FIRST IN COMMAND:
LEADERS, POLITICAL INSTITUTIONS, AND ECONOMIC GROWTH IN CHINA’S COUNTIES

by

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ABSTRACT

In the mid-1990s, counties in China’s Anhui Province and the central and northern regions of Jiangsu Province had similar levels of development. Over the next two decades the Jiangsu counties grew much faster, becoming on average twice as rich as the Anhui counties. This dissertation develops a causal narrative explaining part of the regional variation in county outcomes by looking at the relationship between local leader economic roles, governance, and promotion incentives in an upwardly accountable political system. Relying on six in-depth county case studies as well as broader quantitative analyses, the dissertation seeks to answer three interrelated questions: What explains variation in China’s county-level economic outcomes? What is the role of County Party Secretaries in determining local growth outcomes? Why do County Party Secretaries emphasize particular developmental priorities? By selecting six counties that face each other across the Anhui/Jiangsu border, the study largely eliminates geographic, historical, and cultural explanations, focusing instead on divergent provincial institutions and policies. These mixed method approaches demonstrate the important economic roles played by County Party Secretaries in shaping the quality of local governance and the ability of counties to attract investment. Although this leadership role and the governance-growth relationship hold across provinces, the political promotion incentives given to county leaders vary. In Jiangsu, county leaders are promoted based on economic growth outcomes; these leaders have translated their personal promotion incentives into bolder and more creative local development ideas as well as stricter control over local cadres, all in an effort to improve local investment environments. In Anhui, authorities have been more concerned with maintaining social stability, leading to less courageous
and less innovative local approaches to governance and economic policy. Largely as a result of these contrasting provincial emphases, counties in Jiangsu have vastly outperformed their Anhui counterparts since the mid-1990s. These conclusions have important implications for the study of central-local relations in China and for the analysis of upwardly accountable political systems more broadly.

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1 \textbf{INTRODUCTION}

In November 2012, Xi Jinping officially became General Secretary of the Chinese Communist Party (CCP), the country’s “first-in-command,” or \textit{yibashou} (一把手). Soon after entering office, Xi initiated a campaign focused on combating government waste, with a particular emphasis on excessive eating and drinking at official banquets. The campaign was part of a larger initiative to improve cadre culture and reduce negative perceptions of government leaders, particularly at the local level.

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

I returned to the same six counties in April 2013 for a second round of fieldwork and rapidly discovered a highly indicative change: feasting culture in the three Anhui
counties remained unchanged, but feasting culture in Jiangsu had evolved. While officials still tended to over-order, in Jiangsu they made a point of referencing Xi’s dictum and doggy-bagging every unfinished dish. In Anhui, references to Xi were often made as well, but these references were followed by guffaws, not “to-go” bags.

This may seem like a trivial throw-away comparison (and not just in the literal sense, as it is possible that the to-go bags were themselves discarded once I was out of sight), but this dissertation will argue that the divergent cadre behavior is part of a larger pattern. Jiangsu’s cadre promotion institutions have created pro-growth incentives for county leaders, and these leaders have translated their personal promotion incentives into bolder and more creative local development ideas as well as stricter control of local cadres, all in an effort to improve local investment environments. In Anhui, provincial authorities have been more concerned with stability maintenance (weiwen 维稳), leading to less courageous and less innovative local approaches to governance and economic policy. Largely as a result of these contrasting provincial emphases, counties in Jiangsu have vastly outperformed their Anhui counterparts since the mid-1990s. In the six case study counties, the three counties in Jiangsu were on average slightly poorer than their three Anhui counterparts in 1994, the first year of the analysis; by 2007 they were over 60 percent wealthier. Although not the only factor explaining these outcomes, this dissertation argues that different governance and growth environments influenced by provincial variation in cadre management explain a significant share of the divergence.
1.1 Background and justification

This dissertation studies county-level growth and governance in China. China’s administrative hierarchy is divided into five official levels: the center, provinces, prefectures, counties, and townships. The basic county-level unit consists of counties (xian 县), county-level cities (xianjishi, 县级市), and urban districts (shixiaqu, 市辖区).

Of the 2853 units at the county-level in China, there are 1456 counties, 369 county-level cities, and 857 urban districts. The vast majority of counties are xian, often translated as “rural county,” which is a misnomer given the rising importance of counties as urban and industrial centers; most urbanization is actually a “townshipization” process (chengzhenhua 城镇化) at the county level more than it is a true city-level process (chengshihua 城市化), and “rural counties” have now become China’s major growth engine, with higher relative urban, investment, and economic growth in recent years than the urban cores of prefecture-level cities.

Counties are arguably the most important hierarchical level in China with regard to economic growth as well as political stability, and the county-level government structure and function has been remarkably persistent over time. The “county” has

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1 Villages are an unofficial, albeit very important, unit beneath townships, which, according to the 1982 Constitution, are self-governing units (Joseph 2014).
2 In addition, there is one special district (tequ 特区), one forestry district (lingu 林区), 117 autonomous counties (zixhixian 自治县), 49 banners (qi 旗), and three autonomous banners (zixhiqi 自治旗 zìzhìqí). These other categories are almost entirely located within minority/autonomous regions.
3 The view of counties as “rural” often includes an implicit assumption that as China develops, these small rural units will become increasingly marginalized by population growth and economic growth in China’s larger urban centers (i.e., the urban cores of prefecture-level cities). However, given China’s size and population density in central and coastal regions, even rapid expansion of prefecture-level cities will not marginalize counties, especially given a current growth and urbanization model that focuses on township development within counties.
survived without interruption for 2700 years, beginning as the lowest level of government in imperial times, and nearly one-third of China’s counties have existed for more than 1000 years (Tian, Luo and Zeng 2005). Through the millennia, county governments have had comprehensive political, economic, and social responsibilities. According to Barnett (1967, 117), the county is “the most important administrative unit in rural China now, as in the past… Most counties have tended to be relatively stable administrative units, because more often than not they have constituted natural centers of transportation, communications, industry, and commerce. Traditionally, the county seat has served not only as an administrative headquarters but also as the economic and social center of a fairly well-defined region.”

Oi (1999, 103) adds that “this description remains apt today in many respects, with the exception that the county has now taken on a much more active role in fostering local economic development…” As the center of the rural-urban nexus, counties are also key for social and political stability, with county governments responsible for managing many of the major social contradictions in China’s development (L. Zhu 2011). This leads to the ancient, but still relevant, idiom: “when the county is governed, all is peaceful under heaven (junxian zhi ze tianxia an 郡县治则天下安).

Although the county government has existed for millennia, reforms initiated since the late 1970s have changed relative degrees of local autonomy and power for both the

4 For important early studies of Chinese counties from a sociological and anthropological perspective, see Gamble (1954) and Fried (1953).
5 This ancient phrase has a more modern follow-on clause: “when the county level is strong, the nation is rich” (xianyu qiang ze guojia fu 县域强则国家富). Both phrases are seen as having contemporary significance.
local Party-state apparatus as well as for the most important individual actor at the county level, the First Party Secretary of the County Party Committee. County governments have a long history of involvement in local economic and industrial development, and this position was enhanced in the reform era as a result of fiscal and economic decentralization. Decentralization and devolution in the 1980s created the conditions for rapid economic growth through agricultural productivity growth and industrialization, and the county government became intimately involved in local growth, directly intervening in local business affairs. Decentralization has also tended to concentrate high degrees of power in local hands, and in particular in the hands of local County Party Secretaries. County Party Secretaries, the first-in-command, or yibashou, at the county level, are frequently seen as unchallenged bosses of “independent kingdoms”; the leader of no other level of administration in China has the same degree of unchecked power. This power extends over all areas of local government and Party affairs, as the “Party represents and is indistinguishable from government” (yidang daizheng, dangzheng bufen), enabling the County Party Secretary to control major economic and institutional decisions at the local level. Problems also arise from this excessive concentration with little downward accountability; particularly in the 1980s, localities were seen as becoming uncontrollable. With growing fears of reduced central capacity and control, in the early- and mid-1990s the central government actively attempted to

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6 China already had decentralized industry at the start of the reform period. C. Xu (2011) discusses the county-level “self-contained regional economies” that existed during the Mao era, with the majority of counties producing agricultural machinery and over 300 counties with steel plants.  
7 For an overview of the economic interventions of county governments, see Oi (1992; 1999). Walder (1998) finds that county officials intervene more in the business affairs of its enterprises than higher-level city governments.
recentralize economic and political power. Fiscal reforms in 1994 recentralized revenues through the creation of tax-sharing rules.\textsuperscript{8} Almost simultaneously with fiscal reforms, reforms to the cadre management system arguably have had as great an impact on local political and economic behavior.\textsuperscript{9}

These reforms added more formal and institutionalized hierarchical control over local leaders, but degrees of decentralization and localized power remain high, and this autonomy has resulted in high variation in county economic outcomes both across provinces and within provinces. On the one hand, there has been strong regional persistence in economic outcomes; during most of the reform era, coastal provinces have grown much faster than provinces in other regions, and as a result poor counties are now concentrated in western and central provinces (see Figure 1.1 below). But in addition to variation across regions, there has also been significant variation within regions and within provinces – indeed, two-thirds of between-county economic inequality is a within-province rather than between-province phenomenon, as discussed in Chapter Three.

\textsuperscript{8} Fiscal reforms in 1994 towards a tax-sharing system checked the trend in growth of the sub-national fiscal revenue share; the last 20 years have witnessed a return to centralized revenue, although expenditure remains decentralized. As a result, intergovernmental transfers set by the center and transmitted down the administrative hierarchy through regionally variant sharing rules have become increasingly important for government operations.

\textsuperscript{9} In 1995, the central leadership promulgated \textit{The Notice on Strengthening and Improving the Evaluation of Work Accomplishment of the Leadership Corps of Party Committees and Governments at the County (Municipal) Level}, heralding the start of the official beginning of performance measurement for local governments (Gao 2009).
Figure 1.1. Poor counties concentrated in central and western regions

Share of counties designated as national poor counties (国家级贫困县) by province, % (color-coded by region)

Source: State Council Leading Group Office of Poverty Alleviation and Development (2012); author’s calculations

1.2 Questions and hypotheses

Why have counties had such different growth outcomes, and what role do political institutions, local governance, and leadership play in explaining these divergent outcomes? This dissertation develops a causal narrative explaining part of the regional variation in county outcomes by looking at the relationship between promotion incentives and the economic and institutional roles of County Party Secretaries. Several related questions are divided into two general narratives, one that looks at the conditions of
county economic development, with particular attention to the role of governance for growth, and another that looks at the economic roles played by County Party Secretaries and the institutional structures that incentivize these roles. In exploring institutional explanations for variation in county-level economic outcomes, the dissertation asks and attempts to answer three related questions:

**Question #1:** How do counties grow and what explains variation in county economic outcomes?

**Question #2:** What is the role of County Party Secretaries in determining local growth outcomes?

**Question #3:** Why do County Party Secretaries emphasize particular developmental priorities?

These questions are interrelated. Much of the variation in county economic outcomes, and particularly in pro-growth governance as a condition for high growth (Question #1), stems from the differing roles and abilities of County Party Secretaries in creating pro-growth institutional environments (Question #2), and these leadership roles are themselves explained by the incentives given to county leaders by provincial authorities (Question #3). Below I discuss the three questions and initial hypotheses in more depth.
Question #1: How do counties grow and what explains variation in county economic outcomes?

As a starting point for analyzing how local governance and leader actions affect growth, an understanding of the variation in county growth and the conditions for growth is essential. This consists not only in understanding the direct economic determinants of growth, but also in understanding the role of local governments in promoting growth. Several studies attribute local growth in China to centrally-mandated market reforms or immutable path dependent institutions and geographic characteristics; if growth depends on Mao-era characteristics or geography, then local governments might not play an important role, and if the role of local governments is simply to get out of the way and let markets operate, leaders may be important, but they are not very interesting.\(^\text{10}\) Alternatively, the developmental state literature has identified many ways in which governments can intervene proactively and positively, and indeed in China the importance of local governments is usually taken as a given.\(^\text{11}\)

Reform and openness along with socioeconomic development have altered the bases for local growth and the role of local governments. As China has recentralized the fiscal system since the mid-1990s, the local revenue/expenditure gap has expanded and the importance of transfers for local government finances has increased dramatically, with major implications for expenditure priorities.\(^\text{12}\) The fiscal system exhibits not only

\(^{10}\) For an argument based on Mao-era path dependence, see Bramall (2006). For a neoclassical market reform argument, see Steinfeld (1998). The structural change literature also relies on market forces without government intervention: see Krugman (1994) and Young (2003).

\(^{11}\) As Walder (1998) writes, “...the question is not really whether the role of local government has been large; the question is why and how local governments have played the role that they have...”

\(^{12}\) Fiscal reforms include tax and fee reform, tax sharing, “budgetizing” extra-budgetary funds, etc. Formerly, extra-budgetary funds provided the greatest degree of freedom and autonomy for county
temporal evolution, but also strong regional variation, as all central transfers pass through provincial governments, which are authorized to define their own sub-provincial fiscal relationships and transfer arrangements. Fiscal decentralization and economic decentralization have not taken place in a vacuum: China’s socioeconomic conditions have changed rapidly, influencing the impact that fiscal and cadre management reforms have on local incentives and capabilities. In particular, a growing private sector and reduced barriers to mobility have increased the relative importance of private mobile capital. As the private sector has grown, the role of local governments has necessarily changed, with less potential for direct firm management and intervention. Fiscal reforms have increased incentives for local industrialization in order to generate local revenue sources, and the growth of private capital has enabled counties to attract industrial investments. China’s counties, and the country as a whole, have become more capital-intensive over the past decade, and investment has become the dominant source of growth. This compares to the 1990s, when labor and capital (particularly foreign direct investment) flowed to large cities, and county-level growth was led by productivity increases, predominantly through restructuring.

I hypothesize that in recent years, as the ability to attract capital has become the most important determinant of county growth, the policies of successful local governments have focused on improving local investment environments. The largest

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13 G. Zhang (2009) provides a discussion of provincial rules regarding sub-provincial revenue assignments. See also Ning, Li, and Tian (2012). Beyond simply quantity, the systems for fiscal transfers themselves differ, with the most important difference consisting of one-level or two-level down management (i.e., “prefecture managing county” versus “province managing county”).
determinant of the ability to attract investment has shifted from preferential policies, which have largely become equalized across counties and provinces, to county reputation, infrastructure, and service-oriented government, referring to government that is both pro-business in the sense of preventing government failures of corruption and excessive fee collection, and also service-oriented in its ability to assist firms through correction of market failures and more direct “developmental state”-type interventions. The capacity of counties to attract investment through these local characteristics and governance qualities has varied greatly both within and, more importantly, across regions and provinces.

Question #2: What is the role of County Party Secretaries in determining local growth outcomes?

