officials, the latter will have difficulty getting involved in planning for their future. However, small town authorities can always show their support for plans made by higher authorities by implementing them faithfully.

4.2 The case studies

The four case studies, Gutao (Pingyao), Qikou, Xugou and Xinghuacun, were selected with the following considerations in mind.

- 1 Gutao and Qikou both have large numbers of out-migrants. Gutao's migration was led by the state policy to regenerate the ancient town. Qikou's migration was voluntary as people moved out of the town to look for work.
- 2 Both Xugou and Xinghuacun have large numbers of in-migrants. Xugou's migrants are largely attracted by its local township enterprises. Xinghuacun's migrants have come from all over the country drawn by employment opportunities in a giant state enterprise and its many subsidiaries and supporting businesses.

The description and analysis draws on a wide range of information source, including official documents related to the towns' history and planning; official statistics, both published or unpublished; discussions with county officials; in depth interviews with small town officials; in depth interviews with small town residents; in depth interviews with small town migrants or their relatives; in depth interviews with business owners; surveys with in-migrants.

Although we had received an official green light from the town governments for this research project, most interviewees preferred to stay anonymous.

4.3 Case 1: Xinghuacun

4.3.1 Social and economic background

Xinghuacun is literally divided into two parts: the town itself and the area occupied by a large company producing alcoholic drinks. The company is a giant state enterprise and sits right in centre of town. It benefits the local economy tremendously by providing local employment opportunities and by attracting investment from the private sector to improve infrastructure. As a result, the relationship between migrants and small town development is largely a function of the relationship between the factory and the small town.

The town is built along the No. 307 National Highway and across the river Fen. It measures approximately 4,300 metres east-west and 400 metres north-south. The whole area is flat and convenient for transportation. The government of Xinghuacun reports to the government of Fengyang prefecture, which is controlled by the regional capital, Lvliang City.

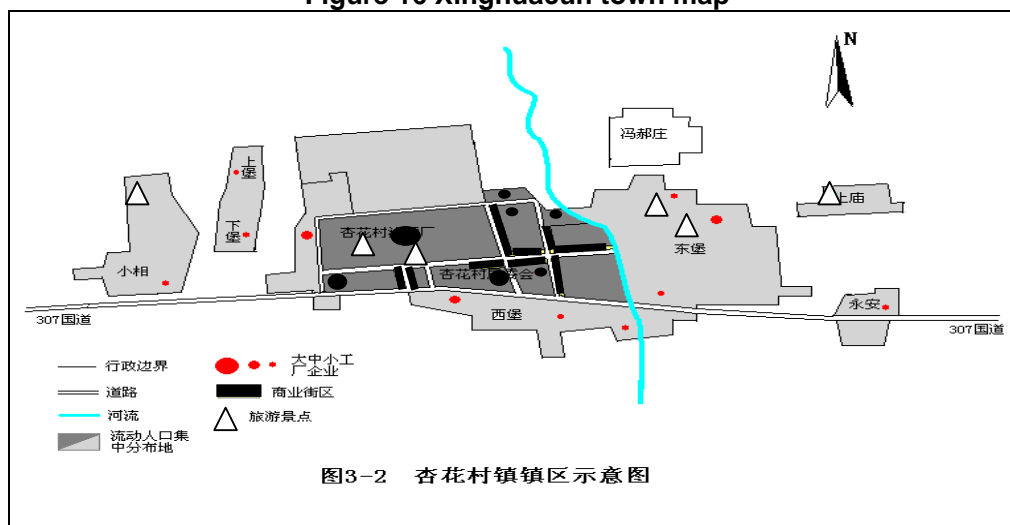
Figure 15 Location of Xinghuacun



Note: The oval shape shows the location of Lvliang, the regional city that governs Xinghuacun. Xinghuacun is in the north of the city. Taiyuan is the capital city of Shanxi Province.

Source: Google map.

Figure 16 Xinghuacun town map



Note:

1. The dark grey area is the alcohol factory. The light grey areas are where migrants usually come to work and live.
2. Black lines are the streets where businesses are located.
3. Triangles are tourist sites.
4. Ovals are enterprises.

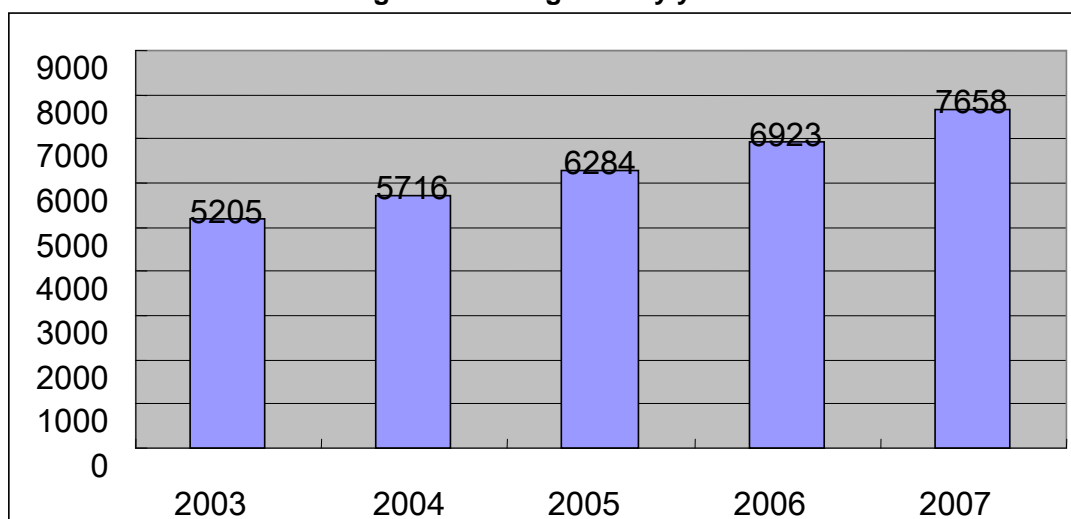
Source: Urban Planning and Design Institute of Shanxi Province PRC (2007); Xinghuacun Town Planning Basic Information--Unpublished document.

The town has a 1,500 year long history. It used to be called Jinshan (The Finest), a name given by a well known leader of the farmers' riot, Li Zicheng (from 1606 to 1645, at the end of the Ming Dynasty), who stayed here on his way from Shaanxi to Shanxi. According to the locals, he named it 'The Finest' because he was impressed by the hospitality of its people and the quality of their wine. In this part of China during the Ming and Qing dynasties, the administration below county level was *fang*, *xiang* and *li*. *Fang* refers to urban areas inside a city wall while *xiang* means suburban areas and *li* means the rural areas near a town. Xinghuacun was a village area under the control of BeiXiang (North Xiang). Under the National Party regime, the administration structure was changed to district, township and village (*qu* (prefecture), *xiang* (rural town), and *cun*) system. Xinghuacun was first under the control of No. 5 District and later under the No. 4 District. In 1956, Xinghua Xiang (township) was set up which controlled 21 nearby villages. In March 1959, Xinghua Commune was set up with headquarters located in Dongbao village. In November 1982, Xinghua was renamed Xinghuacun. In June 1984, Xinghuacun Commune was upgraded to an administrative town. Its status remains unchanged.

By the end of 2006, the area under Xinghuacun's administration included two urban neighbourhoods and eighteen villages. 58,000 people lived in either the town centre or in nearby rural areas including both permanent and temporary residents. The total population of the area governed by the town was 39,869 of which 13,221 held urban household registration (*Hukou*). Included in the population figures are long term migrants working for Xinghuacun Fenjiu Group (the large state-owned enterprise), local residents in Xinghuacun town neighbourhood, residents from eight nearby villages (Dongbao, Xibao, Shangmiao, Yongan, Xiabao, Shangbao, Xiaoxiang, Fenghaogou), and people who do not have local household registration but who have lived in Xinghuacun for more than half a year. The latter are considered temporary residents.

Between 1995 and 2006, the total population grew by 40.3 percent. At the end of 2006, 22.8 percent (8,436 people) of the total population was registered as non-agricultural workers (with urban *Hukou*), 70.8 percent (26,196) as agricultural workers (with rural *Hukou*), and 6.4 percent (2,368) as temporary residents. In the past ten years, migration has constituted about two thirds of the total population growth. Growth in the population registered as non-agricultural workers was faster than those registered as agricultural workers. At the end of 2007, the total number of migrants living in Xinghuacun was 7,658 up from 5,205 in 2003.

Figure 17 In-migrants by year



Source: Data provided by the Public Security Office of Xinghuacun.

According to official statistics contained in the registration record at the local Public Security Office (*Paichusuo*) of Xinghuacun in 2007, of the 7,658 migrants (temporary and permanent), there were 4,847 men and 2,811 women. 1.7 percent of the migrants were under the age of 16, 28.3 percent were aged between 16 and 25, 47.7 percent were aged between 26 and 45 and 23.3 percent were older than 45. 76.7 percent of migrants had secondary school education or lower, 20 percent had high school education and only 3.3 percent had college education.

13.3 percent of migrants came from nearby rural areas governed by Xinghuacun. About half (51.7 percent 3,959 persons) came from Fenyang Prefecture. Migrants from within the province were 23.3 percent of the total, and 11.7 percent were from other provinces or abroad. In total, about 67.3 percent of the migrants were from rural areas. About 45 percent of the migrants stayed for less than half a year in Xinghuacun, 21.7 percent lived here for six months to one year, 8.3 percent lived here for one to five years and 15 percent stayed for more than five years. In total, about half were long term (longer than 6 months), about 12.2 percent of the registered population of Xinghuacun.

4.3.2 The alcohol industry

Xinghuacun is most well known for its alcohol manufacturing. The town is considered to be one of the origins of rice wine production in China. In 2006, the total wine industry output was 78.2 percent of the total industrial output of the town.

The largest manufacturer in the town, Fenjiu Brewery, is a giant state enterprise set up in 1949 when the Communist Government nationalized two large enterprises started in the 1910s. In the 1980s, the enterprise grew rapidly, winning a number of awards and becoming one of the most important alcohol manufacturers in China. The real changes happened in 1988, when the original state enterprise was reorganized into a giant corporation with 14

subordinate companies, including a product research and development centre. In 1993, the enterprise and its subordinate companies were repackaged into the Fenjiu Group and listed in the stock exchange as Fengjiu Group Co. Ltd. It was the first wine brewery listed in China, although its largest shareholder was still the provincial government which until 2004 also managed it. Annual wine production is more than 40,000 tonnes, making it one of the two largest rice wine manufacturers in China. It has more than 8,000 employees and occupies 2.3 million square metres of land in the town. The total sales in 2006 were RMB240 million yuan. There are more than 20 smaller breweries and supporting businesses (food processors, suppliers and service providers) in the town who benefit from the prosperity of Fenjiu Brewery.

Picture 1 Workshop in the alcohol factory



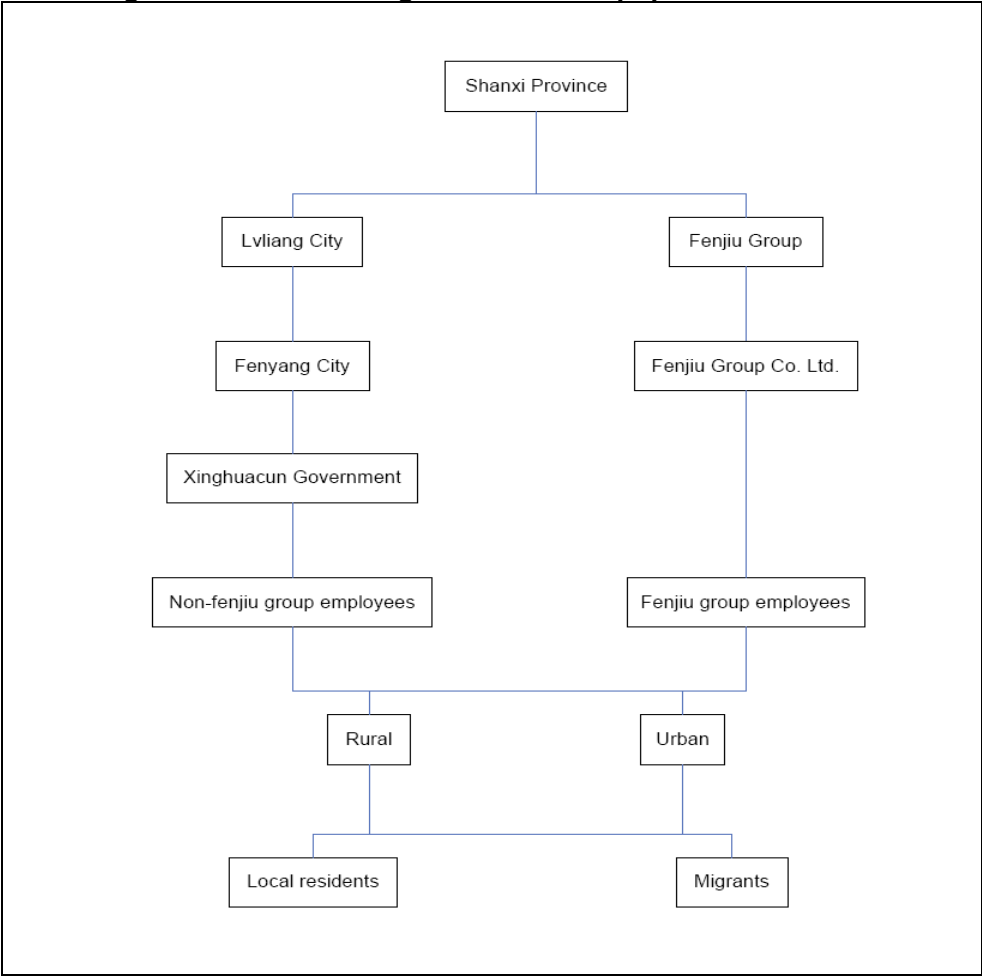
The relationship between Xinghuacun and the Fenjiu Group

As discussed earlier, Fenjiu Brewery is the largest employer of local residents and also contributes tremendously to the local economy. Therefore, the relationship between local government and the management of the group is quite subtle. As shown in Figure 19 'Status of Xinghuacun and its population structure', administratively the officials in the Xinghuacun government are at a lower level than the top management of the Fenjiu Group. In this sense, Xinghuacun authorities do not have much influence over the management of the Fenjiu Group. Conversely, the Fenjiu Group has strong influence over the decision making in town affairs, in particular issues related to town planning and the provision of services and infrastructure.

During the Central Planning era, senior staff of the brewery was appointed from different parts of the country by the provincial government. Technicians were recruited from large cities and staff members were state employees who enjoyed all the related benefits. During this period, the Fenjiu Brewery was enclosed in its own world. The employees were privileged residents in a town whose local residents were mainly farmers. Some lucky locals could become lower level employees in the brewery's subsidiaries, but their pay and welfare entitlements were much lower than the 'proper' brewery workers'. Therefore, migrants living in Xinghuacun enjoyed a very high social status and were looked up to by the locals.

These days, the factory is no longer completely owned by the state. Employees are recruited on the open market, although management staff and technicians may still come from other parts of the country because of the skills required for these jobs. Increasingly, the factory and its employees are part of local society. First of all, more workers, especially manual workers are recruited locally or from nearby towns and villages. At the end of 2007, about half of the employees were from Fenyang region. Since the economic reform, family members of state enterprise employees have started to open private businesses to benefit from their connections to the brewery. These activities inspired local residents. Some opened their own businesses such as smaller scale breweries or supporting industries.

Figure 14 Status of Xinghuacun and its population structure



As the economy grows, the town has expanded into the surrounding rural area. Some farmers have lost their land. Some rural villages are surrounded by built up areas and have become village islands within towns. The farmers in these villages are in essence not farmers anymore: they do not engage in agriculture at all and mostly work in town in small businesses, tourism and services. The breweries, especially the state owned large enterprise, also employ workers from the nearby villages.

4.3.3 Other economic activities

Apart from alcohol production, the town has developed other businesses, such as transportation, construction, business services and tourism.

The town itself has some important historical National Heritage Sites and is an increasingly popular tourist destination. In addition, the brewery has set up a tourism development centre and land reservation project to sell 'alcohol culture' to tourists. To achieve this, the Fenjiu Brewery has transformed itself into a garden enterprise with vast green areas, a museum of the history of alcohol and an art gallery. Guided tours are also conducted in the factory. Restaurants and hotels are located close to the factories to accommodate people who come to taste the wines. Since 2003, alcohol tourism has become a prosperous line of business alongside wine production. It was estimated that about 3 million tourists visited the town between 1990 and 2006. In recent years, the number of tourists has reached more than 200,000 people per year.

Transportation and business services have also grown rapidly, and are related to the prosperity of the Fenjiu Group. The heavy investment in road transportation stems from the need to transport products from the factory to the market.

Picture 2 Tourist site built by Fenjiu Group



4.3.4 Research findings in Xinghuacun

To understand the governance of migration in Xinghuacun, we carried out surveys with 60 migrants who were working and living in Xinghuacun and 60 in depth interviews with non-Fenjiu Group employees and Fenjiu Group employees including migrants and locals, Xinghuacun officials and managers of the Fenjiu Group. To obtain a representative sample, the town was divided into ten sub-areas. The interviewees were selected with the help of the local authorities who were in charge of registering migrant workers. We used the Household Registration lists to select six interviewees from each area. The lists are sorted by surname. Starting from the first person in the list, we selected the first person of each surname.

There are several types of migrants in Xinghuacun: 1) migrants from other rural areas who come to work as labourers in the factories; 2) Fenjiu group management staff and skilled workers recruited from all over the country; 3) businessmen from other parts of the country who have come to invest in Xinghuacun.

Employment

Migrants have played an important role in sustaining the industrial structure of Xinghuacun. Because of the contribution of migrants, the existing industries are able to thrive. The continuous arrival of technicians and professionals holds up the pillar industry, alcohol production. However, for this labour-intensive industry to survive, cheap labour is absolutely crucial. The Fenjiu Group has more than 8,000 employees, of which about one third are recruited through its own recruitment event (Urban Planning and Design Institute of Shanxi Province 2007).

The prosperity of the alcohol industry generates greater demand for consumer goods and services. As a result, around 45 percent of the migrant workers (2,450 people) work in the service sector, including transportation and other businesses.⁹

Most migrants come to town to work. However, at the time of our survey, not all migrants were employed. About four-fifths of the interviewees were working. The reason that people were not always working was because they were either in the process of finding a job or housewives who did not intend to work. Men were more likely to be in employment than women.

Table 7 Work status by sex

	Working		Not working		Total	
Men	32	84.2	6	15.8	38	63.3
Women	18	81.8	4	18.2	22	36.7
Total	42	83.3	8	16.7	60	100

Data source: data collected by the research team in 2007

Introductions through friends and relatives are the most popular way to job hunt (33.7%) and recruitment events organized by Fenjiu group are the second most helpful way (32.7%). About 20.4 percent of the working interviewees were self-employed. However, the events arranged by local government such as job centres were not very popular.

Most migrants come to work as labourers. Manufacturing (33.4%) and transportation (19.6%) are the most popular industries for migrant workers. Commercial businesses (15.7%) are also important sources of jobs for migrant workers. Except for a lucky few, migrants are rarely able to enter the public sector.

⁹ The structure of migrant employment is estimated based on a 1 percent population survey carried out in 2006 by the local authorities. The data is provided by the local authorities.

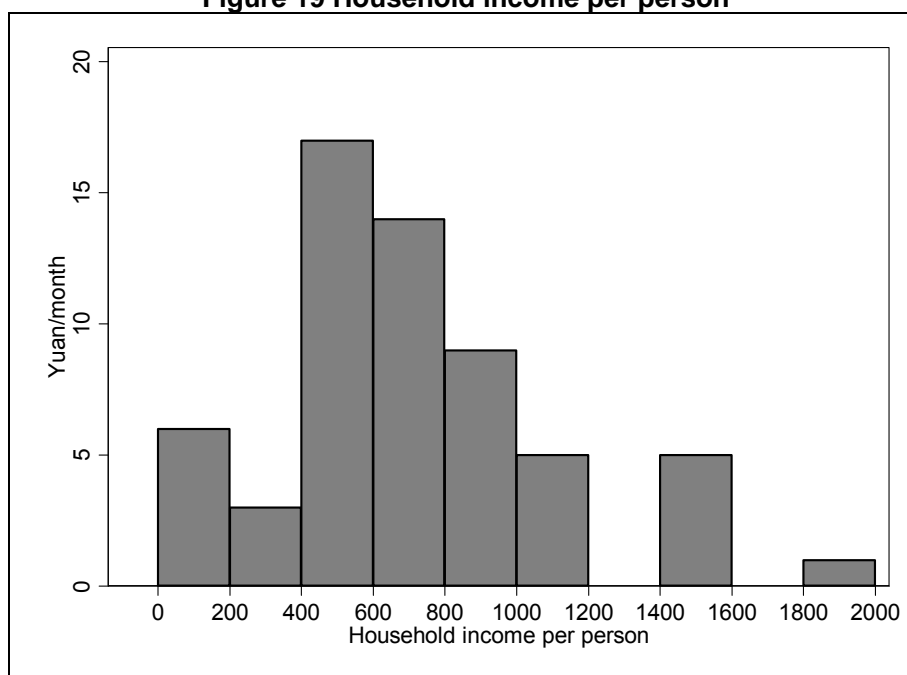
Picture 3 Entrance to Fenjiu Group



Income

The average monthly income of migrant workers is 1,431 yuan (US\$208). Most of them earned between 400 and 1,000 yuan per month. 48 percent of the interviewees were quite satisfied with their income while 39 percent were not very happy and felt that their income was too low to lead a decent life. The rest remained neutral.

Figure 19 Household income per person



Source: Data collected by the research team in 2007

On average, men earned more than women. There was a positive correlation between income and level of education. People working in sales, manufacturing and the public sector earned higher salaries than people in other sectors. Interestingly, people who came to work on farms earned more than people working in the service industry. This reflects the attitude of young people who would rather work in low-paid service jobs in farming.

Table 8 Income by subgroup

	Group	Monthly income (yuan)	%
Sex	Men	1,665	65.4
	Women	989	34.6
Education	Primary or lower	1,320	19.2
	Secondary Junior	1,381	61.5
	Secondary Senior	1,543	13.5
	College or higher	1,867	5.8
Occupation	Workers in manufacturing, transportation and supporting staff in the same industries	1,663	36.5
	Workers in the service industry	967	17.3
	Commercial sales people	1,800	7.7
	Skilled workers	1,000	3.8
	Construction workers	1,028	13.5
	Public sector employee	1,360	9.6
	Farmers	1,100	7.7
	Others	834	3.8

Source: Data collected by the research team in 2007

Picture 4 Part of Xinghuacun



Social protection

About 43 percent of the interviewees signed fixed term contracts with their employers and 41 percent signed permanent contracts. In contrast, the national average rate of rural to urban migrants who have signed contracts with their employers is only 20 percent (Lian, 2008). Migrants in Xinghuacun clearly fared much better than the national average. This is probably because the Fenjiu Group is the dominant employer in town and it used to be a state enterprise and still behaves like one. This means that it tends to follow state regulations more closely than other private businesses.

Defaults in migrant workers' pay which is a serious problem in many parts of the country (Li, 2006b) is not a frequent occurrence in Xinghuacun. The town authorities claim that it is their responsibility to help the workers who cannot get their pay on time. Our interview suggests that about 3.9 percent of workers are not paid on time.

About 40 percent of migrant workers do not have any form of social insurance. For those who have one or more types of social insurance, pension and insurance against industrial accidents are the most important, with participation rates of 18 percent and 14 percent respectively. These are higher than the 6 percent provincial participation rate.

Children's education

Many migrant workers bring their children to Xinghuacun. In our sample, 45 interviewees came to Xinghuacun with their children. However, only 23 children are attending school. The majority, 21 children out of 23, attend public schools. The children who had dropped out of school were all in their secondary junior school and failed to complete 9 years of compulsory education. It is reported that many people bring their children to Xinghuacun mainly to keep an eye on them. Parents worry that if their children grow up with their grandparents, they will be spoiled. A small number of parents want their children to have the better education available in town.

Because the public schools in town are also open to migrant workers without charge and the quality of schools does not vary very much, parents usually choose schools close to where they live. Most parents are quite satisfied with their children's education. However, rural parents still express their concern that the children are sometimes not treated equally at school.

Housing

Migrants and locals live in different parts of the town. Most migrants live inside the built up area, close to the industrial park where their employers are located. The office of the neighbourhood authority is also nearby. The size of the migrant residential areas is increasing overtime. As a result, small businesses and services are also moving to these areas.