Acknowledging that governments and local institutional approaches matter for growth differs from arguing that local leaders matter for growth. Despite evidence that county governments intervene in their local economies, evidence that county leaders have systematic effects on growth outcomes is more limited; while local leaders can clearly hinder growth, the role of local leaders in proactively generating growth is more contentious. An important differentiation must be made between bureaucratic decision-making, central mandates, and local leadership, and a debate remains on whether China’s growth has been bottom-up or top-down (i.e., based on local initiative or central

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14 With regard to hindering growth see, for instance, “grabbing hand” arguments (Shleifer and Vishny 2002) and rent-seeking arguments (Krueger 1974). Internationally, quantitative economic literature has identified the role of leaders in contributing to growth. See, for instance, Jones and Olken (2005).
mandates). Additionally, as bureaucratic quality has improved in the reform era, turning local bureaucrats into rational regulators rather than political ideologues, it is possible that the role of leaders may have diminished, with policy interventions instead arising from bureaucratic decision-making.

Nevertheless, despite the probable importance of central mandates and bureaucratic logic, anecdotal evidence suggests that top local leaders still maintain high degrees of local economic control. I hypothesize that the local power of County Party Secretaries has not diminished in the reform era; but while local control remains highly concentrated, the economic contributions and roles of leaders have evolved. Local leaders affect growth outcomes through system bargaining for fiscal transfers and investments, and they can affect local investment environments as well as firm efficiency through direct firm-level interventions, control over development zone policies, and instilling more pro-growth local governance. Leaders’ personal characteristics determine their personal capacity to allocate resources, promote firm efficiency, attract investment, and bargain within the system. I propose that four broadly defined characteristics


15 With regard to the centrally-/locally-driven growth debate, Cai and Treisman (2006) find that decentralization is not responsible for China’s growth, arguing that the three most important of China’s reform era policies (the household responsibility system, special economic zones, and state-owned enterprise reform) were all introduced when China was still highly centralized and were successful because centralization forced rapid local adoption. Central mandates and local initiative need not be mutually exclusive: an “experimentation model,” with local experimentation followed by national adoption, requires both a strong center as well as local initiative (Heilmann 2008).

16 This argument is implicit in Blecher and Shue (1996). See discussion in Chapter Four for a more in-depth explanation of the components of bureaucratic quality.

17 Oi (1999), in her model of “local state corporatism,” describes the County Party Secretary as “akin to a ‘hands-on’ chairman of the board, who sets policy direction, decides development strategy, and makes long-term plans.” Song and He (2003) quote a county mayor telling the mayor of New Haven: “The biggest difference is that you do not seem to manage the economy much. When I was mayor of Shouguang my main effort was on grasping the economy, everything from fiscal growth to enterprise profit, peasant income, private economy, structural adjustments…” (quoted in Guo 2009).
determine their growth-effectiveness: connections (system bargaining as well as relationships, or “guanxi,” with private businesses); creativity (local innovations and entrepreneurialism); control (ensuring cadre compliance and responsiveness); and courage (daring to implement controversial reforms). When leaders have connections, creativity, control, and courage, the counties they lead have achieved economic successes; counties whose leaders do not have these characteristics have fallen behind.

Question #3: Why do County Party Secretaries emphasize particular development priorities?

If leaders differ in their approach to local economic growth, is this dependent simply on random variation in personal characteristics, or are leader actions and policies shaped by institutions? County Party Secretaries decide whether and how to promote growth in order to maximize personal utility. Constrained in the tools they can use, leaders’ solutions to utility maximization will change along with institutional reform and economic development. Leaders both create and are subject to what Tsai (2002, 14-18) calls the “local logics of economic possibility,” and their approaches to local growth and governance depend on evolving economic and fiscal constraints as well as personal incentives provided by cadre management systems. Growth arguments, such as “market-preserving federalism,” which attribute growth in China to local revenue competition, fail to sufficiently explain underlying leader incentives. As per Blanchard and Shleifer (2001), fiscal decentralization and revenue imperatives are insufficient to produce local incentives for growth; without political centralization governments are as likely to have “grabbing hands” as “helping hands.”
Officials in China are upwardly accountable, with little direct downward accountability; therefore, the personnel management system has become the most important institution for explicitly shaping local leader incentives.\textsuperscript{18} The rules of the game for cadre promotions and bonuses have become significantly more institutionalized over the reform period. Performance contracts have identifiable targets, and age limits and term limits are more strictly enforced. Like the fiscal system, cadre promotions and performance contracts vary regionally, and different developmental perspectives at the provincial or even prefectural level can constrain local initiatives.\textsuperscript{19} Yet questions remain regarding what priorities are embedded in the system (direction of control) and how effective the system is (degree of control). In terms of direction, as the performance management literature highlights, performance evaluation systems need to be constructed with an eye towards specific goals; yet at the most basic level a debate remains over whether the rationale behind the system is development or political control, or whether these two goals can exist simultaneously.\textsuperscript{20} Anecdotal and documentary analyses of performance evaluations are inconclusive as to their content. While many seem to

\textsuperscript{18} Downward accountability consists not only of leadership accountability to citizens, but also to lower level officials. While China’s leaders face no direct downward accountability, it can factor in indirectly through performance evaluations. Elections at the village level have introduced responsiveness of village officials, who may now demand more of their county superiors than in the past, as demonstrated by evidence that village elections positively influence local public goods provision. See Martinez-Bravo, et al. (2011).
\textsuperscript{19} Provinces set contracts for county leaders two levels down, which overlap prefectural contracts. Prefectures and provinces are thus both important in setting targets and developmental priorities of counties under their jurisdiction. See Landry (2008).
\textsuperscript{20} As Behn (2003) writes, “‘What gets measured is what gets done’ is, perhaps, the most famous aphorism of performance measurement.” Of course, these need not be mutually exclusive. For the developmental argument, see Zheng (2007). For the political control argument, see Landry (2008).
emphasize measures of GDP growth, others emphasize revenue or social stability, and more recent contracts focus on inclusive growth and welfare.21

Cadres also face incentives outside of the cadre management system. While ideology has decreased in importance, individual wealth may be more important in China’s increasingly capitalist society.22 Privatization in a growing economy has provided more non-official career possibilities for cades who seek to “jump into the sea” of private business (xiahai 下海), and outside opportunities have changed the efficacy of promotion incentives.23 The cadre management system includes bonuses to incentivize growth, but monetary opportunities outside the system, particularly in wealthy regions, are no doubt greater. These personal wealth-generating opportunities can be both legal (“retiring” into a private business) or illegal (corruption).24

However, I hypothesize that personnel management institutions are highly effective at transmitting political and economic priorities down the administrative hierarchy, and that the strength of the cadre management system in providing promotion incentives to county leaders has not declined as the potential benefits to remaining in one locality and “jumping into the sea” (of commerce) have increased. Additionally, I argue

21 The contradictions inherent in trying to emphasize both stability and growth are discussed at length in Chapter Seven.
22 Although communism as an ideology may no longer carry much weight, national pride and Party indoctrination may still play important roles in aligning official incentives with national goals.
23 Montinola, Qian, and Weingast (1995) argue that cadres in advanced regions “no longer care to be promoted to posts in the higher level government…” Similarly, Zhong (2003) finds that most county level officials do not expect promotions, as the system is pyramid shaped, with fewer positions at the top. This is the opposite conclusion of Guo (2007, 382), who finds that cadres have no viable career options outside of the political hierarchy, as “the job market for them in the private sector hardly exists.”
24 For instance, one prosecutor investigating a sensitive local case, speaking about a corrupt County Party Secretary, describes him as “just a businessman; in his hands power is simply a money-making tool (zhuanqian de gongju 赚钱的工具)” (Wang, Liu and Wang 2010).
that the incentives enshrined in the system are not constant across regions; some regions emphasize economic growth, while other regions emphasize stability.

1.3 Explanation of data and methodology

The dissertation incorporates mixed methods to answer these questions, relying on research findings from fieldwork in six bordering counties in northwest Jiangsu and northeast Anhui as well as quantitative analyses based on nation-wide county-level economic and biographical data. The analysis focuses on top leadership (County Party Secretaries) in rural counties and county-level cities, excluding county-level urban districts (shixiaqu 市辖区). Given China’s vast regional differences in geography, culture, and institutions, applying a uniform national model is potentially misleading; this is especially true given that provinces and prefectures establish their own rules for fiscal transfers and criteria for personnel management. In answering these questions, therefore, it is essential to look at regional and provincial differences as well as at county differences, although the county remains the direct unit of analysis.

In selecting provinces, Jiangsu and Anhui are in many ways ideal comparators for county-level analysis. The two provinces have the same number of county-level units (105) and similar numbers of rural counties and county-level cities (58 and 61,

\[25\] As sub-divisions of urban cities, districts have less autonomy than counties and county-level cities, making comparisons difficult. While counties and county-level cities have slightly different administrative responsibilities, they differ predominantly in levels of industrialization and urbanization, making comparison important.
\[26\] Too many analyses attempt to ascribe single causes for China’s local growth. For instance, the market-preserving federalism model assumes uniform local units across China, as do many developmental/entrepreneurial local state arguments. For a critique, see Tsai (2004) and X. Zhang (2006).
respectively), as well as large populations (5th and 8th largest, respectively) densely packed in small areas (24th and 22nd in land area). Border regions in the two provinces have similar geography. Importantly, the two provinces are representative of China’s coastal and central regions. China’s economic regions are clearly defined, and provinces within regions tend to share highly similar economic outcomes. As shown in Figure 1.2 below, the coastal region includes: Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, and Guangdong, and central China includes Shanxi, Anhui, Jiangxi, Hunan, Henan, and Hubei. In 2010, these provinces were home to 59 percent of China’s population and accounted for 68 percent of China’s GDP. Respectively, the coastal region accounted for 48 percent of China’s GDP and 32 percent of the population, while the central region accounted for 20 percent of GDP and 27 percent of the population. With a per capita GDP of 20,749 RMB, Anhui in 2010 was slightly poorer than the central region average (24,123 RMB); with a per capita GDP of 52,642 RMB, Jiangsu was slightly richer than the coastal region average (49,194 RMB). In other words, the coast is approximately twice as wealthy as the center, and Jiangsu and Anhui are representative of this divergence.

27 Several studies have highlighted systematic differences between central and coastal provinces in terms of fiscal capacity and economic outcomes. See, for example, C. Fan (1997), Wei, Liu, et al. (1997), Wei, Wang, and Bai (2013).
28 Hainan and Hebei are borderline cases that are often included in coastal China, but both are much more similar to central China in terms of per capita wealth and levels of economic development. For instance, while no other coastal province has per capita GDP under 40,000 RMB, Hebei per capita GDP is only 28,351 RMB, and in Hainan is only 23,770 RMB, much closer to the central region average of 24,123 RMB. In the analyses in this dissertation I exclude them from both regions, focusing instead on the core coastal and central regions of provinces with similar characteristics.
29 In recent years, Anhui has grown slightly faster than Jiangsu, but in 2013 Jiangsu’s per capita GDP (74,607 RMB) remained 2.4 times greater than Anhui’s (31,684 RMB).
Although Jiangsu is much richer than Anhui overall, the wide variance in sub-provincial county income means that there are many counties with similar per capita income and similar levels of industrialization. In 1995, counties in southern Jiangsu were already comparatively rich, but income in northern Jiangsu and Anhui was similarly distributed, as seen in the upper panel of Figure 1.3. However, the provinces diverged over the past two decades. By 2010, every one of the poorest category counties (of the eight divisions determined by Jenks optimization) was in Anhui. And while per capita growth and investment have consistently been above the national mean in Jiangsu, they have consistently been below the national mean in Anhui, although Anhui has closed the investment gap in recent years (Figure 1.4).
Figure 1.3. Jiangsu and Anhui county income distribution, 1995 and 2010

Note: Cut-off values are calculated using Jenks (natural breaks) optimization method, which minimizes the average deviation from the category mean while maximizing each category’s deviation from other category means, seeking to minimize within-category variation and maximize between-category variation.
1.3.1 *Fieldwork and county case selection*

Within these two provinces, fieldwork focused on six neighboring counties in northeastern Anhui and northwestern Jiangsu. Random sampling of the counties is not ideal for selecting a small sample from a large population; such a strategy can produce a sample that does not represent the population (Seawright and Gerring 2008). Purposive selection becomes necessary, and it is key to find not only a representative sample, but a

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30 In addition to interviews in these six counties, I conducted additional shorter-term fieldwork and interviews in neighboring counties as well as the prefecture-level cities administratively above these counties, in addition to interviews in Nanjing and Beijing.
sample with useful variation across the dimensions of interest. The counties selected are “typical” within their province but also “most similar” (or matched) to the neighboring counties from the other province across dimensions of geography, shared history, and initial conditions at the start of the analysis in the mid-1990s. All six counties are located along the shared provincial border. Historically, Mingguang City in Anhui and Xuyi County in Jiangsu were a unified single county (Xujia County) under Anhui jurisdiction. Similarly, Sihong County in Jiangsu was formerly under Anhui jurisdiction. All six counties have similar climates, dominated by plains and surrounded by water. The geographic location of the six counties is shown in Figure 1.5.

**Figure 1.5. Sample counties in Anhui (orange) and Jiangsu (blue)**

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31 Seawright and Gerring (2008) divide potential case study selection strategies into seven types: typical, diverse, extreme, deviant, influential, most similar, most different. For large N analysis, “typical” case study selection is based on residual minimization; “most similar” is based on matching.
### Table 1.1. Case county statistics versus provincial county averages, 2010 (except where noted)

<table>
<thead>
<tr>
<th></th>
<th>Jiangsu</th>
<th>Anhui</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Xuyi</td>
<td>Sihong</td>
</tr>
<tr>
<td><strong>Area (sq. km.)</strong></td>
<td>2493</td>
<td>2731</td>
</tr>
<tr>
<td><strong>Population (1000)</strong></td>
<td>659</td>
<td>909</td>
</tr>
<tr>
<td><strong>Urban population, %</strong></td>
<td>43.8</td>
<td>41.4</td>
</tr>
<tr>
<td><strong>Per capita GDP, RMB (1994)</strong></td>
<td>2168</td>
<td>2235</td>
</tr>
<tr>
<td><strong>Per capita GDP, RMB (2010)</strong></td>
<td>20,032</td>
<td>17,797</td>
</tr>
<tr>
<td><strong>Real GDP growth, 1994-2010 (CAGR)</strong></td>
<td>12.7</td>
<td>11.4</td>
</tr>
<tr>
<td><strong>Revenue share of GDP, %</strong></td>
<td>9.0</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>Expenditure share of GDP, %</strong></td>
<td>14.6</td>
<td>16.4</td>
</tr>
<tr>
<td><strong>Primary sector share of GDP, %</strong></td>
<td>19.6</td>
<td>22.8</td>
</tr>
<tr>
<td><strong>FAI share of GDP, % (2006-2010 avg.)</strong></td>
<td>111.9</td>
<td>81.9</td>
</tr>
</tbody>
</table>
By selecting northwest Jiangsu counties and eastern Anhui counties, counties were matched across initial wealth, geography, and history, with variation coming from provincial institutions and local initiative, enabling an examination of how provincial institutions lead to variation in the dependent variable, economic growth over 1994-2010. Looking at the data presented in Table 1.1 (or finding the counties in Figure 1.3 above), it is clear that in the mid-1990s, the three Anhui counties were on average wealthier than their Jiangsu counterparts. But by 2010, the Jiangsu counties were all much more economically successful. This is similar to the larger story of Jiangsu and Anhui. Both sets of counties have grown at or near their respective provincial averages over 1994-2010, although this growth rate has been lower in Anhui counties (9.2 percent) than Jiangsu counties (12.5 percent). Across many of the categories presented in Table 1.1, the Anhui counties match the provincial average, while the Jiangsu case counties are less developed than the provincial average (less urban, more agricultural, less wealthy), but similar to the average for northern Jiangsu. In other words, these counties are not outliers, and are in fact fairly representative of their provinces (or, in the Jiangsu case, representative of a region within the province). While many counties in Anhui and Jiangsu could have been selected to match initial wealth, the geographic proximity of these six counties helps to allay concerns of divergent geographic, historical, and cultural influences.

Fieldwork consisted of six months of fact-finding interviews from October-December 2012 and April-June 2013. In addition to interviews with local officials and citizens, case study analysis also benefited from the collection of local documents and media related to finance, local economic conditions, and government work plans.
Interviews with think tanks, professors, and research institutes in Nanjing (Jiangsu), Bengbu (Anhui), and Beijing helped provide greater context and theory. In the case counties, interviews were predominantly ethnographic in approach rather than journalistic, “soaking and poking” rather than targeting pointed questions. All interviews were conducted in Chinese (local dialects in the case counties are mutually intelligible with standard Mandarin, or *putonghua* 普通话). A total of 97 interviews/conversations were conducted: 55 with government officials, 33 with private sector investors and businesses, and 9 with academics and think tank researchers. These interviews were complemented by numerous informal conversations with local citizens. Interviews consisted of both formal open-ended interviews and more informal conversations, including many held during meals. Most of the 55 government interviews were conducted with officials in economic or industrial bureaus: finance, taxation, investment promotion, industry, and urban management. Others were conducted with finance- and investment-related officials within functional bureaus (e.g., culture, transportation). The interviews were predominantly held with county officials, although I also interviewed a handful of township and village leaders. In terms of level of access, I interviewed many bureau chiefs, but no Party Secretaries themselves (a Deputy Magistrate and a Deputy Party Secretary were the highest positions with whom I interacted). Problems arising from a lack of direct access to County Party Secretaries were mitigated by access to local documents and local media, including speeches and

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32 As described by Leech (2002, 665): “The journalistic style tries to verbally pin the respondent down by appearing to know everything already. The questions are direct and directed toward a particular outcome. The ethnographic style of interviewing instead tries to enter the world of the respondent by appearing to know very little.”
interviews using the County Party Secretaries’ own voices. Due to the sensitivity of many interviews, all are coded and assigned randomly generated values between 101 and 299, which are reported along with the province, Jiangsu (JS), Anhui (AH), or Beijing (BJ), for example JS146 or AH279.

1.3.2 Data used in quantitative analyses

Quantitative analysis at both the national and regional level depends on five sets of county-level data: general economic data, detailed fiscal data, census data, geographic data, and county leadership biographies. The extent of these data is unique. At the national level, basic economic data come from annual editions of the *China County-Level Socio-Economic Data Yearbook* 《中国县(市)社会经济统计概况》. These data, over the years 1996-2010, have been compiled for easy download by the China Data Center at the University of Michigan. County-level economic data for Jiangsu and Anhui come from annual editions of provincial statistical yearbooks, with data for 1993, 1994, and 1995, as well as data on fixed asset investment, sourced from annual editions of the Anhui Almanac, Jiangsu Almanac, Anhui Statistical Yearbook, and Jiangsu Statistical Yearbook. Except where noted, all economic data are deflated using provincial GDP deflators from annual editions of the China Statistical Yearbook, and quantities are presented in 2000 constant renminbi (RMB). Provincial petitions (xinfang信访) data used in Chapter Seven are found in annual editions of provincial yearbooks over 1990-2010.

Fiscal data comes from editions of the *National Local Public Finance Data* 《全国地市县财政统计资料》, and includes detailed revenue, expenditure, and fiscal
transfer data for every county-level administrative unit in China. This volume is published annually, but only in hard copy. For this reason, relatively few economic analyses have made use of the full data.\textsuperscript{33} These data are not centralized and rationalized for easy use (it requires manual entry), and are limited to Jiangsu and Anhui over 1995-2007 (the 2008-2009 yearbooks have been released, but they have very limited data categories, and more recent yearbooks had not been released as of 2013).

Census and geographic data come from the \textit{China Fifth Population Census Data} (《中国2000年第五次县级人口普查数据》). The census data for 1982, 1990, 2000, and 2010 includes detailed population and employment data for all counties in China. The matched geographic data include county land area, as well as county distance from economic centers, from borders, and from the coast. The data are available on CD and are easily manipulated using ArcGIS software.

Finally, and most importantly, biographical data cover all counties and county-level cities in Jiangsu and Anhui over 1994-2010, sourced from a combination of online databases, national, provincial, prefecture/city, and county almanacs (\textit{nianjian} 年鉴) and statistical yearbooks (\textit{tongji nianjian} 统计年鉴), in addition to comprehensive internet searches using both Baidu and Google.\textsuperscript{34} In addition, for 22 provinces in China (all provinces excluding autonomous regions and province-level municipalities), basic data consisting of the names and tenures of county leaders (Party Secretaries and Magistrates) have been collected.

\textsuperscript{33} Zhang and Shih (2008) and X. Zhang (2006) include multiple years of analysis based on the full data.\textsuperscript{34} I also acknowledge the generosity of Dr. Bo Zhiyue for allowing me to check my own promotion codings against his database of Jiangsu leader promotions, which was particularly helpful for early years in the sample.
have been compiled based on annual provincial yearbooks.\textsuperscript{35} The year 1994 is selected as a starting point because of the fiscal and administrative reforms of the early 1990s. Insufficient data are available pre-1994 to enable a comparison of these two broadly defined reform era periods, so starting in 1994 maximizes the time period over which we would expect to observe a relatively stable tournament promotion system. In total, the Jiangsu and Anhui database consists of 2023 county-year observations of County Party Secretaries between 1994 and 2010. This covers every available county-year for which economic data exist.\textsuperscript{36} Biographical data include age, gender, ethnicity, year of party entry, hometown, education, previous employment experience, and subsequent employment. Descriptive statistics are shown in Table 1.2. Overall, there are 637 uniquely matched county and County Party Secretary observations, 286 in Jiangsu across 58 counties, and 351 in Anhui across 61 counties. Note that these are not unique leader observations, as Jiangsu has 13 Party Secretaries who serve in multiple counties during the sample and Anhui has 18. While every county-year has a leadership observation, biographical observations are less complete; for instance, data on subsequent positions exist for 94 percent of the sample, but data on hometown and education are only available for 64 percent. Given that more successful cadres are more likely to have their biographies available online, this missing data will have a bias towards less successful leaders.

\textsuperscript{35} This national tenure and turnover data was compiled in collaboration with Dr. Monica Martinez-Bravo with help from research assistants at Johns Hopkins SAIS. Additional data on prefecture-level leaders for the gaopei analysis in Chapter Six come from Jiangsu and Anhui prefecture/city yearbooks.

\textsuperscript{36} In the cases when a county or county-level city became a county-level district over the sample period (1994-2010), I only include the observations prior to the administrative reclassification.
Table 1.2. Biographical summary statistics

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Anhui</th>
<th>Jiangsu</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observations (Mean, Std.Dev.)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unique County - Year</strong></td>
<td>2023</td>
<td>1037</td>
<td>986</td>
</tr>
<tr>
<td><strong>Unique County - County Party Secretary</strong></td>
<td>637</td>
<td>351</td>
<td>286</td>
</tr>
<tr>
<td><strong>Unique County Party Secretary</strong></td>
<td>606</td>
<td>333</td>
<td>273</td>
</tr>
<tr>
<td>Gender (0=Male, 1=Female)</td>
<td>471 (0.03, 0.16)</td>
<td>239 (0.03, 0.16)</td>
<td>232 (0.03, 0.17)</td>
</tr>
<tr>
<td>Age</td>
<td>446 (47.2, 4.2)</td>
<td>225 (46.2, 3.9)</td>
<td>221 (48.2, 4.2)</td>
</tr>
<tr>
<td>Master's Degree (1=yes)</td>
<td>405 (0.44, 0.50)</td>
<td>197 (0.36, 0.48)</td>
<td>208 (0.51, 0.50)</td>
</tr>
<tr>
<td>Home Province (1=same as employment)</td>
<td>407 (0.90, 0.30)</td>
<td>197 (0.89, 0.32)</td>
<td>210 (0.91, 0.28)</td>
</tr>
<tr>
<td>Home Prefecture (1=same as employment)</td>
<td>407 (0.58, 0.49)</td>
<td>197 (0.48, 0.50)</td>
<td>210 (0.67, 0.47)</td>
</tr>
<tr>
<td>Home County (1=same as employment)</td>
<td>365 (0.09, 0.28)</td>
<td>183 (0.04, 0.19)</td>
<td>182 (0.14, 0.35)</td>
</tr>
<tr>
<td>Previous Post</td>
<td>522</td>
<td>281</td>
<td>241</td>
</tr>
<tr>
<td>Subsequent Post</td>
<td>598</td>
<td>313</td>
<td>285</td>
</tr>
</tbody>
</table>

Note: Biographical data observations are listed per unique county-leaders only.
a. Several Party Secretaries serve in multiple counties.
To my knowledge, no other research has used similarly detailed and complete county-level economic and biographical data. National county name data has only been used by Guo (2007; 2009), and this was over a shorter period. In addition to the longer time coverage, this dataset improves on Guo (2007) in two important ways. First, and most importantly, the inclusion of biographical information rather than just office-holder name allows for the inclusion of a more robust set of control variables and more detailed information on employment history and promotion results. Second, the provincial almanac name lists tend to record office-holders as of December 31st of the previous year. The natural standard is to assume that the leader in the year $t$ yearbook served in year $t-1$. Yet given turnover dates distributed throughout the year, this rule misidentifies leaders in nearly half of all cases. The data here consider a leader-year observation as one in which a leader serves for over half the year. In the case where no leader serves for over half a year (e.g., one Party Secretary is replaced in May and his successor does not take office until August), the year is “given” to the Party Secretary who spends more time in office.

1.3.3 Framework for analysis

Individual chapters outline specific methodologies, but it is useful to outline a basic framework in which to consider both the quantitative and qualitative approaches. Consider a vector of actions, $a_{lt}$, consisting of policies and tools that a leader, $l$, selects or

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38 Party Secretary terms are most likely to start in November-April (66 percent), corresponding with national and provincial Party and People’s Congresses. Over 43 percent begin their terms in the second half of the year, and 15 percent begin their terms in December.
influences. Local growth in county \( c \) in time \( t \), \( g_{ct} \), will depend on the local actions/tools selected, given the institutional environment and general economic environment in the specific county and province, \( p: \) \text{inst}_{cpt} \ and \text{econ}_{cpt}, \ respectively, as well as the personal characteristics and ability of the local leader, \( \text{abil}_{lct} \):

\[
g_{ct}(a_{lct} | \text{inst}_{cpt}, \text{econ}_{cpt}, \text{abil}_{lct}) \quad (1.1)
\]

Leaders will select actions that maximize their individual utility, \( U_{lt} \), subject to a set of feasibility constraints, \( \chi_{cplt} \), that depend on the economic and institutional environment as well as their individual ability:

\[
\max_{a_{lct}} U_{lt}(a_{lct} | \text{inst}_{cpt}, \text{econ}_{cpt}, \text{abil}_{lct}) \quad (1.2)
\]

\[\text{s. t. } a_t \in \chi_{cplt}(\text{inst}_{cpt}, \text{econ}_{cpt}, \text{abil}_{lct})\]

In considering this framework, the subscripts are key for determining the level of variation in constraints, incentives, and outcomes. For instance, consider the first and second questions asked in the dissertation with respect to Equation 1.1, which looks at the relationship between selected developmental strategies and local growth outcomes. The actions determining growth outcomes, \( a_{lct} \), will differ by leader, county, and time. The constraints determining these actions differ across these variables as well as across provinces. For Question #1, the policy vector is taken as given and assumed to vary by leader. Question #2 more clearly deconstructs the policy vector and how leaders select this vector, and also analyzes the constraining condition in the utility function in Equation
1.2. Question #3 looks specifically at the utility function in Equation 1.2, i.e., the incentives leaders face to choose particular growth tools. For all three of these questions, the provincial variation of the economic environment, $\text{econ}_{\text{cpt}}$, is largely assumed, and in the quantitative analyses is subsumed in county or provincial fixed effects. In Equation 1.1, the institutional environment is endogenous to leader developmental strategies; leaders operate within institutional constraints that shape their decisions, but also shape the governance approaches of local bureaucracies through control over local personnel management. In Equation 1.2, the cadre management system forms the institutional environment that I analyze, with the rest of the institutional environment largely taken as given.

The first part of the dissertation (Chapters 3-5) looks at how counties grow and how leaders influence county growth priorities. Quantitative analyses and case studies help to uncover the conditions that determine county economic growth and how these conditions have changed from the mid-1990s to 2010. This includes a basic growth accounting exercise to identify the relative contributions of labor, capital, and total factor productivity, as well as regressions to uncover which tools have been most effective at generating growth over time and across regions. In-depth analysis of growth conditions in the sample counties highlights changing growth outcomes and policies. Following from these analyses, cases help identify how different components of local governance affect growth outcomes at the county level by improving local investment environments. Interviews with local investors and businesses helped uncover important criteria in investment decisions vis-à-vis governance as well as different approaches in the six case counties.
Studying leadership effects again uses both quantitative and qualitative approaches. Three general approaches help elucidate the role of county leaders in local economic development: leader personal rhetoric, stories and analysis of primary sources, and reported outcomes correlated with a leader’s tenure in office. Individually, all of these sources are incomplete, but together they provide a complementary picture of leader roles in local development. Fieldwork focused on how county leaders influence growth paths, attempting to follow in the tradition of Blecher and Shue (1996), Walder (1998), Oi (1999), and Whiting (2000). Particular attention was paid to county bureaus expressly involved in growth, investment, and industry to see how individual leaders set growth strategies and priorities. Media interviews, self-penned articles/books, and government speeches provide the main sources for exploring the rhetoric of leaders themselves. Reliance on rhetoric can be problematic, especially in terms of identification of priorities; for instance, every leader discusses the importance of boosting economic growth. Comments, stories, and analysis from interviews and primary sources regarding leadership roles complement leader rhetoric. Economic and

39 These primary sources have a general tendency towards platitudes and highly-generalized development trajectories and targets. The slight exception in terms of candid commentary comes from comments made after the leader has moved on (promotion, retirement, or, especially, interviews and court documents following corruption cases, when they have nothing left to lose). Nevertheless, the catchphrases coined in annual Party and government work reports often serve as the basis for internal targets and evaluations, and they also indicate changes in general development strategy. Face-to-face interviews, particularly with lower-level cadres who are guaranteed anonymity, tend to result in much more candid assessments of local economics and politics.

40 This sound bite from Wuhe County Party Secretary Hu Qiwang (胡启望) is typical: “We need to soberly realize, a small economy remains Wuhe’s biggest reality, an undeveloped economy is Wuhe’s most important county situation, speeding up development and seeking investment from beginning to end are Wuhe’s main goals and most pressing assignments” (Hu 2012).