About one third of migrant respondents live in dormitories, shared rooms that are not suitable for families, provided by employers. These are often workers from outside the town who either cannot afford to buy houses or prefer not to buy because they do not want to stay. Rental houses are the main source of housing offered through the private market. They are more suitable for migrant workers who live together with their families. A small proportion of migrants also live with their friends and relatives in the private rental sector. This is usually a temporary arrangement for newcomers who come to Xinghuacun because of kinship or friendship connections. New migrants are expected to move out or pay rent once they find a job. Interestingly, when asked about the purpose of their visit, some people answered that they came to visit their relatives rather than to look for a job. This shows that they have not yet fully decided whether to stay. Finding a suitable job is the most important factor influencing their decision to settle. Finally, about one third of the migrants lived in detached houses with their own family. This is a popular form of housing for farmers from nearby rural

areas. People living in this type of housing are mostly rural workers who commute to the town centre to work, but continue to live in the home villages. Some people who have settled down in Xinghuacun for quite a long time may also be able to buy detached houses in the private market.

Table 9 Housing for the floating population in Xinghuacun

Type of housing	Detached house with single family	Shared dormitory offered by employer	Private renting	Friends and relatives	Temporary self built	Others	Total
Number	19	18	11	4	7	1	60
Percentage	31.7	30.0	18.3	6.7	11.7	1.6	100

Source: Data collected by the research team in 2007

Social integration

There is clear segregation between residential areas for locals and for migrants. Because this is a relatively small town and the locals do not necessarily want to rent houses to migrants, some migrants report that there the suitable housing supply is limited both for renting and buying accommodation privately. This is considered by many respondents to be a reason for the persistence of poor quality housing in the town.

Most migrants consider the locals to be very friendly to the outsiders. The interviewees did not express any concerns about discrimination against migrants by the locals. This is clearly quite different from the situation in larger cities. It is related to the fact that migrant workers who work for the Fenjiu Group enjoy a higher social status and even higher income. The locals we interviewed are aware that these industries help to boost the local economy and benefit the locals.

During the interviews, local people were concerned about the increasing crime rate and lack of government involvement in keeping the society in good order. They were also aware of the shortage in housing supply and felt that the local government should do something to improve the housing conditions for migrant workers.

The generally amiable relationship between the locals and the migrant workers does not mean that the locals socialize with migrants. Migrants are also not very keen to socialize with the locals. When they are in need of help, they usually go to their families and townsmen, or even to the local authorities when problems are serious, but not to local people. There is a strong sense of 'them' and 'us' in Xinghuacun.

People who worked for the Fenjiu Group earn much higher salaries and on average have better education and skills. However, there is a clear division between the locally hired Fenjiu employees and those from other parts of the country. Most migrant employees of the Fenjiu Group are skilled workers and management staff. During the interviews, they showed a strong sense of superiority with regard to the local workers. Several interviewees mentioned that they think the locals have little interest in the outside world and are not ambitious. The problem is that most locals do not have the skills to be promoted in the factory. Although the factory has a shortage of skilled workers and management staff, it is difficult to find suitable people locally.

Different migrant groups also enjoy different social statuses. Migrants who work for the Fenjiu Group and migrants who work for other employers are considered to be different. Labourers working for small businesses are not necessarily treated with extra respect.

Our interviews with the locals and the local officials all acknowledge that there is an invisible line between migrants and the locals. If the migrants want to get something done, they often end up paying more. This is partly because they do not have the necessary local connections and partly because the locals perceive that migrant workers have more money to spend.

4.3.5 The relationship between Fenjiu Group and the local authorities

The administration of Xinghuacun is somewhat special. There seems to be a mutual agreement between the Fenjiu management and the small town government not to intervene in each other's business and to work together for the prosperity of the town. This theme was repeated so often during the interviews with officials that one cannot help but wonder why it was emphasized so much. However, when walking through the town, it is not difficult to realize the financial power of Fenjiu Group, and its managers are involved in all the major decisions made in the town, especially the planning of future development and public events.

One of the key issues in Xinghuacun is water. Breweries consume a huge quantity of water each year. Most of the water used by the Fengjiu Group is the underground water which is considered to be particularly suitable for alcohol making. However, as the output of the Fengjiu Group increased, its water consumption also grew. To maintain the water supply, the Fenjiu Group had to dig deeper into the ground to collect more water. The reduced underground water caused the ground surface to sink. Houses subsided and the underground pipes for the public facilities were leaking heavily (Bai, et al., 2003). Household water supply also decreased to very low levels. Water facilities in Shangxi have been privatized since 2004, and water prices have grown rapidly. However, the Fenjiu Group has to compete nationally. Neither the local authorities nor the Fenjiu Group are keen to dampen the business opportunities of the alcohol companies, whereas the household water costs are growing. To some small businesses and migrant households, the water price is much higher.¹⁰ Our interviewees, particularly the migrant group and other small business owners, are aware that water prices are exceptionally high in Xinghuacun.

There have been two types of effort to sort out the water problem. First, the provincial government promised to improve water supply in its long term development plan, making more clean water available by tightening control of polluting industries in the province (Bai, Wang and Ping, 2003). The second effort consisted of the factory reducing its water usage by setting water consumption targets and introducing a new costing system to help reduce water waste. It also invested in a water recycling system to help partially address the problem (Zhang, 2003). These measures though did not stop our interviewees complaining about the unfair water price. They claimed that people living in farmers' houses in urban

¹⁰ The differential water price is not a local policy and also not a policy that is designed to target migrant households deliberately. It was a result of a provincial level policy that aimed to address the water shortage problem in Shanxi Province. Starting from 2008, all urban households in the province would adopt a three tier water price system. The prices varied according to the amount of household water consumption. For each household, there is a fixed amount of water that would enjoy a relatively lower price. Each person should not use more than 3 tonnes of water each month. The price would be higher when the consumption is above the limited level (Yan, Guozheng, 2007, Shanxi Province Starts to Adopt Price Discrimination for Water Usage by Urban Residents, 09-09-2007, Xinhua News Net, Taiyuan Shanxi http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/newscenter/2007-09/29/content_6812930.htm). However, temporary migrants, i.e. usually rural to urban migrants often live in shared accommodation with larger number of people. As the total amount of water consumption goes beyond the threshold, they have to pay much higher prices.

villages suffer the most, because the landlords do not enjoy the subsidies that urban households enjoy.

Local authorities have little bargaining power with the Fenjiu Group. When there are conflicts of interest between the Fenjiu Group and locals, such as water consumption and town expansion, the Fenjiu Group is more likely to be the winner. However, the relationship is also reciprocal. Involving the Fenjiu Group in the town development plan also means that the Group is expected to contribute.

Some problems that need to be sorted out locally, such as public safety and order, housing shortages and a lack of equal access to public services for migrant workers, are not really addressed by local authorities. In a sense, the weak government offers private businesses a relaxed environment in which to prosper and which in turn attracts more external investment.

4.3.6 Summary of the case of Xinghuacun

In the case of Xinghuacun, although the small town authorities could not count on higher level government for increased fiscal support, they managed to hold on to a big business which was able to support their local economy and invest in public infrastructure.

This model, however, has its limits. The enterprise is focused on profit making. Therefore, what the Fenjiu Group would like to invest in is mostly infrastructure, staff housing and water to benefit its own business in the long run.

The emphasis on non-intervention in each other's affairs on the part of local government and big business also highlights a lack of confidence. Local authorities have been able to take advantage of what the Fenjiu Group has to offer. However, this big business does not make contributions to social provisions for the people outside the factory. At the moment, the town authorities are not catering for the needs of migrant workers who do not work for the Fenjiu Group and are not trying to provide services that will be accessible for all residents on an equal basis. Although a lot can be achieved by leaning on this giant money maker, the need for more coordinated development schemes that do not try to create a separate world inside and outside the factory will become more important in the future. This is also probably the only way to guarantee that the enterprise will not suck all the resources from the town and subsidize the much better off alcohol consumers. This is crucial especially when the future may lead to a greater degree of urbanization and more newcomers coming to the town to work for other private businesses.

The passive or reactive attitude of the local authorities could also mean that some good opportunities are missed. For example, the enterprise management has said that it is not in their interests to bring people in from outside the town for all their management jobs. But while the local labour market is not able to supply qualified employees able to take on responsibilities aside from providing manual labour, there is no joint effort to invest in skills training and education programmes.

4.4 Case 2: Qikou

4.4.1 Social and economic background

Qikou is a port town at the junction of the Yellow and Qiushui Rivers. It is a small town under the control of Lishi City in Linxian County and part of Lvliang Region. Linxian County has more than 60,000 people and is the most populated county in the region. Currently Qikou controls 108.2 square kilometres including rural areas. The town itself consists of two parts. The part facing the Yellow River with Wohu Mountain at the back is 600 metres long and 50 metres wide. It has two streets running parallel to the river and 11 streets linking the mountain and the riverfront. The other part, which faces the Qiu River, is 400 meters long and the distance from the river to the foot of the mountain range varies from 120 metres to

200 metres. The average altitude is 657 metres. Because it is at the junction of the Yellow and Qiushui Rivers, the town and nearby areas in Linxian County are prone to flooding during the rainy season and drought in the dry season.

Figure 20 Qikou and its surrounding areas



Note: 1. The point noted with '1' is Qikou. The circle to the right of Qikou is Lvliang city, the county seat of Linxian County. The square is Taiyuan, the capital city of Shanxi. Source: Online electronic map, <http://uemap.com/city/lvliang/>

Figure 21 Qikou



Note: The river running through the centre of the map is the Yellow River. Qikou is the light area to the right of the river. Data source: Taiyuan Dao Sanjin Culture Forum, <http://www.tydao.com/>

Brief history

For centuries throughout ancient history, boats travelled very long distances to Qikou to unload goods. These goods were then sent to other parts of the country either via road or the river. This used to be the fastest and cheapest way to transport cargo. Goods were unloaded in Qikou because of its unique location. There is a very large stone island in the middle of the Yellow River at Qikou. The river also becomes much narrower just down stream decreasing from more than 400 metres wide to less than 80 metres. Water travels very fast at this point and the presence of the stone island makes this a very dangerous part of the river even for small boats. Therefore, Qikou is the farthest point cargo boats from either side of the river can reach. The town was set up in the Han Dynasty but only established its position as a prosperous trade town during the Ming Dynasty and reached its highest point in the Qing Dynasty. In ancient times, Qikou's downtown area had several main roads by the riverfront which was only occupied by businesses. Tradesmen were not allowed to bring their families to this area. As the businesses became prosperous, tradesmen started to build houses which they carved into the side of the mountain behind the riverfront.

In more recent history the town has declined for several reasons. In 1923, the railway from Beijing to Baotou, Inner Mongolia was built and cargo shipping became less popular. Later, the development of road transportation was fatal to the traders in Qikou. In the 1950s, more highways were built in the country and bridges were constructed over the Yellow River which meant that road transportation replaced most of the shipping. Secondly, the banking businesses in Qikou declined as a result of the national government's financial reform. In 1932, the Shanxi provincial government, under instruction from central government, issued a new currency to replace the existing one issued by the private banks in Shanxi Province. The private banks could exchange their old currency for the new one at a rate which was not favourable to the interests of old banks in Shanxi. At the same time, because the more centralized and modern banking system was set up in Shanghai, Shanxi, which had been the most important financial centre in China for nearly 500 years, declined. Banks which were originally based in Qikou failed to move to Shanghai and collapsed with the introduction of the new currency (Gao, 2002). Thirdly, in the 1940s, Qikou was under Communist Party control. In 1946, the Jinsui Border Region Government (the temporary government set up by the Communist Party) decided to develop export trade to stabilize the economy. However, in 1947 the taxation bureau based in Qikou imposed heavy taxes on businesses in nearby areas. The direct result was that some important businessmen closed down or downsized. Others simply abandoned business and returned to farming as they lost confidence in the government. To correct these mistakes, in 1948 the government refunded nearly half of the tax revenues it had collected and promised not to tax more than 30 percent of business profit in the future (Duan, 2005, 39-42).

This long-term economic decline has however preserved Qikou's traditional culture and lifestyles. The houses in the town and several nearby villages are traditional cave houses which people carved into the steep hillsides along the Yellow River. This offers a great combination of local architecture, traditional culture and nature. Many old buildings which were used by businessmen during the prosperous days of Qikou have recently been renovated as Chinese scholars and artists consider the town to be of high historical and artistic value. Many research articles and drawings about Qikou have been published. More recently, as tourism develops in China, Qikou has begun to attract tourists although on a small scale because of its difficult access. In 2005, Qikou was named a national heritage site, and it was also listed as one of the '100 Most Endangered Cultural Heritage Sites' by the World Monuments Foundation because 'the recent "rediscovery" of Qikou by China's tourist industry has opened to the door to potentially harmful forms of cultural and eco-tourism' (Evarts, 2005).