41 These perceptions are very important, but they also suffer from shortcomings and are difficult to generalize. Media reports tend to bias towards positive coverage – concurrent media reports tend to extol local leader contributions while ignoring or minimizing failures. Post facto reports, particularly about corrupt leaders, can be quite negative. Similarly, relying on the perceptions and memories of interviewees
institutional outcomes support (or refute) the conclusions and rhetoric provided by those on the ground. Regressions on county and leader fixed effects take advantage of “crossover” leaders to identify leader systematic effects on growth.\textsuperscript{42}

The second part of the dissertation explores why leaders prioritize particular development paths and policies. Quantitative analysis uncovers promotion criteria for County Party Secretaries and identifies how these criteria differ across provinces and regions, comparing the results to promotion criteria in the individual case counties. The basic quantitative specification uses promotion outcomes as the dependent variable and GDP growth as the key independent variable: in other words, is growth correlated with future promotion? Looking at stability as a criterion for promotion is more difficult, as no publicly available statistic is available for cross-county comparison. The case county interviews help identify a general trend, and quantitative analyses of leader biographies, county fiscal priorities, and government institutional innovations provide corroborating evidence.

1.4 Outline of the dissertation

Ask a Jiangsu county-level official why neighboring counties in Anhui have failed to develop, and nine times out of ten you’ll receive the same answer: “they’re contains human bias. Several times an interviewee would condemn (or praise) a leader from several years earlier as having a terrible (or great) impact on some aspect of the local economy, only to have the data from the time contradict the account – data can be unreliable, but they may be as reliable as decade-old memories.\textsuperscript{42} Anecdotal accounts have answered this question in the affirmative, but no analysis has been conducted quantitatively at the county level, likely as a result of data availability. The closest analysis is Yao and Zhang (2012), who find that prefectural leaders are important for growth. Feng, et al. (2012) find mixed results for leadership transition effects on expenditure composition at the provincial level.
backwards” (tamen de suzhi luohou 他们的素质落后). In other words, assertions of cultural determinacy are made boldly and flippantly, representing an apparent long-term historical stereotype. Yet there are no ethnic or religious differences between these bordering counties, and cross-border migration is common and unimpeded. Indeed, in the late 1990s, local interviews in Southern Jiangsu pointed to culture as a major reason for Northern Jiangsu’s developmental challenge, in particular a “Central Plains stereotype” of a simple, satisfied people lacking drive (B. J. Jacobs 1999). As Northern Jiangsu has developed, the stereotype has slowly disappeared. However, while observed “cultural differences” seem to be a perceived consequence of economic development rather than a determinant of this development, “cadre culture” and local governance do differ in growth-affecting ways across the two provinces. Provincial institutions have interacted with local conditions to alter local institutional cultures. Cadres interact with each other, with businesses, and with local citizenry in ways that have been largely shaped by these provincial institutions. I argue that this behavior is a direct consequence of central policies that work their way down the administrative hierarchy in oft-unanticipated ways. The consequent corruption and low-growth economic environments result not from a lack of upward accountability and control, but rather from high levels of upward accountability with inconsistent objectives and no local oversight in the form of downward accountability.

The dissertation proceeds as follows. Chapter Two discusses previous literature in the field, with particular attention to analyses of local growth and decentralization as well as studies of official promotion incentives. The chapter highlights several contradictions and gaps that the dissertation will address. Chapter Three analyzes county
growth variance and provides evidence on the correlates of growth at the county level, demonstrating the importance of provincial policies and institutions. A discussion of China’s evolving factor markets, particularly for land and labor, demonstrates the developmental trajectory of China’s county growth over the reform era: from TVE-based rural industrial growth in the 1980s to city-led growth in the 1990s, followed by robust county development based on investment attraction over the past decade. Growth accounting exercises and growth regressions identify correlates of growth and support this general story. Chapter Four then argues that much of the variation in economic outcomes across counties can be explained by local governance. Government effectiveness determines the attractiveness of a region for mobile capital, and government approaches to private capital help boost productivity. Quantitative analysis highlights the relationship between government effectiveness and growth, while case studies highlight the pro-growth nature of combating government failures (corruption and excessive fees) and correcting market failures through proactive state-business relations.

Chapter Five turns to the individual: China’s County Party Secretaries are given high degrees of formal and informal power and autonomy, extending from cadre management to direct economic intervention. After demonstrating that County Party Secretaries have systematic growth effects, the chapter looks at cases from the six sample counties to generate a framework through which local leaders affect local economic outcomes, finding that the most important local leader characteristics are connections, creativity, courage, and control. Chapter Six looks at promotion incentives, finding that in Jiangsu and coastal counties more broadly, county leaders are promoted based on economic growth, while in Anhui and central provinces they are not. Moreover, growth
itself is based on leader initiative rather than patron ties, implying that in China’s coastal areas, a “tournament promotion hypothesis” holds, meaning that yardstick competition of local leaders based on economic outcomes helps to explain rapid economic growth.

Finally, Chapter Seven analyzes this dichotomous regional approach to promotions, providing further evidence that counties in Anhui and central provinces more broadly emphasize stability maintenance over economic development. This surprising phenomenon can be explained by the developmental interaction and contradiction between the central Party-state’s dual objectives of stability and growth. The dissertation concludes by discussing the implications and importance of this research.
2 Literature review

“...the question is not really whether the role of local government has been large; the question is why and how local governments have played the role that they have...” – Walder (1998).

China’s economic success in recent decades presents a quandary. Local governments have intervened frequently in local economies, with rampant opportunities for rent-seeking, corruption, and inefficient obstruction of markets. Within local governments, Party Secretaries wield unchecked authoritarian control and have little, if any, downward accountability. Despite this, the “helping hands” of many local governments have enabled sustained double-digit GDP growth for over three decades. When local leaders have positive impacts on local development, why does this happen? And why, in many more “backward” areas, have leaders not performed similar roles? This dissertation seeks to answer these questions by exploring how promotion incentives interact with county leader roles and county-level pro-growth governance to produce divergent economic outcomes across China’s provinces. Focusing on the relationship between county leader personal incentives, individual economic roles, and local economic outcomes necessitates a familiarity with several sub-fields of the political science and economics literature, with essential contributions from empirical, methodological, theoretical, and China area studies perspectives. This chapter highlights existing literature and demonstrates the gaps that my own research fills. Particular attention is paid to how existing literature has come to contradictory conclusions regarding the following questions:
1. How has economic decentralization enabled the rise of “local developmental states,” and how much of China’s economic success should be attributed to local governments and local leaders versus simply pro-market reforms?

2. How has fiscal decentralization spurred interjurisdictional competition and pro-market behavior of local governments, and is this a sufficient explanation for growth?

3. To what degree are promotion incentives effective for ensuring local compliance with upper-level government objectives, and on what criteria do evaluations focus?

In approaching these questions, I take an institutional perspective, building off ideas and concepts from New Institutional Economics (NIE) and rational-choice new institutionalism. I assume a broad definition of institutions, following North (1990) to define institutions as “the rules of the game in a society” and “the humanly devised constraints that shape human interaction.” These institutions can be formal rules or informal conventions and codes of behavior, and they can be exogenously created or evolve endogenously. In the context of this dissertation, the personnel management system is an institution, and it is important to tease apart the relative importance of formal rules within the system and more informal conventions.

New Institutional Economics (NIE) has facilitated an examination of the institutional foundations of economic outcomes, treating the state and governance as variables rather than idealized assumptions. NIE “abandons the standard neoclassical assumptions that individuals have perfect information and unbounded rationality and that

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43 The ideas underlying NIE date back to Coase (1937). Williamson (1975) coined the phrase “new institutional economics” to differentiate it from “old institutional economics.”
transactions are costless and instantaneous… For new institutionalists the performance of a market economy depends upon the formal and informal institutions and modes of organization that facilitate private transactions and cooperative behavior” (Menard and Shirley 2008). Political institutions can reduce transactions costs, for example through enforcement of contracts and property rights (North 1997, 150); but states can also increase transactions costs, for example by violating these property rights and contracts. NIE does not assume either a benevolent government or an autocratic leviathan, but instead seeks to understand how states with enough strength and capacity to reduce transaction costs and promote growth can limit themselves from acting predatorily and abusing their authority (Weingast 1993).44

In political science, new institutionalism enabled a disaggregation of the state to look at actor incentives, and particularly how these incentives can create government pathologies. Political science new institutionalism comes in two general schools: historical institutionalism and rational-choice.45 The basic premise of these schools is that institutions structure behavior; institutions are rules, and politics does not exist without them. An important feature of rational choice new institutionalism is that actors

44 Recently, several co-authored books have looked at institutional and political foundations of long-term growth. North, Wallis, and Weingast (2009) distinguish between “natural states” that create and extract rents, and “open access” states that are vulnerable to entry and thus embrace public interests; these latter states develop and prosper, while natural states trend towards violence. Similarly, Acemoglu and Robinson (2012) distinguish between “extractive” and “inclusive” institutions, with the first resulting in exploitative, low growth, violence-prone vicious circles, and the latter resulting in pro-development virtuous circles. In both of these approaches, the idea of vicious circles of low institutional quality and low growth contrast with virtuous circles of high institutional quality and high growth.

45 Hall and Taylor (1996, 944-945) identify and discuss “notable features” of the rational choice new institutionalism approach including characteristic sets of behavioral assumptions (“relevant actors have a fixed set of preferences or tastes…behave entirely instrumentally so as to maximize the attainment of these preferences, and do so in a highly strategic manner that presumes extensive calculation”). Early applications were used to explain U.S. Congressional relations with committees and agencies. See Milgrom and Roberts (1992) and Pratt and Zeckhauser (1991).
behave in a calculative way so as to maximize attainment of their preferences, and the institutions in which they operate shape these calculations. A topic of central concern to rational-choice institutionalists is the principal-agent problem, which is integral to the analysis in this dissertation and more broadly to analyses of central-local relations in China and elsewhere. The basic “problem” lies in identifying how principals can ensure compliance by agents given asymmetric information that tends to favor agents and results in the potential for shirking behavior. Contracts and other incentive structures help principals control agents without the need for excessive monitoring. In the context of this dissertation, personnel management institutions are important for providing incentives to County Party Secretaries. But while institutions provide a structure that incentivizes and constrains agents, “bounded-rational” agents still make decisions based on personal considerations and personal psychology – in other words, agency matters and institutions are not wholly determinan.

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46 This “calculus approach” is distinguished from a “cultural approach” that emphasizes behavior bounded by actor worldview, focused on routines or patterns of behavior to “satisfice” rather than maximize utility (Hall and Taylor 1996). Rational choice theorists have often analyzed collective decision-making in a democracy, but there is still considerable relevance to upwardly-accountable nested autocratic hierarchies, in particular with regard to rent-seeking (Bhagwati 1982; Krueger 1974), rent extraction (McChesney 1987), and bureaucratic behavior (Tullock 1965; Downs 1967). Oi (1999) brings this political new institutionalism to the China context, arguing that “the new institutionalism…allows the analyst to disaggregate the state and examine how incentives for individuals embedded in the state apparatus vary, depending on the particular institutional context and level of administration.”

47 Principal-agent approaches have been applied to many realms. In its original conception, the principal is a company shareholder who contracts a firm manager. Other approaches focus on landlord-tenant relationships, bureaucratic delegation, insurers and the insured, etc. For a discussion of the development of the principal-agent model as part of the new economics of organization, as well as its applicability to public bureaucracies, see Moe (1984). For early applications of the principal-agent model to Chinese political actors, see Rozelle (1994); Huang (1996); Oi (1999).

48 An institutionalist perspective does not deny the important role of leadership. Broad national and provincial institutions, particularly those related to cadre management and promotions, provide a framework that determines how leaders act. Local institutions are partially determined by immutable factors and by upper-level institutions, but they are also seen as malleable and influenced by local leadership initiative – these institutions largely determine local growth outcomes. In other words,
An institutionalist and principal-agent approach necessitates focusing considerable attention on hierarchical relationships while analyzing the constraints, incentives, and capabilities of local states and local actors. China’s expanding and contracting degrees of economic, fiscal, and political/administrative centralization have shaped the relevant institutional environment.\textsuperscript{49} In the reform era, economic decentralization gave local governments the autonomy to intervene in local economies; fiscal decentralization allowed them to keep the gains from economic growth; and political centralization enabled central (principal) hierarchical control over localities (agents) through the personnel management system. Much of the literature related to local governments, local leaders, and growth in China focuses on degrees of decentralization across economic, fiscal, administrative, and political realms, and much of the discussion that follows focuses on these forms of decentralization: the “local developmental state” literature depends on the local autonomy provided by economic decentralization; “market-preserving federalism” argues that fiscal decentralization provides incentives for local pro-market growth; and theories of control through personnel management institutions require administrative and political centralization. The discussion that follows looks at these in turn.

\textsuperscript{49} For a discussion of different types of decentralization, see UNDP (1999).
2.1 Economic decentralization and the developmental state literature

A key theme of the reform-initiating 11th Central Committee Third Plenum in 1978 was to devolve economic power to localities. According to the Plenum Communique:

“…one of the serious shortcomings in the structure of economic management in our country is the over-concentration of authority, and it is necessary boldly to shift it under guidance from the leadership to lower levels so that the local authorities and industrial and agricultural enterprises will have greater power of decision in management under the guidance of unified state planning” (Hook, Wilson and Yahuda 1979, 169).

Following the Plenum, local economies grew rapidly. Improvements in agricultural productivity gave way to rapid growth of local industry, particularly in township and village enterprises (TVEs). In analyzing the roots of this industrial explosion, there is a debate on the role of local governments: was growth a peasant-led bottom-up movement, a top-down movement, or a local government movement?51

A conventional view sees growth as a market-driven process resulting from a unidirectional relaxation and removal of government controls and intervention, initiated by the central government. In this market-fundamentalist approach, forces unleashed by the removal of restrictions/barriers spurred the economy. This orthodoxy comes in

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50 Many in-depth accounts of this growth experience have been written. See, for instance, Bramall (2006).
51 Xia (2000) distinguishes between three interpretative approaches to the role of local governments in China’s development: “revolution from above”; grassroots revolution (Wenzhou model, Sunan model, spontaneous and bottom-up development); and provincial governments and regions creating incentives for local developmentalism.
52 For a review of the debate on China’s economic success as dependent on non-capitalist institutions versus fundamental market reforms, see Y.-S. Wu (2002) and W.T. Woo (1999), as well as Wu’s response (Y.-S. Wu 2003).
53 This view was perhaps exemplified when a scholar of the Chinese economy at a recent academic presentation asked the audience to name the individual most responsible for China’s high rates of growth beginning in the 1980s. After waiting patiently through a chorus of “Deng Xiaoping” with sporadic (and bolder) harmonies on “Wan Li” and “Hu Yaobang,” the presenter turned with a smile to a PowerPoint portrait of Mao Zedong. In other words, Mao strangled the natural growth of the Chinese economy; once
different forms, from the neoclassical market reforms perspective of Pei (1994) and Steinfeld (1998) to a structural reform and factor accumulation perspective that minimizes the role of government reforms, including Krugman (1994) and Young (2003), as well as to the peasant-led revolution idea of K. X. Zhou (1996). But the predominant viewpoint in this telling is that national reforms initiated and led by the central government released market forces throughout China, enabling the growth of private enterprise, both domestic and foreign. For example, Cai and Treisman (2006) argue that the three most important of China’s reform era policies (the household responsibility system, special economic zones, and state-owned enterprise reform) were all introduced when China was still highly centralized and were successful because centralization forced rapid local adoption. This school minimizes the importance of economic decentralization for creating growth, emphasizing instead central reform initiatives and relaxation of interventionist policies. Variation in outcomes can be explained by initial conditions and geography as well as local ability to effectively lower barriers to market conditions once allowed to or forced to by the center.

These views contrast with a “local developmental state” perspective that highlights the effects of economic decentralization and attributes rapid economic

his erroneous policies were removed, China rapidly made up for lost time and trended back to its potential growth rate.

54 K. X. Zhou (1996) argues that China’s development has been a consequence of rural farmers operating outside the system: cadres have been impediments to progress, not instigators of progress.

55 “The driving force behind reform…was not pressures from or initiatives of autonomous local officials but competition at the center between rival factions with different ideological predispositions and local connections” (Cai and Treisman 2006). As they argue, major reforms came as a result of vertically-structured reform factions: most reforms began in provinces with Deng supporters (Wan Li in Anhui, Zhao Ziyang in Sichuan, Yang Shangkun in Guangdong) and spread to provinces where Deng had allies.

56 For instance, Dickson (2008) argues that allowing private entrepreneurs into the CCP was a top-down strategy to co-opt an increasingly wealthy segment of society.
development to the pro-growth and pro-market orientation of local governments from the village to the provincial level. This viewpoint takes as a starting point the high levels of economic autonomy granted to local governments as a result of decentralizing reforms. This autonomy gave rise to “independent kingdoms” that took responsibility for local development through initiative and experimentation. This decentralization-focused idea does not overlook the importance of centrally-led reform initiatives, but instead argues that it is local government interventions in local economies that have helped produce aggregate growth, with major reforms resulting from local initiative and local experimentation.

In some ways, local officials and local entrepreneurs collaborated against directives of higher level cadres, developing informal institutions and coping strategies that the center eventually grew to support.

It is unclear if China itself is a developmental state, or whether its local governments can themselves be considered developmental states. There are several different views about what constitutes a developmental state. Chalmers Johnson famously divided economies into three types based on the degree of state intervention in production: command, developmental, and market economies (Johnson 1982). Woo-

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57 This is a broad view of what constitutes a “local developmental state”; many of the authors cited here would not personally subscribe to such a definition.

58 Shen and Dai (1992) refer to “dukedom kingdoms”: “Chinese economic circles now describe the result of increase of local power since the reform as a new economic phenomenon-the appearance of ‘dukedom economies.’ That is, the thirty provinces, centrally administered cities, and autonomous regions have now become thirty large ‘dukedoms,’ the more than three hundred prefectures and cities, midsized ‘dukedoms,’ and the more than two thousand counties (towns), small ‘dukedoms.’”

59 Central mandates and local initiative need not be mutually exclusive: an “experimentation model,” with local experimentation followed by national adoption, requires both a strong center as well as local initiative (Heilmann 2008).

60 This is an important argument made by Tsai (2006), who sees the “underlying causal mechanisms” leading the CCP to accept private entrepreneurs as “rooted in the growing power of the informal rules of the game that had evolved over the first two decades of economic reform.”
Cumings (1999, 2) summarizes Johnson’s conception of a developmental state as “the plan-rational capitalist developmental state, conjoining private ownership with state guidance.” Castells (1998, 270-71) defines the term by intention: “A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in relationship to the international economy.” Chang (2008) provides a “reconstruction” of the developmental state, defining a state with a goal of long-term growth as having four characteristics: coordination for change (state intervention can cut transaction costs through coordination and financial incentives and complementary investments); provision of vision (state as entrepreneurial goal-oriented agent); institution building; and conflict management. In a developmental state, the state is not merely a dictator, but a partner with business and society, so an additional criterion often recognized for “developmentalism” is an institutionalized (and often meritocratic) bureaucracy capable and incentivized to lead the developmental state.

Although China meets several of these criteria (for example, Chang’s coordination, vision, institution-building, conflict management), the national state does not appear to be truly developmental. Approaches identifying the central government as driving and implementing national reforms might disagree, and China has indeed had

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61 This relationship has gone by various names, including Peter Evans’s “embedded,” Robert Wade’s “governing the market,” and Linda Weiss’s “governed interdependence.”
62 Schneider (1999) characterizes Latin American developmental states by four criteria: political capitalism, developmentalism, political exclusion of the popular sector, and a weakly institutionalized bureaucracy that is greatly affected by regime change. This final characteristic, “appointive bureaucracy,” is very different from East Asian meritocracy.
some success directing credit and picking winners. Yet in China’s case, large SOEs, particularly in the 1990s, tended to detract from growth rather than adding to it. More importantly, China differs from the Japan, Korea, and Taiwan paradigms in the decentralized nature of its growth. Local SOEs, TVEs, and private businesses spurred China’s productivity gains, and China therefore seems to be an aggregation of nested developmental states. This is akin to Ming Xia’s idea of the “dual developmental state” in which local developmental states are embedded or nested within a central developmental state (Xia 2000). Similarly, J. Zhu (2004) sees decentralization as transforming China’s local government into states with strong developmental interests.

Supporting the idea of local governments as developmental states, many studies have found that local government success is defined by an ability to promote and sustain growth, and indeed many local governments assume highly interventionist roles. Accounts of individual local developmental cases in China often identify a developmental state role. With economic decentralization, local governments often

63 A key aspect of the developmental state is the financial system. Skocpol (1982) argues that questions about financial resources “provide the best possible general insight into the direct or indirect leverage a state is likely to have for realizing any sort of goal it may pursue. For a state’s means of raising and deploying financial resources tell us more than could any other single factor about its existing (and its immediately potential) capacities to create or strengthen state organizations, to employ personnel, to co-opt political support, to subsidize economic enterprises, and to fund social programs.” Far earlier, Gerschenkorn’s theory of late development focused on state involvement in industrial financing (Gerschenkron 1962). Johnson (1987) and Zysman (1983) see finance, particularly credit-based finance, as the defining aspect of the developmental state. J.-e.Woo (1991) identifies the importance of state channeling of finance to Korea’s large businesses (chaebol), and how this process created political support through interest groups that formed a developmental coalition.

64 Even in these countries, some argue that the center has been given too much credit. For instance, A.J. Jacobs (2003, 620) argues that the Japanese developmental state has been over-centralized, with too little attention paid to the prefecture.

65 Most of the literature on developmental states has focused on national governments, and nationalism is often an important aspect of the theory, for which “regionalism” may not be a strong replacement. There has been some attention to local developmental states even among the key Asian cases.

66 Many of these accounts have already been highlighted. See Blecher and Shue (1996), Walder (1998), Oi (1999), Blecher (1991), Vogel (1990), Duckett (1998), and Thun (2006), among others.
have more direct control over the economy than national counterparts, and the interventionist roles of Chinese local governments seems to increase as one moves down the administrative hierarchy. At the county level, there is little argument that governments have highly interventionist economic roles. Walder (1998) finds that county officials intervene more in the business affairs of its enterprises than city governments, as the county government “oversees, guides, and promotes the direction of growth…” This developmental role was readily apparent with regard to 1980s and 1990s rural industrialization, but the interventionist role has not diminished with increased private sector participation, although emphases have switched more towards investment approval and attraction as well as public-private partnerships. Many studies have identified local government strategies of “picking winners” in specific sectors.67 In one of the most cited accounts of developmentally-minded local governments in China, Jean Oi’s “local state corporatism,” local governments act like corporations in their management of state firms while utilizing a “combination of inducements and administrative constraints characteristic of a state corporatist system” to both encourage and control the private sector (Oi 1999, 99).68 The local developmental state idea in

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67 See Thun (2006), Blecher and Shue (1996), Segal and Thun (2001). Of course, the central government has also intervened to “pick winners,” in the sense of both individual firms and entire industrial sub-sectors.  
68 Oi (1992) argued that “the impressive growth of collective rural industrial output…is in large measure a result of local government entrepreneurship…In the process local governments have taken on many characteristics of a business corporation, with officials acting as the equivalent of a board of directors. This merger of state and economy characterizes a new institutional development that I label local state corporatism.”
China also finds a champion in the discussions of local development “models,” and particularly the South Jiangsu or “Sunan” model (sunan moshi 苏南模式).

This is not to say that all local economic intervention has been positive; many approaches instead see predatory local states that stand in stark contrast to the local developmental state idea. Some “developmentally”-minded behavior can quickly become predatory. Indeed, one major critique of the developmental state literature in general is that studies have predominantly focused on successful Asian cases; other governments, particularly in Latin America, have intervened, but their lack of success has led them to be termed predatory rather than developmental. Many behaviors in an interventionist mode can become more predatory as time progresses, an argument highlighted by Tsai (2002, 250). For instance, the Asian Financial Crisis led many Asian countries that had previously been considered “developmental” to be defined as “crony

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69 These models perceive different county government roles in economic development. In one definition, counties act predominantly as implementers of central and provincial decisions, while also providing public goods. A second viewpoint sees county governments as relatively independent: the county government must manage state assets; guide and develop local markets and market rules; ensure fair competition; develop social insurance, and must also adjust the local economy through market manipulation, maintaining market order, improving revenue collection abilities, and directly participating in the market. See X. Zhang (2009) and Tsai (2007) for more in-depth discussion of these models.

70 The Sunan model was first identified in the mid-1980s, with the basic idea of development through rural collective industrialization. As described by J. Liu (2005), this was a “government intervention model” (yizhong zhengfu ganyu moshi 一种政府干预模式) and a “local government corporatist model” (difang zhengfu gongsi zhuyi moshi 地方政府公司注意模式). The prime example of the Sunan model is Kunshan, a county so successful that it has its own model, “Kunshan’s Path” (kunshan zhilu 昆山之路). When former Party Secretary Hu Jintao visited Kunshan in 2004, he proclaimed, “If everywhere were like Kunshan, we’d already have a middle-class society” (xiaokang shehui 小康社会) (Zhang and Zhang 2008).

The Sunan Model is often contrasted with a “Wenzhou model” emphasizing private sector development, but even this “private industry” model had a strong local government role: see Nolan and Dong (1990) and extended discussion in Bramall (2006). In the late 1980s and early 1990s, economists at the Chinese Academy of Social Sciences and universities in China debated the relative merits of these two arguments: several criticized the Wenzhou model for benefiting private entrepreneurs at the expense of the state and limited ability to raise funds in comparison to the Sunan model; others, e.g., Wan Jieqiu at Suzhou University, think that the Sunan model hindered innovation and industrial upgrading (R. Hsu 1991, 128-29).
capitalist.” Variation can also be seen between local developmental states. For instance, Thun (2006) sees three local development models: local developmental states, laissez-faire local states, and centrally-controlled SOEs. In addition, governments are not unified entities, and parts of a single government may be predatory while other parts are developmental, leading to a contradiction whereby a single government may at times engage in both predatory and developmental activities.\footnote{Even within a single government, both developmental and predatory components/roles/bureaus can exist. Tsai (2002, 250) distinguishes between the “local government” and the “local state”: the latter “lumps different types of agencies into a monolithic complex” and “reifying the local state” obscures inter-agency differences and disagreements. In other words, parts of local states can be predatory, and “if apparently developmental local states may have predatory agents, then the term developmental is misleading.”} This has led to a wide range of definitions between “developmental” and “predatory.”\footnote{Blecher (1991) distinguishes between China’s local “development states” and local “entrepreneurial states.” In the former, entrepreneurship lies within enterprises, and the role of governments is to create the conditions for market-based development: the state “stays above the competitive fray but works to keep that fray vibrant” (Blecher 1991, 286). In the entrepreneurial state, the state is actively involved in productive activity. Similarly, Duckett (1998) documents the emergence of an “entrepreneurial state” in Tianjin in the early 1990s as local state agencies responded to structural constraints and growing market opportunities. This unitary “state” is really an aggregate of individual entrepreneurial departments that are coordinated by the local government. These individual departments are directly involved in business, are profit-seeking, take risks, are adaptive, and can be productive. Pei (2006) describes China’s local “predatory states.” More broadly, Bailey (1999) identifies four models of local government: the “benevolent despot” local government attempts to maximize local welfare; “fiscal exchange” governments provide services to the degree that local residents are willing to pay; “fiscal transfer” governments provide public services to advance social objectives; and “leviathan” governments are captured by self-interested bureaucrats. For a discussion of different typologies of China’s local states, see Saich (2002), Tsai (2002), Baum and Shevchenko (1999).} For the “local developmental state” idea to explain China’s growth outcomes, the developmental nature has to outweigh the anti-growth predatory behavior.

Disaggregating the state into potentially developmental and predatory parts leads to the question of the role of leadership and control in local governments. If local leaders have high degrees of control, then predominantly developmental states must have developmentally-minded leaders (and vice versa with predatory states). But many studies
see recent institutional trends in China as weakening the power of local Party Secretaries. Bureaucratic quality has increased in the reform era, turning local bureaucrats into growth-reinforcing regulators rather than growth-inhibiting ideologues; as China’s bureaucracy has become more professionalized, the role of leaders has potentially diminished, with policy interventions gaining a bureaucratic logic. This argument is implicit in Blecher and Shue (1996). Similarly, Zhong (2003) argues that in recent years the expansion of power of prefecture authorities has partially hollowed out county governments. Many county government bureaus and offices have been “verticalized,” i.e., removed from authority of county government and placed under higher government offices.