Qikou's economy

Qikou is a poor town. Local revenues are only about 100,000 yuan (US\$ 14,600) each year. Local authorities receive about 6 million yuan (US\$0.88 million) to cover their administration costs from higher authorities. The average income per person per year is only 1,040 yuan (US\$ 152), less than \$1 a day. People living in 90 percent of the areas governed by the town live in poverty. In 2006, 768 households (814 people) received minimum income support. The total amount was 117,890 yuan (US\$17,210). 121 households (122 people) were made up of elderly people who did not have any external support and who received a total of 122,000 yuan (US\$17,810) from the poverty relief fund. More than 4,880 people received a total of 98,300 yuan (US\$14,350) in financial support for natural disaster relief. 815 people received food aid in response to natural disasters. The total weight of food aid was 20,375 kilograms. So far, only 28 villages out of 40 villages have access to piped water and 31 have access to television.¹¹

Local people farm and process their produce (dates, corn, soybeans and vegetables). These are mainly small scale family businesses. There are four small village-based factories which produce bricks. Each factory hires no more than 30 people.

There are not many businesses in town aside from tourism. Tourism can generate income of about one million yuan (US\$0.15 million) per year as the town hosts about forty thousand tourists each year. There are sixty shops and seven hotels in town and twelve taxis and eight buses are in service. Because the town is not gated or walled, the town authorities cannot charge a tourist entrance fee. As a result, the income they can earn from tourism is quite limited. The town authorities invested about 20 million yuan (US\$2.9 million) over a long period to rebuild part of the ancient town, pave the road outside the town and build a parking lot and a bridge that joins the nearby villages together. Some dilapidated cave houses in the ancient town have been repaired in the hope of attracting tourists.

Qikou is remote in terms of accessibility. Even travelling from the provincial capital Taiyuan can be difficult as the road condition is poor. Cars need to travel through rough mountain roads. Although Qikou has repaired the roads nearby, village roads that lead to Qikou are not properly paved. The main method of paving roads in these villages is by pressing the soil. When heavy load vehicles pass, the roads are ruined. Unfortunately, the mountain areas of Lvliang hold many coal mines. Heavy trucks which can hold 50-60 tonnes of coal also travel on these mountain roads, but the owners of coal mines do not invest in improving the roads, and they are not obliged to offer compensation to villagers. Therefore, there is no easy way for tourists to travel to Qikou. At the moment, most tourists are students and teachers from art schools and colleges who come to Qikou in large groups by coach to take drawing lessons. They usually stay in Qikou for several days. There are also tourists from other provinces. They usually come in organized driving groups, so there is a quite high demand for parking space. These tourists are relatively well off and live in cities. They usually stay in the town and visit the nearby villages. Bicycling along the Yellow River is also getting more popular. As the cyclists usually travel along the river, they do not need to access the mountain areas.

¹¹ The numbers quoted here are given by the Qikou authorities.

Picture 5 The road to Qikou



Population

In 2007, the total number of households was 7,844. The total number of people living in the area governed by the town authorities, including the town centre and nearby villages was 31,472. Average household size was less than 4 people. In the town centre, 9,000 people were registered as residents, including students from nearby villages and temporary migrants. The estimated number of people living and working in the town was 3,000. Most households in town consisted of five people (one pair of grandparents, parents and one child). A small number of households had more than one child. Also a small number of people lived on their own. Households with only three people have also started to appear.¹²

The overall educational level of the population in Qikou town is not high. Apart from civil servants and school teachers, all other residents only have primary or secondary school education. Only a few people have a high school education. There is only one public secondary school in town. Because most working age people work outside the town, the proportion of elderly and children is very high.

4.4.2 Migration

There are relatively few immigrants in Qikou, mainly farmers from nearby villages who rent houses in Qikou in order to accompany their children who are studying in town. They live in the town for three years. Depending on whether their children carry on with their education, the parents then either move to Lishi city to continue supporting their child's study, or return to their villages permanently. There are about five to six hundred migrants of this type living in Qikou. Another type of immigrants are women who come to Qikou through marriage.

On a daily basis, most people who come to Qikou and stay in town are tourists. Some of them may stay for a while but they do not settle. There are an estimated 30,000 tourists each year and many come during the peak season, for example in the first week of May and in October 2007 there were about 2,000 tourists each day (Shi, et al., 2008). The number of people who stay for a relatively longer time is extremely small.

¹² Data provided by the town government.

Emigration out of Qikou is important and is largely related to the fact that the whole of Linxian County is located deep in a mountainous area with limited opportunities for agriculture. As a result, Linxian has the largest rates of emigration in the province. Qikou is a typical example of a difficult agricultural environment. The mountain side is very steep as most visible surfaces are slopes of more than 40 degrees. The soil on the mountain is very thin, and date trees are one of the very few plants that can thrive here. In order to survive, farmers try to grow some food crops under these trees, but only on a relatively small scale. Historically, only a small proportion of the population can live from agriculture. This is why business trade prospered in this region in the first place. When trade declined, emigration became the key source of income. There are no official statistics on the number of migrant workers from Qikou and there is no systematic method to calculate their income. All the information regarding migration in Qikou is based on estimates. The Public Security Office estimated that from the whole town including the nearby rural areas, about 4,000-5,000 people are working outside Qikou. Rural households where all labourers are working outside the town leave the farming of their land to their relatives or friends.

4.4.3 Research findings in Qikou

We carried out a small survey in the town centre in September 2007 and in March 2008. Among the 50 households interviewed, at least one person in each household had left the town looking for work. In total, about one fourth of the people are out-migrants and they are mostly young people, leaving very few men of working age in Qikou. The main objective of most migrant workers is to earn money. Their family, women, elderly and children stay at home and they return during holiday times. Only a few people have permanently settled in large cities. This may also be due to the low levels of education of Qikou migrant workers which only qualifies them for unskilled labour. In addition, it is difficult to permanently migrate to large cities. It is estimated that only 20-30 percent of migrants bring their family members with them. At the same time people from Qikou are very aware of poverty levels at home and as a result they try hard to prolong their stay in cities. Unless they have no other option, they just do not come back.

Income, spending and migration

The income of migrant workers is mostly spent on family consumption at home, for example, on housing renovation. Two houses occupying large courtyards of cave houses have been renovated into hotels for tourists. Some other families on the same road are also trying to do this, but they have started much later. Walking along the road, one can see women staying at home working on improving the courtyards. They hope to be able to save enough money to start their own hotel business.

However, according to the interviewees, local living standards have not obviously improved because of remittances from migrants. Firstly, local people have less income from farming. Secondly, the prices for consumer goods have increased over time. Thirdly, local production has declined as more people move out of town. The capacity to supply commodities and services does not necessarily grow when more money is available. As a result, people end up spending more money chasing a limited supply. Fourthly, it should be noted that the younger generation is no longer as thrifty as the older one. Even if remittances do not boost the family's expenditure on daily consumption, a lot of money is spent on the children or by the children to support their life style.

Some households do not receive enough remittances to support their financial needs, for example, families that do not have men working outside, or families with children studying in university. University education is not free and only the top universities in the country can afford to offer scholarships to a small number of students who come from poor

backgrounds.¹³ Women who stay at home try to earn extra money by setting up small businesses either from their homes or in the business area selling handmade souvenirs or local produce, such as honey and fresh fruit, to tourists.

Picture 6 Handcrafts made by women at home to sell to tourists



Since officials cannot calculate the amount of remittances sent to the town, although most families have emigrants supporting them, the town itself continues to receive poverty relief from the state.

Poverty of the elderly and migration

Most young people who work outside of Qikou send some money back to the elderly in their hometown. However, it should no longer be taken for granted that the younger generation will take care of the elderly as was tradition. When a migrant worker's income is not very high, he can barely support his own family, not to mention the elderly. On top of this, a lot of young people are not keen to support the elderly.

To a middle aged person in town, the biggest goal in life is to save money to build a house, the pre-condition for his or her son(s) finding a wife. The son's family is also expected to spend money on buying luxury goods, such as a motor bike and a television for the young couple to start a family. The newlyweds expect to have a decent life right from the beginning even if the parents have to borrow money. Parents are also expected to pay off any debts.

¹³ All universities in China are in cities. The tuition fees can vary a great deal from city to city from school to school. For example, in Beijing, a university student spends 4,800-5,200 yuan (US\$700-760) per year on tuition fees, 600-1,200 yuan (US\$88-175) on accommodation and 500 yuan (\$73) on living expenses (Beijing University Education Fund, 2004, <http://www.pkuef.org/data/detail.php?id=149>).

Picture 7 Elderly people collecting drift wood from the river to make money



Elderly people mainly rely on farming. Some who do not have any children or relatives can receive financial support from the government under the minimum income guarantee programme. About 20 percent of elderly people in Qikou are covered by this program.

Sometimes, the elderly help to take care of grandchildren. An older person usually leaves his/her house to the son. When the son is married, he/she often shares the house with the son's family. However, the relationship between the mother-in-law and the daughter-in-law is notoriously poor in this part of the country. When the son is not at home, the tension in the household is often problematic. Therefore, some older people do not support their daughter-in-laws and prefer to be left alone. This in turn gives the son less reason to send money to his parents.

Education and migration

There are 69 villages governed by Qikou. This large number is because the population is dispersed in the mountain area. The largest villages have more than 1,500 people, while the smallest (more than 20 of them) have fewer than 200 residents. On average, each village has fewer than 700 people. Although each village has its own primary school, the decent ones are located in large villages. In small villages, schools often have a dozen students, from grades one to six, studying in the same classroom on different subjects with one teacher at the same time. Anyone who wants their children to have a better education would have to temporarily move out of their home villages. The secondary school is in Qikou town; therefore several hundred people come to live there during the school year (Xu and Wang, 2007).

According to our investigation in November 2007, migrants who come for educational reasons are well accepted by the locals because they are an important source of income for the small town. Because many people from the small town leave to find work, their families have empty houses to rent to these in-migrants and the migrants have money to spend. Some locals are aware that the price of consumer goods has increased because of immigration and since the education reform their living costs are higher. This is somewhat

compensated by rental income so families who have an empty house to rent do not complain. However, for other families the picture is not at all rosy.

The role of town government and higher authorities

The role of town authorities is limited to passing information upwards and downwards. They are also responsible for carrying out statistical work, although they are not able to calculate how much the town has benefited from remittances from migrants. The local authorities do not have the ability to collect tax. This was the case both before and after the farming tax was removed in 2006, and is simply because the town has high levels of poverty and has always been a net receiver of the state poverty relief fund. The Public Security Office is in charge of household registration. The purpose is to maintain local stability and safety. Apart from these functions, there have not been many public services available to the general public.

Linxian county government is pursuing two major strategies to develop the town. One strategy is emigration. The county government has set up a service centre in Taiyuan, the provincial capital to provide support to migrant workers from the county. The services provided include guidance to new migrants, information distribution, training and protection of rights. The purpose is to encourage migrants to go to cities to work. The other strategy is tourism which is highly encouraged by the county government and there have been major investments in tourist facilities. The Tourist Bureau in Qikou was set up by the county government and is in charge of the tourist hosting programme and directly collects its revenues.

The county government has invested in tourist sites such as Qikou high street, Xiwan village and Lijiashan village. It has continued to invest in the National Treasure of the Black Dragon Temple. It has also set up the town cleaning team, has put dustbins in the streets and has plans to plant trees. In order to improve services for tourists, they have trained 35 volunteer tour guides and hired one professional guide. 15 farmers have also been trained as temporary guides.

The provincial government also has a role in developing tourism. In 1999, the Shanxi Government named Qikou as a scenic place of interest. In recent years it has been repeatedly identified as a famous sightseeing place, national park, and a well known town for historical and cultural heritage. Some ancient villages in the town have just been allowed to apply for World Heritage Site status. Despite these efforts, so far tourism in Qikou is not as prosperous as in some other historical towns in China. The largest groups of tourists are students from art schools around the country. They come in large groups and are led by their teachers. They tour around the villages for drawing lessons. However, they are not normal tourists as they live in dormitory style hostels in shared rooms and eat in dining halls. Some families have set up convenience shops near the student compound. There are also tourists who drive their own cars from nearby regions. The tourists that Qikou would like to attract are mainly urban elites.

For the local officials, however, although tourism might generate revenues, Qikou is not a gated town so they are not able to collect an entrance fee. All they can hope for is that tourists come and spend money on food, accommodation and souvenirs. Local people do not have high hopes for the tourist industry's ability to employ a large number of farmers from nearby areas.