However, studies of individual localities suggest that top local leaders maintain high degrees of local economic control. China’s local leaders are able to wield significant amounts of power through formal and informal institutions, and they are able to affect growth outcomes through both policy control and leadership control over the bureaucracy and local institutions (see Chapter Five). Oi (1999) describes the County

73 This diminishing role of leaders, particularly at the central level, is a major theme in Lampton (2014).
74 Yet concurrently, townships have been hollowed out, with more authority placed with the county. This has undermined the role of township government as policy coordinator. The past two decades have seen a dramatic increase in tiao-tiao government offices at the township level, due to a fear of loss of control by the county government, concern over township officials’ professional ability, and bureaucratic vertical interests (Zhong 2003).
75 The direct importance of leaders for economic growth has not been rigorously explored. Brady and Spence (2010) note that, “Although practitioners emphasize the role of leaders in economic growth, the social sciences have been slow to measure and include leadership in their economic growth models, largely because of the endogeneity problem.” Bunce (1981, 14), in looking at leader transitions in the Soviet Union and western democratic states, remarks: “What counts in succession, then, is not so much the appearance of new faces, but rather the fact that these new faces may do new things. Ironically enough, this rather obvious point has been lost on political scientists…. Scholars have, therefore, reduced succession to the status of a dependent variable, a process that needs to be described and explained rather than one which acts on the political environment.”
Party Secretary as “akin to a ‘hands-on’ chairman of the board, who sets policy direction, decides development strategy, and makes long-term plans.” Song and He (2003), cited in Guo (2009), quote a county mayor telling the mayor of New Haven, Connecticut: “The biggest difference is that you do not seem to manage the economy much. When I was mayor of Shouguang my main effort was on grasping the economy, everything from fiscal growth to enterprise profit, peasant income, private economy, structural adjustments…” Indeed, as a result of this interventionist role, county leaders are often referred to as “mom and dad officials” (fumuguan 父母官) (Zhong 2003).76

Given this strong role, local Chinese leaders are likely to have systematic effects on economic outcomes. Systematic leadership effects on growth have been assumed but empirically elusive in much of the international economics literature, with the important exception of Jones and Olken (2005). The “political budget cycle” literature identifies strong effects on government expenditure and individual manipulation of monetary and fiscal policy to ensure individual reelection.77 While much of this literature looks at democracies only, those that focus on both democracies and autocracies tend to find greater leader effects in the latter, as one might expect given fewer (formal) constraints on leader activity.78 Economic literature on firm performance also suggests a strong role for individual CEOs in determining firm outcomes, and shows that where decision-

76 The role of leaders and relevant literature is discussed more in Chapter Five. Vogel (1990), speaking of the Inner Delta Counties, argues that while all made rapid advances, “the speed and thoroughness with which they took advantage of their situation appeared to depend most on the sixiang (thought, i.e., attitude) of the county leaders.” Similarly, in explaining differentials in city-level growth, Zweig (1997) focuses on “the entrepreneurship and strategies of its leadership” in addition to central/provincial preferential policies; path dependence; and opportunities (endowments and comparative advantages).


78 “The results suggest that the effects of individual leaders are strongest in autocratic settings where there are fewer constraints on a leader’s power” (Jones and Olken 2005).
making is concentrated, leader effects are amplified (i.e., there is greater variation in outcomes) (Adams, Almeida and Ferreira 2005).

2.2 Fiscal decentralization and market-preserving federalism

Assuming that local governments in China have had pro-growth developmental roles requires an understanding of why they have taken on these roles: why have local states more frequently had developmental approaches than predatory approaches? As Chalmers Johnson has noted, “The state can structure market incentives to achieve developmental goals…but it can also structure them to enrich itself and friends at the expense of consumers, good jobs, and development.” Analyses of China’s growth often attribute local “developmentalism” to fiscal reforms that allowed local governments to keep marginal revenues. In this story, fiscal decentralization aligned local government interests with growth and revenue maximization, which in turn required local governments to build effective markets with strong (or at least predictable) property rights. Fiscal contracts implemented in the 1980s gave local governments incentives to maximize revenue, catalyzing local economic initiative and experimentation.

In theory, fiscal decentralization can have pro-growth effects through two major channels, both of which assume as a baseline that decentralization will incentivize local governments to pursue economic growth: greater knowledge of local conditions

79 Similar complaints have been levied at many developmental state models more broadly. For instance, Whiting (2000) argues that Evans’s account of “embedded autonomy” is too static, seems tautological, and fails to explain how state capabilities are enhanced or dissipated over time: “To the extent that particular interests can colonize the state apparatus, they can undermine both its autonomy and its ability and willingness to implement state policy.”
combined with more responsive policy, and enhanced interjurisdictional competition. On
the first channel, Hayek (1939, 1945) in the 1930s and 1940s emphasized the enhanced
access to local information held by local governments, and their consequently enhanced
ability (compared to the central government) to match public goods to local preferences.
This has given rise to the subsidiarity principle, whereby the lowest level of government
that can effectively handle a matter ought to handle it, similar to “Stigler’s menu,”
referring to the two principles of jurisdictional design in Stigler (1957): the closer to the
people the better, and people should be able to vote for the public services they want.
With regard to the second growth channel, the most deeply explored consequence of
decentralization is the competition induced in lower-level governments. Mobile capital
and labor make jurisdictions compete, as they seek to entice this capital and labor to their
locality.80 Tiebout (1956) introduced this competition dimension and argued that
competition itself was a sorting mechanism for matching public services with local
preferences.81 The economics literature has looked at expected effects on business
policies and public welfare provision as a consequence of interjurisdictional competition
for investment.82 Based on these two ideas, Musgrave (1959) and Oates (1972) built an
influential theory of “fiscal federalism.”

80 Note that much of the discussion on fiscal federalism touts its benefits for local service provision and
government accountability, not growth per se.
81 For arguments showing that decentralization instigates competition that incentivizes pro-investment
behavior of local governments, see Brennan and Buchanan (1980) and Thießen (2003).
82 However, there is also a fear that induced interjurisdictional competition will lead to races to the bottom
with detrimental effects. Oates (1972, 143): “In an attempt to keep taxes low to attract business
investment, local officials may hold spending below those levels for which marginal benefits equal
marginal costs, particularly for those programs that do not offer direct benefits to local business.” With
high relevance to the China case, Keen and Marchand (1997) demonstrate that competition for capital
distorts government expenditure decisions, leading to too much infrastructure investment and too little
public goods expenditure. Cumberland (1981) showed that such competition for investment weakens
environmental standards. See further discussion in Cai and Treisman (2006).
However, yielding pro-growth effects from these two channels requires several preconditions. Theories of fiscal federalism based on the potential for voice and exit imply free factor mobility and downwardly accountable governments. Looking at transition economies, Dabla-Norris and Wade (2002) find that fiscal decentralization only succeeds where there are clearly defined roles and responsibilities with hard budget constraints, local autonomy, and capable local institutions. Bardhan and Mookherjee (2006) note that the optimal design of decentralization requires trading off “incentive advantages” (greater information about local preferences and greater responsiveness to heterogeneous needs) and “coordination disadvantages” (intercommunity spillovers/externalities and losses of scale economies). While subsidiarity is widely seen as improving the efficient delivery of public services, and fiscal decentralization is itself seen as a means of increasing de facto democratic participation in decision-making processes, thus enhancing government accountability and transparency, the empirical evidence linking decentralization with macroeconomic outcomes is mixed (Dabla-Norris and Wade 2002), as is evidence of improved government responsibility as a result of

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83 Similarly, according to a World Bank “How To” note on fiscal decentralization, the two essential components are discretion and accountability (World Bank 2010).
fiscal decentralization. In other words, fiscal decentralization in itself is an insufficient condition for enhanced growth outcomes.

At first glance, China does not meet several standards generally considered as “best practice” fiscal decentralization, including local autonomy, free factor mobility, and subsidiarity. While China’s local governments have a relatively high degree of responsibility over local goods, they do not have the discretion to raise own revenues and access debt markets without relying on upper-level transfers: counties and townships only take in approximately 20 percent of total revenue, but they are responsible for 40 percent of total expenditure. Responsiveness to local conditions is limited not only by a lack of enforced and institutionalized downward accountability, but also by poor institutionalization of local interest formation and information transmission.

Yet while China’s fiscal system does not meet many of the “best practice” theoretical criteria for fiscal decentralization, an influential school of thought has emerged arguing that the system emerging in the post-Mao period sufficiently ensured local property rights and thus incentivized competition among lower-level governments; in other words, the essential pro-growth conditions were met. According to “market-preserving federalism,” the central government committed itself to fiscal reforms that allowed local governments to keep marginal revenues, aligning local government incentives with revenue maximization and leading to pro-growth policies and behavior. And indeed, the explicit intention of the devolution of expenditure and revenue collection authority to local levels was to promote growth and facilitate the transition to a market...
economy (Shirk 1993). According to Oi (1992): “Before localities had such assurances there had been few incentives to be entrepreneurial. Local finance officials have criticized the tax-sharing systems in effect in the early 1980s as offering them little incentive to work harder.” In defining market-preserving federalism, Montinola, Qian, and Weingast (1995) posit a five condition framework for de facto federalism.86

1. “A hierarchy of governments with a delineated scope of authority (for example, between the national and subnational governments) exists so that each government is autonomous within its own sphere of authority.
2. The subnational governments have primary authority over the economy within their jurisdictions.
3. The national government has the authority to police the common market and to ensure the mobility of goods and factors across subgovernment jurisdictions.
4. Revenue sharing among governments is limited and borrowing by governments is constrained so that all governments face hard budget constraints.
5. The allocation of authority and responsibility has an institutionalized degree of durability so that it cannot be altered by the national government.”

The primary economic effect of market-preserving federalism is induced competition among jurisdictions. Competition leads to experimentation and imitation and increased factor mobility through competition for capital and migrant labor. Montinola, Qian, and Weingast (1995, 58) contend that competition induces local governments to secure property rights and “provide a hospitable environment for factors,” while Qian and Roland (1998) argue that competition punishes corruption with capital flight.87 Market-preserving federalism reduces rent-seeking and patronage as it diminishes or eliminates

86 Riker (1964, 11) defines federal political systems as having two characteristics: a hierarchy of governments with delineated and well-defined scopes of authority, and institutionalized (and self-enforcing) autonomy of each government level. These are the first two of the five conditions in Montinola, Qian, and Weingast (1995).
87 Similarly, according to Obstfeld (1998), international capital markets discipline national governments through the threat of capital outflow. However, Cai and Treisman (2005) argue that these assumptions of mobile capital “disciplining” governments are dependent on heterogeneous competitive units – if units are unequal to begin with, poorly endowed units will recognize that they cannot compete successfully and will not face a disciplining effect.
political protection from market forces. Weingast (1995) argues that this market-preserving federalism has characterized the economically most successful nations in the world over the past 300 years.

However, the market-preserving federalism approach has been challenged on several fronts. The most basic challenge is that levels of fiscal decentralization did not actually increase during the reform era. A second challenge is that China violates several of the aforementioned criteria: protectionism, revenue-sharing and soft budget constraints, and most importantly lack of central commitment. Others challenge the “market-preserving” aspect of market-preserving federalism rather than the pro-growth effects of fiscal decentralization and interjurisdictional competition. With regard to the first challenge, subnational revenue shares even in the early 1990s were over 10 percentage points below the peak of 80-90 percent that held in the 1970s. Indeed, the major increase in the subnational share of revenue took place in the early 1970s; during the reform era the subnational revenue share fell. Decentralization and devolution in

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88 Market-preserving federalism is further described in Jin, Qian, and Weingast (2005), who argue that after the tax sharing reforms in 1994, provincial governments faced even stronger ex post fiscal incentives as local revenue and expenditure remained highly correlated; in particular, the relationship between extra-budgetary revenue and expenditure was almost one-to-one, at a time when extra-budgetary revenues were increasingly important. They show that stronger fiscal incentives are associated with faster private sector development and SOE reform (indicated by the share of contracted workers). For additional market-preserving federalism arguments, see also Qian and Weingast (1997); Weingast (1995); Mckinnon (1997); Jin, et al. (2000).

89 Weingast (1995, 3): “For most of the last 300 years, the richest nation in the world has had a federal structure: the Netherlands from the late 16th through mid-17th century, England from the late 17th or early 18th through the mid-19th century, and the United States from the late 19th century until the late 20th century. A specific form of federalism, here called market-preserving federalism, limited the degree to which each of these country's political systems could encroach upon its markets.”

90 Tsai (2004) calls China’s system “market-thwarting federalism,” as fiscal decentralization has led to unintended hoarding of extra-budgetary funds, reliance on informal finance for private sector development, and increasing levels of local protectionism.

91 Chairman Mao stated as early as 1971 that “China should learn from the way America developed, by decentralizing and spreading responsibility and wealth among the 50 states. A central government could not do everything. China must depend upon regional and local initiatives” (Snow 1971). Additionally, Cai and
the 1980s led to a decline in central fiscal revenues, leading the central government to actively recentralize revenue through the tax sharing system introduced in 1993/94. However, the central revenue share had actually increased from 1978 until the mid-1980s: the central government collected 15.5 percent of revenue in 1978, and this share increased to 38.4 percent in 1985 (CSY 2011). The share then declined to as low as 22.0 percent by 1993, but shot up to 55.7 percent in 1994 after the tax-sharing system reforms (see Figure 2.1). Clearly, the trend in the late 1980s and early 1990s was towards fiscal

**Figure 2.1. Fiscal decentralization?**

![Graph showing fiscal decentralization](source)

*Source: China Statistical Yearbook, various years.*

Treisman (2006) argue that local utility is based not only on marginal retention rates \(r\), which increased during the reform era, but also on shared taxes \(s\) and total effective tax rates \(t\), both of which declined – so even though \(r\) rose over the 1980s, the combination of \(rst\) declined, so fiscal incentives actually declined.
decentralization – but the trend in the early 1980s and mid 1990s was one of (re-) centralization. If fiscal decentralization were the sole determinant of local incentives, then we would expect more fluctuation in local government behavior than is apparent.\footnote{See Bramall (2006) for a more in-depth discussion.}

More challenges to market-preserving federalism argue that the explicit conditions identified above have not consistently held. All five conditions have been challenged. In terms of delineated scope of authority and local control over the economy, Tsui and Wang (2004) argue that China is not \textit{de facto} federal and that local governments have less autonomy than the market-preserving federalism paradigm suggests; vertical bureaucratic control remains highly potent. Other challenges focus on constraints to free factor mobility imposed by protectionist local governments.\footnote{See Young (2000); Naughton (2003); Tsai (2004); Bai, et al. (2004).} The tax sharing reforms in 1994 that led to a rising dependence on fiscal transfers and local debt have undermined hard budget constraints.\footnote{Due to increasing fiscal dependence on higher governments “local governments now have fewer incentives to promote local growth than before, because a much higher share of local revenue is seized by higher authorities…the tax-sharing system promotes what Bhagwati calls directly unproductive profit-seeking at the expense of market-preserving fiscal federalism at the local level” (Zhang and Shih 2008).} Perhaps the most frequent challenge is the degree of central commitment. Proponents of market-preserving federalism acknowledge that central commitment is key. In China, Weingast (1995) argues that this commitment came over time: “…local incentives gradually changed from those promoting allegiance and control by the central authorities to those reflecting local economic prosperity. Thus the durability of the reforms did not arise all at once but grew as the degree of economic success increased.”\footnote{Weingast (1995) takes the economic benefits of federalism as given and focuses on the “self-enforcing” restrictions that make it in the interest of the national government to honor federalist rules. For the United States, he perceives the balanced two-party democratic system to be key: the Democrats as majority party} But in the Chinese political system, there is no constitutional
constraint on altering the degrees of marginal revenue held by local governments. Indeed, these sharing percentages have changed frequently and arbitrarily, undermining the most basic condition of the market-preserving framework.96

The inconsistency of several conditions does not remove the utility of the market-preserving federalism framework. Although not a sufficient explanation for local growth, fiscal federalism “with Chinese characteristics” is nevertheless a necessary condition for inducing interjurisdictional competition.97 However, as Blanchard and Shleifer (2001) argue, without political centralization governments are as likely to have “grabbing hands” as “helping hands,” regardless of revenue imperatives.98 In other words, by failing to sufficiently explain the incentives given to local governments and local leaders, market-preserving federalism does not confront the political problem. Even assuming the potential for induced interjurisdictional economic competition as a result of a soft central commitment to marginal revenue retention, we still need to understand why leaders and

put “strong limits on national government both as official policy and as constitutional law.” In other words, underlying the constitution was a “national consensus that this was appropriate.”96 As D. Yang (2006, 143) writes: China’s central government has “the power to reconfigure central-provincial fiscal relations, thus defying predictions of the MPF model.” In the post-tax sharing system fiscal reforms period, the center has reconfigured central-local fiscal arrangements repeatedly: “the reapportionment of stamp tax revenue, the realignment of personal income tax revenue, and the reassignment of responsibility for paying the value-added tax rebates on exports” (146-47). The center has easily restructured fiscal relations, illustrating “how capricious the Center’s actions may have appeared to local leaders.” Yang quotes Zhao and Li (2003): “local authorities don’t know what policies the central government will come up with now or in the future and what the impact of these policies will be on the localities.” See also Xu (2011).