Local officials blame the unsuccessful development of tourism on difficult road conditions. Qikou is located deep within a mountainous area and in order to attract tourists it is not enough to build roads in the vicinity. But building roads from the distant regional city, Lishi, would take time and money. According to local officials, to build one kilometre of fast road in the mountains would cost about a whole year of Qikou's GDP. It seems unavoidable that the

local authorities are limited in their ability to support tourism and are only able to provide help when the county authorities organize publicity events to promote the town.

Although tourism has not reached its full potential it has already brought more employment opportunities. According to local officials, if all the main roads were connected and tourism developed to its full capacity, about 3,000 new jobs would be created. At the moment, mainly people in town benefit from the industry. The waitresses, tour guides and hotel owners are all from the urban parts of Qikou, but few opportunities are available to farmers from the surrounding villages. However, the researchers did notice some farmers bringing in food and produce to the hotels located by the river and to the small rural factories which make bricks for restoring historical buildings.

The Tourist Bureau is run by people sent by county authorities. They do not only provide services, but also collect revenue. Clearly the county authorities have helped to promote the town as a tourist site and generate employment. However, in the town itself not all incidences of poverty have improved. While some hotels, restaurants and small shops make a profit, the majority of the people in surrounding villages have not benefited. Tourists only come to sightsee and spend money in the town centre. As a result, people complain that tourism does not benefit them; on the contrary it makes their life inconvenient (Shi, Liu and Jiao, 2008). Neither the county nor the town authorities have tried to ensure that the benefits of tourism reach a wider range of people. This is not only a result of investment and fiscal management policies, but also of a lack of plans to organize tourist sites and resources.

Apart from benefits from tourism, the Qikou is also pilot town for the small town construction and a poverty relief experimental area. These projects mean that it might be able to get extra financial support from higher authorities for the projects they want to carry out. So far, a large amount of money has been invested in improving the riverbank to reduce the threat of flooding. This is also crucial for the development of tourism. In addition, the Hedong Coal Mine is being constructed close to Qikou. Once completed, it will be able to produce 600 million tonnes of coal. The government hopes that the mine will provide employment for farmers. Apart from the coal mine, there are also natural gas and water power resources to be developed for commercial use.

At the moment, local authorities are relying on migration to other cities for the development of the town. They even prefer it if emigrants settle in the cities, as a local official mentioned: 'It is good that they will not come back. On the one hand, the local population pressure can be somewhat relieved. On the other, if they settle down, they will be able to bring more people out of the mountain area. If in the future some of them can become successful, they will be able to benefit their hometown. People in Linxian County are very good to their townsmen. Once they become rich and powerful, they always try to improve their hometown.' Obviously, it is the hope of the officials that a few people will come back because they see the potential of Qikou and that they will establish traditional style hostels by the river in the hope of attracting more guests as tourism prospers. Local officials do not yet have a strategy to benefit the small town as a whole.

Lack of financial support for local initiatives

Because of its history of poverty, it is extremely difficult for local people in Qikou to get financial support for their business initiatives. For example, the cave houses along the Yellow River are particularly attractive to tourists. People from large cities like to come and stay in order to experience life in an ancient town. For a long time, only two families had turned their houses into hostels. Increasingly, some local residents are starting to see the potential of turning their houses into hostels so that they can make a living out of tourism. Although the county authorities support the idea, the home owners are not able to get loans from the Rural Cooperative Trust or from the banks to expand their business. This is a

serious limitation: even the existing two hostels are suffering from financial constraints and cannot improve the services they would like to offer.

Picture 8 A hostel in Qikou



Note: The cave house has five storeys. The owner has only managed to renovate two storeys.

Picture 9 Unrenovated houses in Qikou



4.4.4 Summary

Qikou provides a typical example of a town where the local authorities are weak, and where county and provincial authorities play a much bigger role in planning and investing for its future. Qikou cannot rely on a growing economic sector. Local residents are mostly dependent on emigration and county level planning to bring money and businesses into the town. Qikou also has large agricultural areas which suffer from extremely poor soil which is unsuitable for farming. In addition, the population is dispersed in remote rural areas. This makes the provision of public services extremely difficult. Efforts to encourage farmers to leave villages would make poverty reduction initiatives and the provision of social services a more achievable task.

The removal of the farming tax and the top down nature of development planning mean that the town authorities have little incentive to support the local economy. What is more problematic is that the county guided development of tourism is designed to follow models from other successful towns in Shanxi. A number of man-made tourist sites, such as the newly constructed Ming and Qing High Street and the heavy promotion of large family courtyard houses do not take into account the town's real heritage, that is the cave houses and the unique life style along the Yellow River. To achieve this, it would be necessary for local people to participate actively in nurturing their local culture.

It is true that without further county and national level infrastructure investment, it is not possible to effectively link the town to the outside world. However, sorting out the provision of infrastructure does not automatically lead to prosperity. So far, localized initiatives are not receiving much support, especially financial support. Whether this top down approach can help Qikou get out of poverty remains to be seen. At some point, engaging the local population will be unavoidable.

4.5 Case 3: Pingyao Ancient Town—Gutao

4.5.1 Social and economic background

Pingyao Ancient Town (Pingyao Gucheng) is also called Gutao. It is about 100 kilometres away from the provincial capital Taiyuan and is under the control of Pingyao County, in the southwest of Central Shanxi Basin. Gutao was the county seat of Pingyao County and has more than 2,700 years of history. It has kept the traditional structure and town plan since the Ming and Qing Dynasties. It has preserved the only city wall of its type in the whole region.¹⁴ The area inside the old town wall is 2.25 square metres, with four main roads, eight minor roads and 72 lanes. A large part of the town was regenerated in the traditional style. In 1986, Pingyao Ancient Town was named a National Heritage site. In 1997, it became a UNESCO World Heritage Site.

Brief history

Gutao used to be contained within its city wall. The wall was originally built during the Zhou Dynasty. It was rebuilt with brick and stone in 1370 (Ming Dynasty). The wall is 12 metres high, 3 to 6 metres wide on top and 10 metres at its base. Its total length is 6,163 metres. Inside the town, a number of historical sites can be traced back to the Song Dynasty. More than 400 residential houses were built during the Ming and Qing Dynasties.

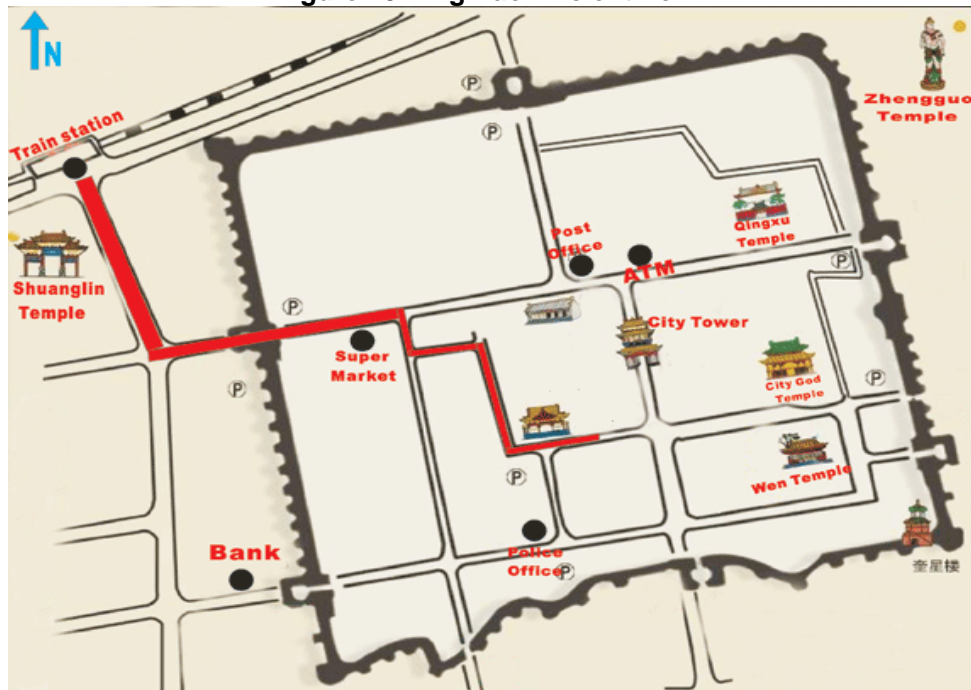
¹⁴ All the other city walls were demolished during the Cultural Revolution. Pingyao's wall was kept because the town was easily flooded without the protection of the wall.

Figure 22 Pingyao in Shanxi Province



Source: Travel China Guide, <http://www.travelchinaguide.com/cityguides/shanxi/pingyao/>

Figure 23 Ping Yao Ancient Town



Source: Easy Tour China, www.easytourchina.com/pingyao/Pingyao-Maps.htm

Picture 10 The wall of Pingyao Ancient Town



The local economy

Before tourism in Gutao began, local people worked in township enterprises and small businesses in and outside the town. There was also a mix of urban and agricultural population. Gutao used to be surrounded by agricultural land so some people who lived inside the town also worked as farmers. Others worked in their small businesses in town to supplement their farming income.

Since Gutao became a World Heritage town in the 1990s, tourism has developed rapidly. The number of tourists increases by more than 30 percent annually. There were about one million tourists in 2006. The town is gated so it is not difficult to charge an entrance fee. The total revenue generated from tourism increases by more than 60 percent every year. The annual income of the people in the urban area of Pingyao was 6,200 yuan in 2004. Farmers' income was 2,700 yuan. This has doubled since 1996 and most of this increase is due to tourism. In 2006, there were 920,000 tourists in total, revenue from the entrance fee reached 73.5 million yuan and the total tourist related revenue was 640 million yuan.

Picture 11 Tourism has become the main source of income



Table 10 The growth of tourism

	Total Income from tourism		Number of tourists	
	Amount (Million yuan)	Growth rate %	No of people in millions	Growth rate %
2000	50		0.51	
2001	110	120	0.83	62.7
2002	202	83.6	1.55	86.7
2003	224	10.9	0.30	-80.6
2004	484	116.1	0.64	113.3

Data source: Pingyao Development Proposal for the 11th Five Year Plan.

Population

The population of Gutao has grown overtime. In 1997 there were 55,000 permanent residents living in a town of only 2.25 square kilometres. The population density was much higher than in many of the largest cities in China. The town wall made it impossible to expand. In the past, people lived in cramped conditions and the infrastructure was very poor. There were no modern basic services in the houses. The town was packed with temporary structures and extensions built by the local residents. Some town planners estimate 20,000 residents as a reasonable population size for such a confined town. This means that to effectively conserve the town and maintain a decent standard of living for residents, more than half of the population would need to be moved outside of the town walls.

Apart from the locals, Gutao has a fairly large number of long term and temporary migrants. The ancient town used to be the county seat, and several government offices and public services were located here. Pingyao Middle School is a very well known school in the region, with more than 8,000 students who come from all over the region. Because the students might come from far away and parents do not want to leave their children alone, many accompany their sons and daughters and live in rented properties in town. There are about 2,000 people that have come to live in Gutao for this reason.

The resettlement plan

In the late 1990s, the county adopted a voluntary resettlement approach. It first moved the public services including government offices, out of the town, on the assumption that when life in the Ancient Town became too inconvenient, residents would move out voluntarily. In 2002, three hospitals, seven schools and nurseries and more than 80 enterprises and public offices were moved out of the town. This indeed resulted in more than 20,000 people moving out of the town and the population declined to 27,000. However, by 2004, this number had increased again to more than 45,000 residents. As explained by the Director of the Bureau of Tourism, Li Hongzheng, a number of business people from outside the town saw the potential of the town as a tourist attraction and moved in after former residents moved out. To further draw people out of the town, in 2007, the famous Pingyao Middle School was also moved out. About 10,000 residents including students, teachers and parents moved out as a result. Some polluting factories were also closed down, making the life of workers living inside the town more difficult.

In the last several years, the potential of Gutao to earn money through tourism has been fully recognized by the county authorities. This is partly because the whole county gets richer with the booming economy and partly because Gutao authorities did not find it difficult to draw down state funding for further regeneration. As a result county authorities have started to offer financial incentives for people who are willing to move out of the town. However, this programme of compensation is contaminated by corruption. Compensation money has gone to people who bribed local officials. This has been investigated following a tip-off of in an anonymous letter sent to the regional authorities. A number of officials involved were removed from their position as a result (Xinhua News Agency, 2007).

According to local officials, as time went on, about half of the population living in Gutao did not have urban household registration. Some were former farmers who had come from nearby villages to establish small businesses. These self-employed farmers started out as street vendors, and those who did well bought small properties in town to run hostels or small restaurants. Some were locals who lived in town but who also farmed outside the town. Although they had been living in the town for generations, they retained their farming lifestyle. The other half were urban residents. Some still worked in factories and most of them earned a very low income, less than one dollar per day per person.

It seems that over time, the people who could have moved out had already done so. The ones who stayed either depended on living in the old town to survive or were too poor to afford to buy houses in the newly built up area.

Picture 12 Street vendors in the town



Table 11 Implementation of the Resettlement Scheme of Gutao (end of 2007)

		Residents inside the Ancient town (number of people)	Residents outside the South Gate (number of households*)
Original long term residents		About 55,000	1,038 (including 433 agricultural households; 591 urban households and 14 collectives)
Number of people who left the town		About 20,000	300**
Education level (%)	High school or more	45.5	51.2
	Secondary school	45.5	35.9
	Primary school	9.0	12.8
Average monthly income in yuan/month per capita		1,019.0	1,684.4
Average house size after moving in m ² per capita		46.0	31.0
Satisfaction with their new housing after moving		77 percent satisfied and 23 percent dissatisfied	72.7 percent satisfied and 26.3 percent dissatisfied

Note:

1. Data provided by Pingyao government.

2. Town regeneration includes moving people living inside the town and moving the people who used to live just next to the entrance of the town to the outside newly built up area. The second group includes a much smaller number of households. The column titled Outside the South Gate refers to the second group.

3. The project was put on hold and might resume in April 2009.

*Unfortunately, there is no data available on the number of people who moved due to the regeneration project. However, we know that the average household size for Pingyao was 2.6 persons in 2006. If we do not include the collectives, there should be 1,024 households in total. Therefore, the total number of residents moved should be around 2,600 people.

**Because there is no breakdown in numbers for households and collectives, it is not possible to calculate the actual number of people who had already moved away.

4.5.2 The relationship between authorities at different levels

The development of Gutao as a tourist attraction was a top down decision. In the early days after the end of the Cultural Revolution, the town and county authorities were keen to embrace the opportunity to regenerate Gutao and upgrade it into a modern town like many other towns at the time. Therefore, local officials and residents were unhappy to hear that some scholars had called for the protection and conservation of the ancient town, and even more so that the scholars had won the state's agreement. The people in Gutao had to come to terms with this decision. Higher authorities were also very eager to protect the ancient buildings. It was, therefore, nominated as a national treasure and soon after the town authorities were encouraged to apply for World Heritage Site status. It received some state support and county authorities were actively engaged in fund-raising and promotion (Jianshui County Government 2004). In 1998, the provincial People's Congress published the 'Regulations on Protecting Pingyao Ancient Town'. Using these regulations, the county authorities published 'Plans to Protect the Historically and Culturally Famous Town in Pingyao County' and a whole series of rules and plans to conserve and renovate the town.

In the early days of the programme to conserve the town, there were no clear signs of increased state investment. The county authorities had to use revenue from tourism to pay for regeneration and the relocation of people outside the town wall. In 1986, the county drew up its own conservation plan. At first, local authorities expected people to move out voluntarily. There was no provision for compensation, and no plan to improve much needed tourist facilities and infrastructure, such as public toilets and green spaces. Meanwhile, the town authorities started to sell small business licenses to outsiders, which helped to raise funds for future activities but was counterproductive as it attracted new immigrants. Although overtime the financial situation of Pingyao County improved its revenues still did not cover the money needed to support resettlement at the intended scale or regeneration. For a while, in 2004, the county authorities considered setting up a holding company for historical assets and listing the company on the financial market. However, this was an uncertain option. At the end of 2003, the county had invested more than 350 million yuan in regeneration, only one third of which was granted by the state (Nan, 2004).

Overtime, county authorities gained more experience in branding and promoting Gutao as a good investment opportunity. They first started to offer financial incentives to people for repairing and renovating old buildings. Investors were allowed to keep the profits made after the renovation was done. This was the initiative called 'whoever renovates, benefits'. It immediately attracted interest from the private sector and local people were eager to become shareholders in renovation projects.

The authorities also improved their lobbying strategies with the higher level governments to get financial support. At the time of our research, the head of tourism mentioned that Gutao had attracted so much attention these days that they no longer needed to worry about money. They had built up a direct communication channel with the authorities at central government level. This gave the town authorities much greater ability to negotiate and determine what they wanted to achieve, as they were no longer dependent on the regional or provincial governments for funding.

However, as more people realized the potential of Gutao and larger investors arrived, the interests of earlier investors were not guaranteed. According to the county officials, they felt that the town needed better planning so that it would not lose its traditional character. However, earlier investors worried that the government would change the 'whoever renovates, benefits' policy and allow the state or bigger investors to take over their businesses.

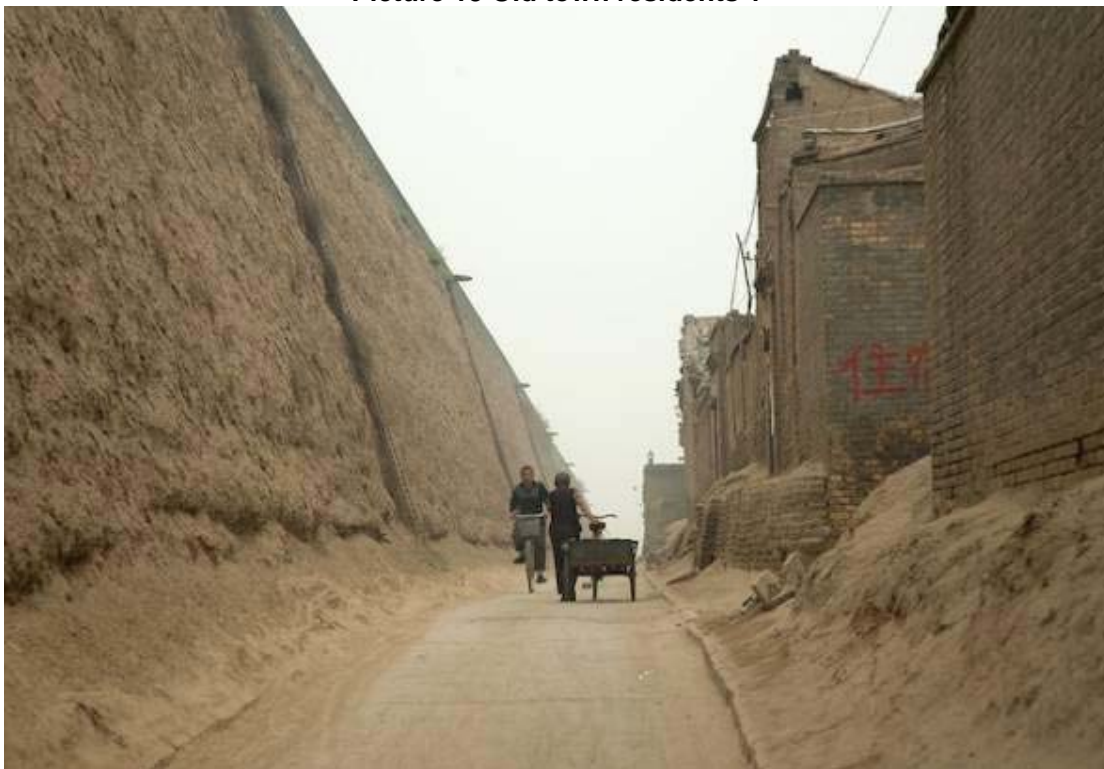
4.5.3 Problems faced by the town government

The government of Pingyao County has to face a whole range of complicated and often troublesome issues including:

- Making sure that there would be sufficient housing supply in the newly built up areas;
- Compensating people who need to buy new houses in the newly built area;
- Helping people find employment opportunities outside the town;
- Compensating small business owners for losses resulting from regeneration;
- Making sure the farmers who agreed to move into the newly built up areas are properly urbanized and registered, i.e. to provide them with equal access to social protection;
- Ensuring that old town life is not wiped out completely. The old town is not only known for the ancient buildings, but also for its living culture: literature, art, theatre, sculpture, food, etc. If this life no longer continues, the town would lose much of its meaning

So far the biggest headache for local authorities is that the newly built-up areas are too expensive for many old town residents and the resettlement project has stalled. Added to this problem is the lack of employment opportunities in the new town area. Many people who have already moved there have had to come back to find jobs in the old town.

Picture 13 Old town residents 1



So far the people who can afford to move out are the ones who are financially better off. They are better educated, working in public sector jobs or earning enough money in the private market. They used to be the main contributors to the cultural life of Pingyao. At the

moment, the people who are left in town are mainly very poor elderly people or farmers coming from nearby rural areas. They are not as active as the previous urban residents and are not able to contribute to the cultural life of the town in the same way.

There is an intrinsic conflict between the two main functions of the town. Gutao is not only a tourist site, but also a residential area. There is demand for services for both the daily life of local residents and for tourists. However, the two types of service are not compatible, especially when there is little space for further expansion. The town is now dominated by businesses that cater for tourists, because it is a quick way to earn money. Small businesses that cater for the needs of town residents have declined.

Picture 14 Old town residents 2



In addition, tourism requires the town to be gated and pedestrianized which makes it very inconvenient for the locals to get in and out on a daily basis. As a result, their life has become more complicated. According to a survey carried out by Huang et. al (2008) in 2005, people in Gutao had high hopes for tourism and were strongly supportive of its development. However, by the time we carried out our interviews long term residents living inside the old town were not happy with the direction the town was heading, although this is partly influenced by the corruption cases.

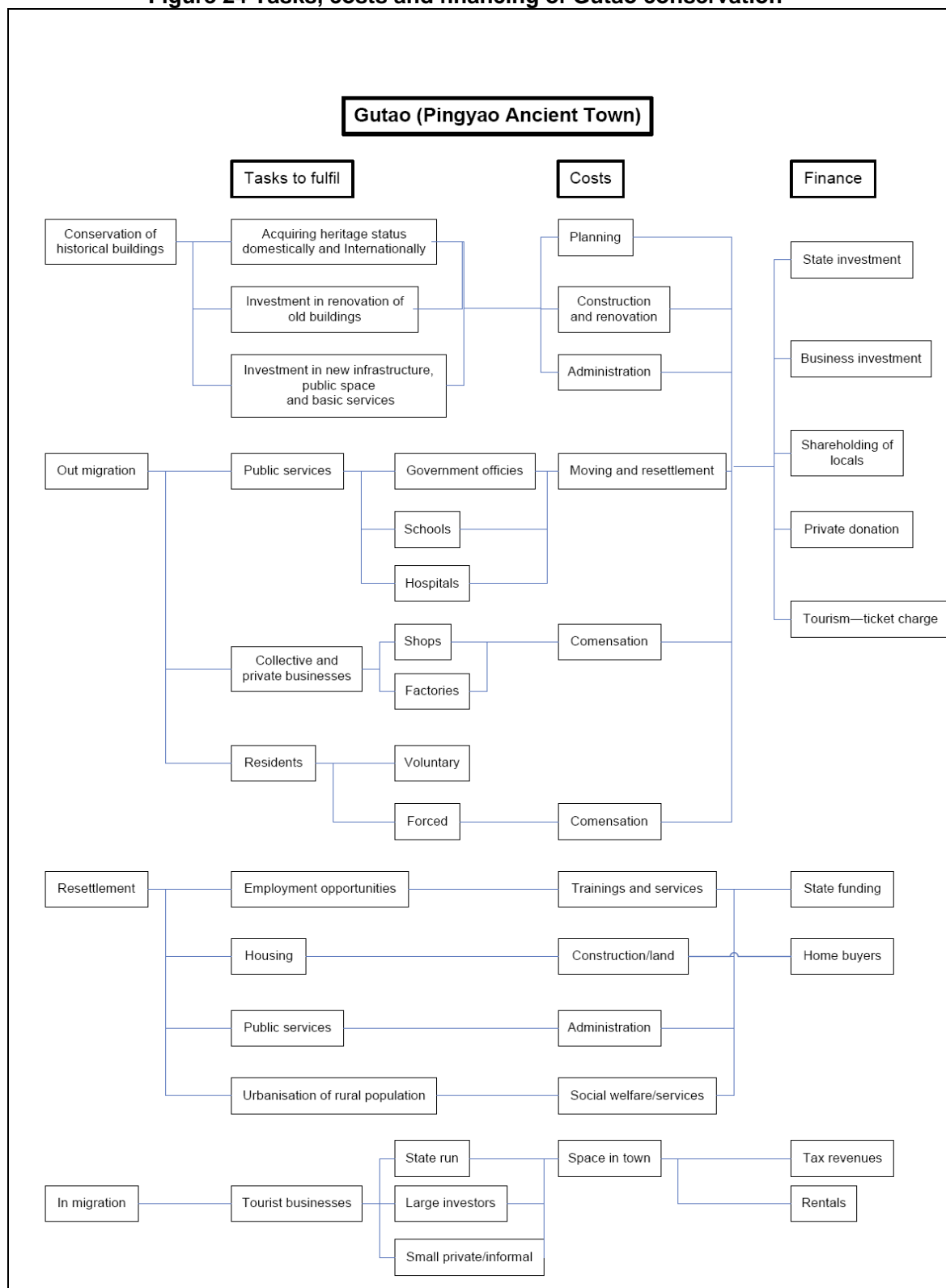
The immigrants' case is quite different. In 2004, there were 2,243 migrants from outside of town. 620 were migrant workers, 591 were businessmen and 1,032 came because of marriage and education. The local authorities did not try to discourage or encourage migration from the outside. When the migrants came to settle down in town, they needed to present marriage and childbirth certificates. Women under 49 received health checks to make sure that they did not come to avoid the One Child Policy. All migrants received educational materials to introduce them to the town. Migrants are governed by the same system as permanent residents. The services they receive are the same as local people.