97 Some rebuttals of market-preserving federalism go too far. For instance, Cai and Treisman (2006) argue that China’s major reforms were top down, and that decentralization does not stimulate policy innovation, as risks are greater for local officials than central districts and positive externalities are not felt by local officials. Although it may be true that national-level policies were quickly implemented as a result of political centralization, it is incorrect to overlook the role of local competition as a source of growth. Additionally, this overlooks monitoring and implementation problems – the center cannot ensure that policies will be implemented and cannot always check that they have been, so it is easier to align incentives.

98 For more on the “grabbing hand” and growth-hindering rent-seeking, see Shleifer and Vishny (2002), Krueger (1974), and Bhagwati (1982).
local governments think that greater revenue will yield higher utility than corruption. For this, political centralization is necessary.

2.3 Political centralization, personnel management, and leader incentives

Arguments that fuse local economic autonomy with political centralization have more explanatory power in terms of the China local growth success story. Blanchard and Shleifer (2001), contrasting the performance of local governments in China and Russia, argue that the degree of political control, as opposed to differences in intergovernmental fiscal relationship, explains why China’s local governments favor growth and Russia’s do not. Within their model, the key is not only the central government’s carrots (revenue sharing) but also its sticks (the ability to remove officials from power).99 C. Xu (2011) defines a “regionally decentralized authoritarian” regime that “deeply affects executives’ incentives and behaviors” and combines political centralization with economic regional decentralization.100 Another useful combination of economic/fiscal decentralization and political centralization applies the “M-form” corporate hierarchy to China’s

99 “In China, local governments have actively contributed to the growth of new firms. In Russia, local governments have typically stood in the way, be it through taxation, regulation, or corruption. We argue that the difference can be traced to lies in the degree of political centralization present in China, but not in Russia” (Blanchard and Shleifer 2001). In their model, the central government has carrots (marginal revenue sharing) and sticks (probability of local official staying in power); there is exogenous growth potential; and local governments have benefits of capture or rent competition that leads to no growth. A minor problem with this analysis is that the “stick” is really a carrot: officials almost never get punished through salary cuts or demotions, but rather get rewarded with monetary bonuses and promotions.

100 Landry (2008) argues that political decentralization is particularly shocking in an authoritarian regime, which are typically much more centralized. Decentralized power in authoritarian regimes is seen as dangerous, and authoritarian regimes fear delegating authority to local elites who could build alternative patronage systems and challenge the regime. Landry finds that China’s observed level of decentralization is consistent with the behavior of a federal democracy, with control instead exercised through personnel management.
intergovernmental relations. The multidivisional “M-form” hierarchy, initially developed in the firm literature by Chandler (1962) and Williamson (1975), sees each firm division as a semi-autonomous unit under central control, with clear application to the Chinese administrative system.\textsuperscript{101}

The combination of economic decentralization and political centralization helps to explain both the alignment of local incentives with national goals as well as the responsiveness of localities to national reforms, albeit with “implementation bias.”\textsuperscript{102} In an economically decentralized and politically centralized regime, it is important to understand the mechanisms by which hierarchical control works. Officials in China are upwardly accountable, with little direct downward accountability above the village level.\textsuperscript{103} The key means by which China maintains political centralization in an economically decentralized state is hierarchical control through personnel management. For the M-form model just described to work, it must enable yardstick competition for advancement between local leaders; if cadres who successfully hit targets are not

\textsuperscript{101} Williamson’s taxonomy includes three types of corporate structure: unitary “U-forms” with complementary (non-independent) business functions, multidivisional M-forms comprised of related self-contained U-form organizations, and holding companies (H-forms). Several authors have utilized this conception in relation to China: Qian and Xu (1993), Maskin, Qian and Xu (2000); Qian, Roland and Xu (2006).

\textsuperscript{102} In China’s hierarchical system, central policies are distorted as they move down the hierarchy, with decisions increasingly reflecting the preferences of implementing local governments and agents: “by the time one has moved through six, seven, or more layers of the system, the cumulative distortion…can be great. Almost invariably, unanticipated and unwelcome consequences are part of the implementation process from the Center’s perspective” (Lampton 1992, 57). This gives rise to what Naughton (1987) describes as “implementation bias.”

\textsuperscript{103} Przeworski, Stokes, and Manin (1999, 10): “Governments are ‘accountable’ if citizens can discern representative from unrepresentative governments and can sanction them appropriately, retaining in office those incumbents who perform well and ousting from office those who do not.” While career incentives in China do not have direct downward accountability, downward accountability can factor in indirectly through performance evaluations. Downward accountability consists not only of leadership accountability to citizens, but also to lower level officials.
promoted, the incentive structure disappears. This is the basis of the tournament promotion (jinsheng jinbiaosai 晋升锦标赛) hypothesis, as well as meritocratic explanations for China’s growth; if growth is a key target, then meritocratic promotions will incentivize faster growth and enhance actual growth outcomes. Management of cadre appointments and promotions helps to align local incentives and serves as the key tool enabling both de jure and de facto political centralization. However, although the personnel management system is the most important institution for explicitly shaping local leader incentives, many questions remain as to the priorities embedded in the system (direction of control) and the efficacy of the system (degree of control).

In considering hierarchical control through personnel management, it is useful to first consider theories of compliance and power. Etzioni (1961) usefully laid out a framework of compliance consisting of two interacting elements: power (of the superior or the organization) and involvement (of the subordinate). Compliance, according to Etzioni, “refers both to a relation in which an actor behaves in accordance with a directive supported by another actor’s power, and to the orientation of the subordinated actor to the power applied.” The means of ensuring compliance in organizations (i.e., the three types of power) are coercive, remunerative, and normative. Involvement can be alienative (negative orientation), calculative (low intensity negative or positive orientation), or moral (positive orientation). These combine into nine possibilities, but usually fall along congruent types: coercive/alienative (“coercive compliance”), remunerative/calculative (“utilitarian compliance”), and normative/moral (“normative compliance”). Etzioni argues that most political organizations are normative: although they also have remunerative elements, they rely predominantly on normative power. But
while initial compliance mechanisms within the CCP were coercive and normative, in the reform era the CCP has trended towards utilitarian structures through remuneration (bonuses) and promotions. In this sense, China has become run more like a business.104

Theories of compliance and power carry over to studies of bureaucracy, and particularly means of control and incentivization within bureaucracies. Tullock (1965) and Downs (1967) developed comprehensive theories about advancement within bureaucracies. Niskanen (1971) developed a theory of supply by bureaus from an economics perspective, differing from the sociological studies of bureaucracy dating to Weber. The bureaucrat “is assumed to face a set of possible actions, to have personal preferences among the outcomes of the possible actions, and to choose the action within the possible set that he most prefers. He is a ‘chooser’ and a ‘maximizer’ and…not just a ‘role player’ in some larger social drama” (Niskanen 1971).105 This economic view of bureaucracy takes into account individual preferences and allows for an Etzioni-type “utilitarian organization.” Contrast this with an alternative view of bureaucracies from von Mises (1944, 47-49): “Bureaus specialize in the supply of those services the value of which cannot be exchanged for money at a per-unit rate…As a consequence…bureaus cannot be managed by profit goals and ‘the economic calculus.’…In the absence of profit or goals, bureaus must be centrally managed by the pervasive regulation and monitoring of the activities of subordinates.”

104 As Etzioni argues, utilitarian (or economic) organizations are highly effective at production of goods and services, but struggle to achieve cultural goals.
105 Niskanen (1971) identifies several possible variables factoring into the bureaucrat’s utility function: “salary, perquisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes, and ease of managing the bureau.” All of these except the last two are a positive function of the total budget, and Niskanen therefore argues that budget maximization is most in the interests of the bureaucrat for both personal and public motivations.
In China, by helping to achieve compliance without the need for constant monitoring to prevent shirking, the personnel management system provides a partial solution to the principal-agent problem. During the reform era, China’s explicit rules-based personnel management has evolved considerably, a topic covered in more depth in Chapters Six and Seven. In the early 1980s, institutionalization focused on Deng’s “four Party member transformations” (dangyuan sihua 党员四化), including making cadres more revolutionary (gaigehua 革命化), more educated (zhishihua 知识化), younger (niangqinghua 年轻化), and more professional (zhuanye hua 专业化). Importantly, 1983 also saw the implementation of one-level down administrative management, whereby each level of the administrative hierarchy took responsibility for organization decisions at the level directly beneath it, enabling greater local control over policy making and implementation. Administratively, since the late 1980s and particularly the mid-1990s, the center has attempted to re-control the cadre management system, with the rules of the game for promotions and training becoming significantly more institutionalized.

106 Note that there is no full solution to the principal-agent problem: the structure of personnel management gives power to the center, but there are still procedural implementation and monitoring problems. This is one of the key contributions of the “fragmented authoritarianism” literature, which highlights problems of implementation bias and bureaucratic decision-making, combining a central rational-actor approach with a local cellular process-based approach (Lieberthal and Lampton 1992). As in Zheng (2007), it is useful to distinguish between structural and procedural approaches to central-local relations. The structural approach analyzes the formal distribution of resources and power, whereas the procedural approach analyzes behavior and inner system dynamics, drawing from organizational and decision-making theories. Zheng himself describes “de facto federalism” that depends on coercion (nomenklatura, campaigns), bargaining, and reciprocity (voluntary cooperation through self-adjustment).

107 At the start of the reform period, Deng instituted two-level down management to allow the center to control employment decisions throughout the country. At the end of this purge, the 1982/83 re-decentralization occurred. For discussion, see Landry (2008).

108 Laws on cadre evaluations have evolved beginning with the June 1988 Organization Department release, “Notice on Implementing Local Party and Government Leader Year-end Work Evaluations” (Zhongyang zuzhibu guanyu shixing difang dangzheng lingdao ganbu niandu gongzuo kaohe zhidu de tongzhi, 中共中央组织部关于实行地方党政领导干部年度工作考核制度的通知), which set annual guidelines for evaluation of Party Secretaries and government executives at the county level, emphasizing
Along with these formal policy decisions, the center has also formalized the system through new mechanisms for cadre training, including two five year plans since 2000, and more explicit rules on home county avoidance and term limits.09

This institutional evolution has in some ways been part of a broader international trend towards New Public Management (NPM) and performance measurement.10 NPM has been the dominant direction in public sector reform since the 1980s, and involves the introduction of markets, managers, and measurement.11 OECD (2003) describes three of the NPM components as decentralization, management by objectives, and competition within government. These components also define the direction in which China’s personnel management has evolved. NPM has many critics, and is often seen as a failed part of the neoliberal economics movement of the 1980s, but the relevance to China is

that evaluations should serve as a basis for promotions and demotions. The document also set a format for quantitative evaluation with reliance on both social and economic targets (Whiting 2004). In 1995, the central leadership promulgated the “Notice on Strengthening and Improving the Evaluation of Work Accomplishment of the Leadership Corps of Party Committees and Governments at the County (Municipal) Level” (Guanyu jiaqiang he wanshan xian (shi) dangweiyi zhengfu lingdao banzi gongzuo shijihao de tongzhi 关于加强和完善县(市)党委,政府领导班子工作实绩考核的通知), which further institutionalized performance measurement at the county level (Gao 2009).

09 The two five-year plans are the “2001-2005 National Cadre Education and Training Plan” and the “2006-2010 National Cadre Education and Training Plan.” One recent study finds that nearly half of all county leaders receive on the job training, and nearly 50 percent of those who receive on the job training receive this training in “economic management” (Seckington 2007). Great importance is attached to cadre training, with the goal of making cadres development-minded. See Shambaugh (2008) on new ideological training in the 1990s. For further details and evidence of cadre management institutionalization, particularly regarding development of the target responsibility system (mubiao zeren zhi 目标责任制), see Edin (1998); Whiting (2000); Tsui and Wang (2004); Han (2000); Chan and Gao (2008).
10 Several authors see China’s reforms as a variation on NPM, for example, Ma and Zhang (2009), who argue that China’s reforms are a variation of NPM with “non-western characteristics.” Walker and Wu (2010) discuss performance management in China’s cities in the context of the global NPM movement. In his comparison (and critique) of Chinese and Western NPM, Paolo Urio sees both the eastern and western versions as entailing “decisions in favour of economic efficiency and the means of achieving it, namely privatization, contracting out, decentralization and deregulation” (Urio 2012, 91).
12 For critiques along these lines, see Chang (2008) and Urio (2012).
important: a major trend in institutional reforms has been to treat cadres as managers who can be incentivized through enhanced measurement.

Institutionalization of personnel management should make control more rule-based than patronage-based, and such institutionalization should enable the central government to transmit priorities throughout the administrative hierarchy. There are two general critiques against the identification of performance evaluations and personnel management as a means of ensuring hierarchical compliance in China: first, incentives within the cadre system may now be outweighed by external incentives, and second, informal rules and/or patronage may dominate the formal system.\(^{113}\) In the first critique, cadres may not actually be incentivized by promotions; if cadres are more inclined to reap personal benefits (legally or illegally) through their current positions, then promotion incentives would not apply. Performance-based rewards can provide a key incentive for employees to work hard, but this assumes that the rewards are desired by employees.\(^{114}\) Note that for a meritocratic system to produce desired outcomes requires a rational actor approach whereby leaders decide how to behave in order to maximize their personal utility. Under such a rational actor approach, leader solutions to utility maximization will change along with institutional reform and economic development, and their personal considerations can be broken into a cost-benefit analysis across several categories: monetary gains; career incentives; fear (punitive measures and inspection);

\(^{113}\) An additional critique might posit that China has such low levels of information transmission that implementation and local outcomes are unmonitored: if the principal cannot monitor outcomes achieved by the agent, the system does not work. But even views of high local autonomy and strong implementation bias perceive some role for monitoring.

\(^{114}\) See Horn (1995).
and ideology. Privatization in a growing economy has also provided many more non-official career possibilities for cades who seek to go into private business (xiahai 下海), and outside opportunities have changed the efficacy of promotion incentives. The cadre management system includes bonuses to incentivize growth, but monetary opportunities outside the system, particularly in wealthy regions, are no doubt greater. Many argue that these alternative considerations have gained larger importance in leader utility curves. And indeed, several studies argue that promotion-based incentives are undermined by the availability of outside opportunities and a pyramid shaped system with limited advancement opportunities. For instance, Montinola, Qian, and Weingast (1995) argue that, “In advanced regions, many officials no longer care to be promoted to posts in the higher level government.” Similarly, Zhong (2003) argues that most county level officials do not expect promotions, as the system is pyramid shaped, with fewer positions at the top. However, this is the opposite conclusion of Guo (2007): “Chinese cadres do not have many viable career alternatives outside of the political hierarchy, as the job market for them in the private sector hardly exists.”