Guotao also has a fairly large rural area. Although the rural economy is growing at more than 10 percent per year, it still suffers from rural unemployment. The development of tourism in Gutao offers good opportunities for rural labourers to come into town to work in the service sector. Local authorities offer training programs for labourers from rural areas to help them to find jobs in hotels, restaurants, domestic services, as tour guides and in shops in the old town. In this way, large numbers of workers are employed in Gutao. It is important to note that these people do not need to register as migrants.

A new problem has recently surfaced. Gutao used to have some fairly rich families which occupied large courtyard houses in the town. Before the Communists came to power several of these rich families had moved out of Gutao and had settled in other parts of the country or even abroad. Their houses were allocated to ordinary people but there were no formal arrangements for transferring property rights. Over the last two or three years, as Gutao has become more prosperous, some members of these families have come back from abroad to reclaim ownership of these old houses. The Gutao authorities have a different interpretation on this situation. In their view, these families have never contributed to the maintenance of their old houses while existing residents and the county government have invested heavily in the renovation of these properties. As a result both the land price and property price have increased dramatically. It is not possible estimate a fair compensation price for these former residents, who quite often are attracted mainly by the business potential. This is certainly not welcomed by local authorities who have their own overall vision for the town. According to them, these former residents are not interested in protecting the historical sites and just want to earn money. The authorities are reluctant to hand back these properties, and at the time of this research, there were a few court cases considering this dispute.

A further problem is business accessibility. Most of the businesses in Gutao are owned by outside investors. However, in the early days of development, because the local authorities did not receive as much financial support as they do today, they rented out some properties in the main business areas to some small businesses. These businesses were not necessarily run in accordance with the image of a historical town and there was little regulation at that time to prevent them from damaging the historical value of the town. As time went on, the town authorities gained more experience in how to protect the image of the town. They started to set out detailed regulations for businesses and to encourage bigger businesses to invest with a long term view to help maintain properties. What the town authorities have done is buy out existing small businesses at higher than market prices and also higher than what they originally paid in order to start the business. In this sense, the local authorities are running at a loss. However, the town officials understand that the economy is improving. They are sure that the new businesses will be willing to pay more and in the long run their presence will further increase the town's value.

Figure 24 Tasks, costs and financing of Gutao conservation



4.5.4 Summary

Gutao's is a somewhat special case. The resettlement which occurred was not voluntary. The whole project was driven by a vision that conserving the ancient town would attract tourists. This decision was actually made before domestic tourism became popular. Therefore, at the time the decision was made the hope of making a profit was quite distant. In addition, neither town authorities nor local residents shared the understanding held by a small number of scholars that the town should be preserved. They only understood this to be a good option in hindsight. As mentioned by a Pingyao official, they are grateful that this visionary idea was forced on them.

However, this top-down vision did not come with strong financial support. The county authorities were trapped in financial difficulties for quite a long time until they started to experiment with more market oriented approaches in order to raise funds from private sources. What we can see is that the state's determination to fulfil the vision for Gutao ended up giving the Pingyao county authorities a lot of room to behave like entrepreneurs. On top of this, the fact that Gutao is the county seat for Pingyao, has given the county officials much more room for subsidizing Gutao with revenues from other places in the county. This has generated significant results, i.e. the town authorities are no longer short of money. They are able to turn around huge revenues for future development and attract investment from both higher authorities and the private sector.

In a sense, the Gutao government has successfully achieved its goal of leading the town onto a path of economic prosperity. Within this process, the resettlement programme has played a major role. However, it is also important to point out that the remaining goals will be difficult to achieve. The majority of the original residents who remain in the old town are poor. The rapid and artificial transition from an industrial to a tourist town means that many people have difficulties in adjusting. Some people's basic livelihoods, such as jobs in the nearby factories, have been taken away. Although many have the opportunity to start a new life in the tourist industry, many others have to struggle just to survive. At the same time, house prices in the newly built areas have been pushed up by earlier migrants. It is getting increasingly unaffordable for the rest of the old town residents to move, and there may not be enough employment opportunities for people who have already moved to the new town.

So far, the rise of Gutao as an internationally known tourist town has created an optimistic picture for most of the locals, despite the difficulties it has caused in their daily life. However, according to experiences in other ancient towns, such as Lijiang, and other parts of the world, which have developed their tourist industries, the resentment of tourism tends to increase when the town is more developed (Huang, Long and Wang, 2008).

In a sense, the greater power and resources enjoyed by the town authorities means that they have better capacity to carry out what they want to do with respect to other small town authorities. It also starts to cause concerns among the businessmen, especially the smaller ones, about how their existing interests can be sufficiently and equally protected.

4.6 Case 4: Xugou

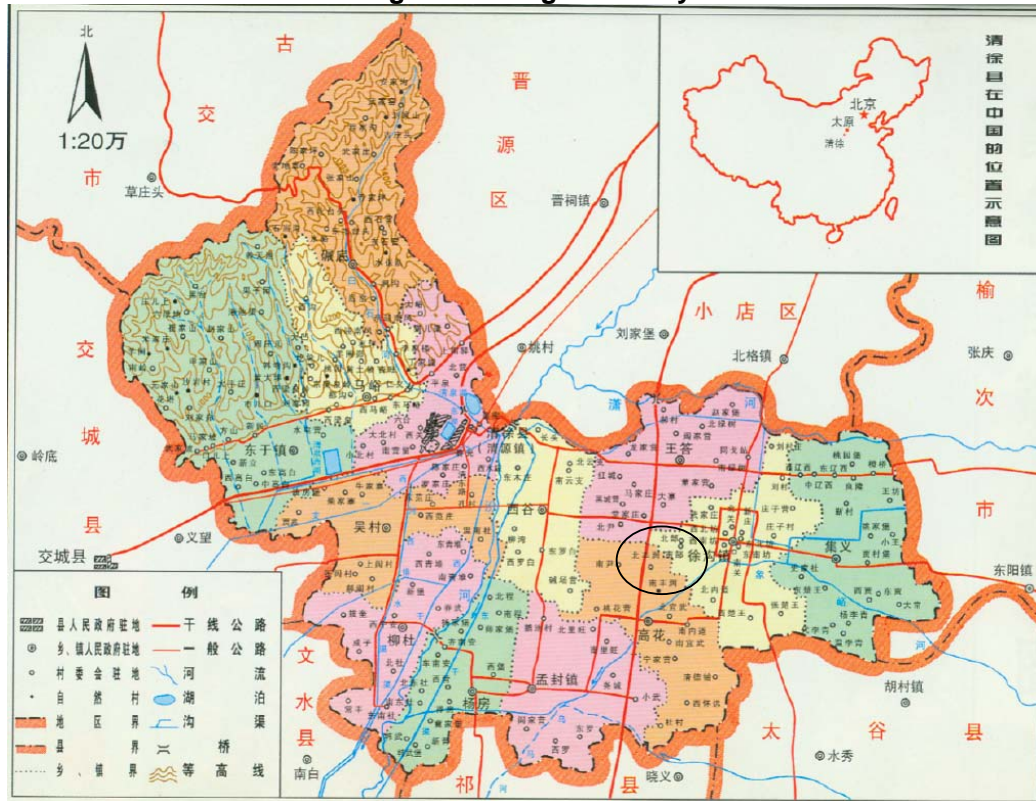
4.6.1 Social and economic background

Xugou is 38 kilometres from Taiyuan and is at the junction of several main provincial roads. It is 15 kilometres away from the county seat and is administratively a county level town. Its total area is 83.85 square kilometres and it has 28 villages under its jurisdiction with a total population (including nearby rural areas) of 41,000 people. The town centre is 4 square kilometres in surface area and has 7 neighbourhoods.

Brief history

Xugou has more than 800 years of recorded history. It used to be a county seat. In 1952, it was merged with the neighbouring Qingyuan County. Xugou is still the second largest town in the county.

Figure 25 Qingxu County



Note: The black circle in the map is the location of Xugou. The yellow area that surrounds Xugou shows the town and the surrounding rural areas.

Source: A scanned map provided by the county authority

Local economy

Xugou is at the centre of economic activities and trade in Eastern Qingxu which is on the east side of the Yellow River. In 2006, the GDP of Xugou was 990 million yuan and the total tax revenue was 33 million yuan. It is a major tax payer in the county. This is probably why there are more than 54 provincial and county offices and enterprises located here.

The main industries in Xugou are related to the processing of agricultural products. Main products include alcohol, soya bean products, sausages and milk products. It also has a number of factories which produce radiators, bricks, steel balls, iron frames, packaging cartons and metal models. Radiator factories used to be a major industry in Xugou and a main attraction for migrant workers. However, in recent years, the industry declined due to anti-pollution campaigns. Xugou also has a quite prosperous service industry. There are 486 shops in the town centre area, several of which are distribution centres sending products to the 13 cities and towns, and 200 villages in the surrounding area.

Picture 15 Gas supply to the town by the Xinghuo project which uses animal manure



4.6.2 Migration and population

The town centre has 12,255 long term residents. In 2006, there were about 11,000 long and short-term migrants living in the town centre area, including 5,000 students studying in Xugou High School and 6,000 migrant workers. In the past, the radiator sector attracted the largest number of migrant workers. In the last two years, however, following the government policy to protect the environment, most radiator factories have been closed down, therefore today most migrants work in the construction and business trade sectors. They are mostly from Henan, Sichuan and Shaanxi provinces.

Table 12 Population in Xugou, end of 2006

Town centre population with Hukou	Outsiders (migrants and floating population)	Total population	Outsiders /total
12,255	11,000	23,255	47.3%

Data provided by the town officials

Education migrants

The main causes of outmigration are university attendance, employment in large cities and marriage. There are about 2,000 people from Xugou working and living outside the town. They are mainly young and middle aged people with university or college degrees working in large cities, such as Taiyuan, Guangdong and Beijing. They work as representatives of Xugou businesses and a small number work as employees for businesses that are not run by people from Xugou.

Xugou has a beacon high school that is nationally famous. Each year it takes in more than 5,000 students from all over the province. When students are accepted by Xugou High School, their household registration is also transferred there so when they graduate, they may stay and work in Xugou. Students need to pay tuition fees of 30,000 yuan if they are not from this county. For a while, students who wanted to receive special tutoring in beacon classes needed to pay another 10,000 yuan each year for attending special classes.

However, the education authorities considered this extra fee to be inappropriate and withdrew it in 2006. If graduates from Xugou High School are able to get into university, they are also able to attend skills training courses and find jobs in local industries. Xugou's reputation for providing a good education attracts business investors from other provinces and from Taiwan to set up high-tech manufacturing factories. As a result, more High School graduates settle down in Xugou.

Picture 16 Xugou High School



Immigrants' circumstances

The vast majority of migrants who come to Xugou are men. This is partly because the people who come here usually work in jobs that require heavy labour. Given that a large proportion of the population are migrants, this also seriously affects the town's gender balance.

Table 13 Migrants' origin by job sectors

	Nearby rural areas	Outside the town controlled areas	Total	%
Construction	4	21	25	50
Businesses	11	6	17	34
Factory workers	1	2	3	6
Employer moved here	3	2	5	10
Total	19	31	50	—
%	38%	62%	—	—

Data source: Survey by the research team in 2008

Table 14 Gender and age group of migrants

	Male	Female	Total	%
<30	9	4	13	26%
31—40	13	2	15	30%
41—50	12	2	14	28%
>=50	7	1	8	16%
Total	41	9	50	100%
%	82%	18%	—	—

Data source: Survey by the research team in 2008

The majority of migrants are secondary school graduates. Some of them only have primary school education. On average, migrants have a much lower level of education than the town residents. This is largely because of the type of jobs that are available to migrant workers. The collapse of the radiator manufacturing industry further drove down the number of skilled workers.

Table 15 Educational levels of the interviewees

Educational Level	Number	%
University or higher	4	8%
High school	8	16%
Secondary school	32	64%
Primary school	6	12%

Data source: Survey by the research team in 2008

In contrast, the town has started to suffer from a brain drain. The children of locals tend to move to larger cities to look for jobs once they have completed their high school education. Those with a higher education will definitely settle in large cities straight after they graduate.

Housing

The housing conditions for migrants are quite poor. Most migrant construction workers live in temporary sheds on site. Most businessmen rent houses in the private market. The average migrant's income is 1,053 yuan per month. They cannot afford to buy their own houses. Of the 25 interviewees, about half live in temporary housing on site. They are all construction workers. 15 people rent privately. They are mainly small business owners and 9 people live in shared dormitories provided by the employers. They are either public sector employees or factory workers.

The role of emigrants

Most emigrants are sales representatives of Xugou in large cities. Some of them settle and bring their families along after a while. There are also cases of Xugou students going to universities in large cities and settling down. Some of these emigrants bring in new business opportunities for Xugou and a small number will recruit workers from Xugou. According to local officials, businesses in large cities rarely recruit labourers from Xugou, rather Xugou usually 'exports' qualified business agents and managers. This is partly due to its tradition of doing business. Wherever people migrate, they tend to be traders. It is also partly because of the relatively good economic situation in Xugou. There is really no need for people to go to work elsewhere as labourers.

Some successful townsmen have contributed to local businesses. For example, the nursery and kindergarten have very modern facilities and were funded by a successful restaurateur now living in Taiyuan. However, his 'financial support' was in the form of investment. The local authorities agreed to allow the nursery and kindergarten to charge fees and the investor expects to receive favourable returns.

Picture 17 A private nursery built with investment from a successful businessmen, who is now based in Taiyuan



4.6.3 Influence from central government

In the last two decades, Xugou has received much attention from both the central and the provincial governments. In 1995, it was listed as one of the 500 centres for a pilot scheme whereby town authorities were encouraged to focus on small town construction in order to develop nearby rural areas. As a result, the town authorities have focused on making the town into a strong regional business centre. In 1995, it was also listed as an industrial park with a number of Xinghuo¹⁵ Technology Projects. In 1999, the central government appointed Xugou as a model town for economic development. After 2000, Xugou was chosen as one of the Beacon Towns in China, positioning itself as a small town of local culture and good education aiming for eco-friendly development. To achieve this, the local authorities 1) carried out a whole series of infrastructure projects, including a new school, a kindergarten, a hospital, lighting and improvement of the main roads, water and gas supply, residential areas and a businesses centre; 2) restored the local temples and historical sites and supported local performing arts; and 3) adopted ecologically friendly technology to generate power, gas and heating for local residents. In 2001, the town was again appointed as a 'Model Town for Constructing a Civilized Small Town' by the national government. It has also received honours such as the 'China Hometown of Folk Art', 'Cultural and Sport Model Town' and 'Technologically Advanced Town' of Shanxi.

Each time the town receives a title, favourable policies and sometimes funding follow, such as the technology innovations under the Xinghuo programme. The industrial and development based policies gave Xugou the opportunity to push its local economy forward and indirectly create new job opportunities. These job vacancies are often filled by migrant workers.

¹⁵ Xinghuo means starry fire in Chinese, symbolising that starry fires may light up the whole grassland. The idea is that the state provided seed funds, guidance and services to encourage rural and township enterprises to engage in technological innovation.

4.6.4 The role of the province in migration in Xugou

Xugou has been a town of star status in the province. Because of its good location and relatively good human resources, it receives favourable policies and financial support from the provincial government. In 2005, influenced by the state's urbanization schemes, the Shanxi provincial government began to push for rural to urban migration. It published 'Suggestions on further accelerating migration of rural labours' (*guanyu jinyibu jiakuai nongcun laodongli zhuanyi de yijian*). In this document, local authorities are required to set up migrant service centres to deal with living conditions, childbirth, cultural activities, healthcare and education.

4.6.5 The dilemma of Xugou authorities

Xugou's booming trade and manufacturing industries need the migrant population. Therefore, the town wants to accommodate migrants and make them feel at home. Xugou has published policies to remove barriers and to encourage outsiders and businesses to buy houses and settle down. So far, to encourage the urbanization of farmers, Xugou has tried to promote investment in agricultural processing and technology innovation to improve rural productivity. In this way, more farmers will be able to work as industrial labourers or service providers. Every now and then, Xugou authorities also organize trips for employers to visit the nearby rural areas to recruit labour.

It is important to note that financial support from the state is given to enterprises for their innovative activities and possibly to the industrial park for construction purposes. This support is often earmarked and does not necessarily mean that local authorities can use this money to improve their services to the general public. In addition, the top down taxation structure forces governments at each level to make sure that the target for taxation is guaranteed regardless of actual economic performance. Xugou is very productive in this sense. But its past honours also bring increased scrutiny from higher authorities. As mentioned earlier, more than 50 offices with officials from various higher level government departments reside in the town to collect tax or various other charges. The removal of the farming tax makes it impossible for some towns without township enterprises to contribute to the tax burden. These towns become net receivers of fiscal support. Xugou needs to contribute to the pool of the county's funding to compensate for poorer areas. With this system, town authorities in Xugou do not have much money at hand for carrying out effective planning and providing services.

The town is packed with small businesses but has very poor infrastructure. Many roads are not paved. The mayor is a 24 year old man who has just completed his university study and his dream is to pave the town's roads. However, as he mentioned: 'The budget we have is barely enough for us to pay our employee salaries. I can only try to look for money and I do not know where it might come from. I will only work here for a couple of years and then I will be moved to a different post in the county. So there is only so much you can do.' The local industries are beyond the control of the town authorities. Taxes are collected directly by officers from higher authorities. The town authorities do not have much ability to make major changes. So far, what they have managed to do is enforce the One Child Policy and provide public security. The government requires employers to sign labour contracts with all employees, obtain insurance against industrial accidents and provide pension schemes to the employees. However, our interviews show that almost no rural to urban migrant workers have signed a labour contract nor are insurance or pensions available. Our interviews with local officials suggest that they are fully aware of the requirements. However, they have their own concerns. They do not want to drive away employers and after all, they have little authority over businesses.

Picture 18 An ancient temple badly in need of renovation. The town authorities thought it might attract tourists in the future



4.6.6 Summary

Xugou enjoys the privileges of economic prosperity because of its convenient location for shipping goods to other parts of the province. Many town businesses are flourishing and have received support from central and provincial governments. The businesses boost the local economy and the town manages to attract a number of rural to urban migrants as a result. These factors have put the town authorities in a much better position. The local authorities are actively trying to promote the town to the rest of the country to attract more investment and are coordinating with businesses to take better advantage of resources. Actively using the education and training system to link the skilled labour supply and investors has generated good results.

However, the role of the town government should not be overstated. As in many other small towns in China, the town authorities are easily bypassed by higher authorities while at same time they are expected to be the fire-fighter when things go wrong. The town authorities are not able to improve the welfare for migrant workers, especially the unskilled labourers.

5 Conclusion

In this report, we have questioned the role of small towns in handling domestic migration, especially as a part of the national urbanization strategy. Increasing the speed of urbanization is a policy that comes from the central government. Using small towns to decrease migration to large cities is another strategy which has been imposed from above. Under the current system, small town authorities do not have the resources and often do not have the power to carry out their plans to host more migrants. At the same time, higher authorities and governments can easily overpower small town authorities through the redistribution of funds to towns that are seriously in need of money. So far, small towns have managed to overcome some of these constraints and are able to take advantage of either immigration or emigration to improve their economic circumstances. However, small towns

are not yet able to offer the level of support to migrants which would enable them to settle down permanently.

The four case studies show that small towns are consciously using migration strategies to support the local economy. However, the impacts of migration can be double-sided. It is difficult for local authorities to single-handedly cope with the challenges of migration. Administratively, they do not have sufficient power. The county authorities play a dominant role in managing small town affairs. The relatively successful small towns, i.e. towns enjoying economic growth, have either relied heavily on the private sector or worked closely with county or even provincial authorities to secure fiscal support. However, economic success may also mean that higher authorities tighten small town budgets or increase taxes and collections.

It would be unfair to conclude that small town authorities are not playing an important role. As a matter of fact, in the existing system, they have already teamed up with other players to improve the overall situation in their towns.

- The Xinghuacun authorities rely on the giant state enterprises to provide employment opportunities for locals and to provide services for its own employees and infrastructure for the town. However, in terms of meeting town development goals these enterprises are limited in their ability to contribute. As a profit making enterprise, their priority is not to support everyone in town. People who are not directly employed by the factory and not working to support it may not benefit from its resources. At the same time, with such unbalanced financial power, small town authorities have to compromise on some important issues such as water use.
- Xugou depends on a range of small businesses and good levels of education to prosper. However, local authorities find it difficult to cope with the demand for services raised by the thousands of small business. Xugou also has to cope with the shortage of financial resources at the county level. In the past, it resorted to external investors, including those in heavy polluting industries, and education charges. Unfortunately, neither is approved by the higher levels of government. As a result, although the economy of the town was still in quite good shape at the time of the research, the future is unclear. The closure of some key industries due to pollution control has led to serious job losses among migrant workers. At the moment, the town struggles to regain its strength through cultural development and high-tech industries.
- Gutao used the potential of tourism as a leverage point to attract people from other parts of the county as well as the higher authorities to invest in its development. With this model, there is a clear conflict between the interests of local people and those of external investors and tourists. At the moment, locals still have hope in the regeneration plan but its long term impacts are yet to be seen. In addition, because of the on-going regeneration process, the relationship between old and new investors is also getting more complicated. Thanks to the fact that Gutao is also the county seat, it has indeed re-directed resources from other parts of the county for its own use. The impact on migration is clear. It will attract people from the other areas which do not have the resources to move to the county seat for employment opportunities.
- Qikou is the most difficult case. It has not been able to work effectively with its township enterprises. It has been trying to transform itself from a town based on farming and migrant remittances into a tourist town. At this point, the weakness of counting on funding from higher authorities becomes very obvious as the local authorities become very passive.

Except for Xinghuacun, in all the other three cases, we hardly see any formalized involvement of migrants (either 'in' or 'out') in planning for the development and future of small towns. To some extent, as some researchers suggest, township enterprises are functioning like the gentry during the Ming and Qing Dynasties. But they are economic gentry and do not hold the higher moral principle necessary to rule the ordinary people effectively. The advantage is that they have helped enable the local economy to survive and in some cases supported the development of towns. The disadvantage is that they may not be interested in handling issues that are not directly linked to making a profit. Occasionally, the local authorities can use the townsmen's duty or simply use moral lessons to coerce enterprises to take up social responsibilities.

There is no clear solution for enabling a town to work better. The tall ladder of fiscal and administrative hierarchy means it is unavoidable that some small towns at the bottom of the hierarchy do not receive equal attention from higher authorities or are simply 'not the priority'. Although Qikou is still poor, it managed to capture the attention of the higher authorities and even the outside world. In a way, it is following the path that Gutao has followed. But the local authorities are clearly much weaker than in Gutao and are not yet able to form a virtuous cycle enabling them to become an attractive destination for business investors. The relationship between small town authorities and private businesses is also interesting. When a town's economy is dominated by a big business player, its strong bargaining power can either work for the long term interests of the small town population or against it. But in the case of Xinghuacun it functions as a reliable anchor. The relationship between the factory and the town is stable and to some extent predictable. In contrast, Xugou and Gutao have to deal with thousands of small businesses. Each of these authorities is fairly weak in terms of their interventions from higher authorities. The difference between the two towns is that Xugou's government is weaker. It cannot influence either business or higher authorities as much as Gutao. As a result, Xugou's economy is more likely to suffer from policy changes.

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