Even accepting hierarchical control to influence local decisions by dangling the promotion carrot, a larger question remains: how much do the formal personnel

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115 They continue: “Thus, in Guangdong Province today, township officials do not want to be promoted to the county level, municipal officials do not want to be promoted to the provincial level, and provincial officials do not want to be promoted to the central government.”

116 Burns and Wang (2010) have a similar conclusion: “The typical career ladder in a county, for example, where most officials could expect to spend their entire career, includes only five ranks (section member, deputy section head, section head, deputy county head and county head), far too few to provide motivation. Second, although there may be between ten and 14 pay steps for each rank, base pay differentials are very small, amounting to only a few tens of RMB per month. The formal career ladder in the local civil service is extremely compressed and base pay differentials very egalitarian, which gives supervisors little official leverage to reward performance.”
management institutions matter, and how much do informal (patron) ties continue to dominate the system? There is an important debate on whether the institutionalization of the formal system has overwhelmed the informal system: are officials truly promoted based on institutionalized criteria, or are promotion decisions informal, ad hoc, and based on patronage ties?117 Despite the historically unprecedented size of China’s hierarchical system of cadre management, China is far from unique: control through personnel management is a trademark of communist/authoritarian regimes more broadly.118 The literature on the Soviet system highlights two conflicting emphases, patron-client relationships and economic achievements, with strong similarities to the China case.119 The patron-client model sees Soviet elite mobility as “a vast network of personal followings” (Armstrong 1959).120 Brzezinski and Huntington (1964, 147) describe the patron-client model explicitly: “…to get off to a fast start in the Soviet Union it is necessary to attract the attention of some upper-level political leader and become his protégé…” Alternatively, Barrington Moore (1954) takes a rational-technical approach,

117 It is of course possible that both systems are at work. As early as 1986, Walder found an elite dualism in which education credentials were screened more for professional paths than administrative paths and Party membership was more important for administrative paths than professional paths. This is similar to Zang (2004), who finds a “segmented bureaucratic labor market in which two distinctive career paths are established to evaluate and screen candidates for top posts in the Chinese government system and the hierarchy of the Chinese Communist Party (the CCP) respectively”: positions in government screen for human capital while positions in the CCP hierarchy screen for political loyalty.

118 Walder (1995): “The power to offer career opportunities has long been recognized as a central pillar of communist rule, either as a system of social control (rewards for loyalty) or as a means of fostering anticipatory socialization and (at least outward) ideological conformity.” See also Djilas (1957).

119 See discussion in Stewart, et al. (1972). Also Walder (1995): “Two recurrent findings coexist uneasily in the study of social mobility in communist states. The first, and oldest, is that communist parties systematically allocate career opportunities according to political loyalty…The second finding is that communist parties, as economic development proceeds, place increasing stress on educational qualifications and occupational competence.”

120 See also: Barghoon (1966), Linden (1966), Ploss (1965).
emphasizing instead the ability of cadres to achieve economic targets and fulfill central plans.\textsuperscript{121}

Similarly, in China there are two divergent strands of scholarly analysis: an informal/personal approach and a more institutional approach. Bo (2004) argues that institutionalization of elite management through regulations on appointments in 1999 and 2002 has curbed arbitrary personnel decisions and enhanced administrative powers of party. Based on surveys with 245 officials in Jiangsu, Landry (2008) also finds that formal institutions matter and that the appointment system can “shape, reward and control local elites” to a greater degree than most literature admits. On the other hand, significant anecdotal evidence points to the importance of patronage ties.\textsuperscript{122} Zhong (2003) finds that \textit{guanxi} is the most important factor in cadre promotion at the local level, and that for a cadre to be promoted, he must have a patron who forwards his case to the higher level Party Organization Department. It is highly unlikely that either meritocracy or patronage is wholly determinant: Lampton (1986, 291) in his study of elite mobility paths for six central leaders argues that organizational/regional bases and patronage ties are not enough – potential leaders require personal resources, visibility in the mass media, competence, seniority, and luck. But there is not a single route to promotions; rather, success requires “strategic and tactical thinking.”

Even assuming a meritocratic system, as the performance management literature highlights, performance management systems need to be constructed with an eye towards

\textsuperscript{121} Stewart, et al. (1972), comparing these two models through an analysis of \textit{oblast} party secretary mobility over 1955-1967, find that both have “some” explanatory strength, but neither explains more than 10 percent of the overall mobility variance.

\textsuperscript{122} These are discussed in more depth in Chapter Six.
specific goals, yet at the most basic level a debate remains over whether the rationale behind China’s system is development (or another outcome) or political control. One factor in the direction of performance evaluation emphasis is that degrees of administrative decentralization help determine local behavior, as goals in China’s system depend significantly on hierarchical level (i.e., national goals can differ from provincial goals, which can differ from prefectural goals).\textsuperscript{123} Y. Huang (1995) sees the system as a security check: “The most obvious function of this mechanism is its ability to screen out candidates with questionable backgrounds. Cadre evaluation is thus somewhat akin to a security check used in the recruitment process for government positions in the United States.” Alternatively, Heimer (2006) argues that the cadre responsibility system is “foremost an analytical tool that helps us to see which are the goals that the central government wants to promote, how well they manage to do so, and a tool to understand why cadres behave as they do.”\textsuperscript{124} Similarly, Zheng (2007) notes that nomenklatura needs to be reconsidered in the literature, as its use “is based more on the consideration of development strategy than political control over the provincial leadership.”\textsuperscript{125}

\textsuperscript{123} Prior to 1983, county leaders had two-level up responsibilities, and recently this system has been partially reintroduced. Even in one-level down management, provinces can also have performance contracts with county leaders, and prefectures are likely to include provincial mandates in their own contracts with county leaders.

\textsuperscript{124} As evidence, Heimer cites the difference between poverty alleviation and Western Development. In 2001, a national poverty reduction plan put the key work at the county level, with the highest leaders shouldering responsibility, explicit in performance contracts. In contrast, Western Development leading groups exist only on paper and have no performance evaluation targets. Looking at sub-county contracts in her fieldwork, Heimer finds that poverty reduction targets make it into county-township targets, while Western Development has no similar phenomenon.

\textsuperscript{125} From Chan and Gao’s documentary analysis in Zhourzi County (Xi’an, Shaanxi): “Performance measurement serves a different function in China than it does elsewhere. It does not focus solely on improving the economy, efficiency, and effectiveness of government services. Instead, political tasks such as maintaining a stable and harmonious society and promoting economic development are important measures in evaluating the performance of local officials. The way that performance measurement is conducted in local China shows that it is used chiefly to ensure that local officials comply with higher-level
But let us take as a starting point that “performance-based rewards can provide a key incentive for employees to work hard” (Horn 1995). If so, then performance management systems need to be constructed with an eye towards specific goals; as Behn (2003) writes, “‘What gets measured is what gets done’ is, perhaps, the most famous aphorism of performance measurement.” How can we uncover these incentives? Methodologically, a review of the literature in China and abroad suggests three general ways to analyze the content and direction of cadre career incentives: documentary analysis, case studies, and large-N studies. Documentary analysis, i.e., gaining access to performance contracts and analyzing their content, provides insights into de jure promotion criteria. The rules of the game for cadre promotions and bonuses have become significantly more institutionalized over the reform period. This has enabled those with access to local documents to analyze changes in specific contracts. A robust vein of the Chinese politics literature is based on an idea of Chinese politics as “documentary politics.” But documentary analysis has a problem of selection bias: if you can only analyze one contract, does that imply a likelihood that the document is “normal” and generalizable, or a likelihood that it is special? Additionally, documentary analysis provides a glimpse only at the de jure aspect of performance management. Other methods are required to gain knowledge of the de facto reasons for promotions.127

126 Documents conveying vital information at all levels function as the nerve system that links the decision-making body with the subordinate political bodies that conduct and direct daily activities. Seen in this light, China’s totalitarian system is to a large extent ‘ruled by documents’” (Chan and Gao 2008).

127 A problem with documentary analysis is that formal targets and evaluations may be disconnected from reality. Zhai Tianshan, the Deputy Director General of the Hubei CCP Organization Department, notes: “More often than not, economic indicators (such as GDP growth) or stability indicators (non-occurrence of disastrous incidents and other safety problems) are used to replace other management targets. This tends to
Individual case studies and anecdotes can help uncover these *de facto* reasons. Many of the most interesting of these accounts focus on one or a few counties at a single point in time, but by focusing on one or a few localities, they fail to uncover general rules for promotion. Additionally, using data on local socioeconomic and promotion outcomes, large-N quantitative analyses can help generate more generalizable conclusions.

Studies attempting to uncover the specific promotion incentives facing local leaders have reached contradictory conclusions. Anecdotal and documentary analyses of performance evaluations suggest that while many emphasize economic targets, mandatory “veto” targets (*yipiao foujue* 一票否决) tend to focus on stability. One Party handbook shows that work achievement accounts for 60-70 percent of evaluations of regional officials, with the rest based on political integrity, diligence, and other personal attributes (Edin 2003). In recent years, central pressure has increased for localities, particularly those in wealthy regions, to adapt contracts to include broader measures of sustainable and inclusive growth; new performance guidelines are supposed to reflect “Scientific Development” guidelines. Alternatively, Landry (2008) quotes a State
Planning Commission official (cited originally in Yin 2001): “The current government stresses that development is the fundamental principle. Economic development becomes a criterion for assessing local officials. The current cadre assessment overemphasizes the economic growth of the region led by the assessed officials. Moreover, the criteria for assessing economic growth are essentially superficial: the number of projects and enterprises established, and the growth rate of the local economy.” In other words, anecdotal and documentary analyses of performance evaluations are inconclusive as to their content: while most seem to emphasize measures of GDP growth, others emphasize revenue or stability, and more recent contracts focus on inclusive growth and welfare.

Many studies have used large-N approaches to examine de facto promotion criteria. These quantitative studies have mostly focused on the provincial level, although several focus at the prefecture level.\(^{130}\) The majority of these studies uncover a relationship between growth and promotions, implying that performance management serves an effective development role; however, several studies question this result. Most influentially, Li and Zhou (2005) find that over 1979-1995, the likelihood of provincial leader promotion increases with economic performance, “evidence that China uses personnel control to induce desirable economic outcomes.” Similarly, Chen, Li, and Zhou (2005) demonstrate that not only are provincial leader promotions based on their

\(^{130}\) For analyses at the provincial level, see Bo (2002); Li and Zhou (2005); Chen, Li, and Zhou (2005); Opper and Brehm (2007); Tao, et al. (2010); Hsu and Shao (2014). At the prefecture level, see: Lin (2007); Landry (2008); Yao and Zhang (2012); Fan, et al. (2009).
own economic performance, but also on performance relative to their predecessor. Bo (2002) finds that between 1978 and 1998, provincial leader promotions are sensitive to central revenue contributions.

However, other results support the patronage view. Shih, Adolph, and Liu (2012) analyze a biographical database of Central Committee members and find no evidence that economic growth was rewarded with promotion, while factional ties with top leaders had high predictive power. Su, et al. (2012) find that the empirical relationship found in Li and Zhou (2005) and Chen, Li, and Zhou (2005) is driven by coding errors in promotions and GDP growth; recoding results in an insignificant relationship between growth and promotions. Taking the midpoint between these arguments, Choi (2012) finds that performance and factional ties both matter for the promotion of provincial Party Secretaries, but only performance matters for the promotion of provincial governors.

An important question that is necessarily overlooked in the provincial studies is whether

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131 Chen, Li, and Zhou (2005) differ from Li and Zhou (2005) by using relative performance (GDP per capita) instead of absolute performance. Using an ordered probit model looking at 344 provincial leaders from 1979-2002, they find that difference of per capita GDP growth relative to predecessors significantly predicts provincial party secretary and governor promotion prospects. This finding is similar to that of Hsu and Shao (2014), who find that GDP performance relative to predecessors is a much more important determinant of provincial promotions than performance relative to other provinces.

132 Shih, Adolph, and Liu (2012) look at every full and alternate CCP Central Committee member from 1982 to 2007, and find no evidence that economic growth outcomes influence rank within the Party hierarchy; rather, education level, revenue collection, and minority representation, along with factional ties and princeling status are seen as important determinants. Their growth measure is relative economic performance of the province (i.e., provincial growth minus national growth), subtracting pre-appointment expected provincial growth from the total – only get credit for growth you produce. They argue that this is the key to dealing with selection bias.

133 Additionally, Xu, Wang, and Shu (2007) find that cross-regional governor transfer increases GDP growth. Wu, et al. (2013) find that GDP growth relative to predecessors is the best predictor of promotions of prefecture-level leaders.
the promotion incentives given to leaders differ across province/region (implying that leaders compete against themselves/targets rather than each other). 134

In arguing against a meritocratic economic basis for growth, Shih, Adolph, and Liu (2012) rightly point out that most of the literature arguing for an economic growth incentive have either been anecdotal or based at provincial level. 135 Likely as a result of onerous data requirements, most quantitative studies focus on the province or prefecture/city level. At the county level, Guo (2007) is the only nation-wide quantitative study. He uses a multinomial logistic regression on pooled national county-level data to predict four outcomes of county chief executive (xianzhang 县长) turnover (transfer to chief executive of another county, promotion to Party Secretary of same county, promotion to Party Secretary of a different county, and other), finding that only fiscal revenue growth, and not agricultural or industrial output growth, positively predicts promotion. Guo does not look at Party Secretaries, nor do his data allow for coding of promotions other than Magistrate to Party Secretary; these are major shortcomings that I address in Chapter Six. The lack of other county-level studies is problematic, as counties are likely the most suitable level for testing the tournament promotion hypothesis in terms of comparability across space as well as degree of direct local impact; also because provincial and prefecture leaders are more likely to be part of higher-level factions and

134 In the provincial and prefectural analyses, there are insufficient observations to observe differentiation across time and region.
135 Shih, Adolph, and Liu also importantly note a difficulty: no qualitative or quantitative work addresses potential selection bias of politically connected cadres influencing location of their next appointment.
groomed for national politics, and thus likely to be judged less on performance than on factional loyalty.\footnote{Lee (2000) argues that elite politics remains informal, but lower level politics has become more formalized. Also Choi (2012).}

The growing literature on promotion incentives remains inconclusive and at times contradictory. The qualitative studies may differ solely based on case selection – which, if any, are representative? The quantitative studies differ on variable definitions as well as level of analysis: Central Committee performance is likely measured on different criteria than township performance.

### 2.4 Regional differentiation and sub-national comparison

Before summarizing the gaps in the literature highlighted above, this section highlights a methodological issue highly pertinent to China studies: regional differentiation and the need (or at least utility) for sub-national comparison. Thun (2006, 9) has an important discussion of regional differences:

“\textit{It is, of course, not unusual or new to focus on the developmental role of local government. It is less common to focus on systematic patterns of institutional differences between localities. There is no single dominant approach to development at the local level, whether it be market-led growth or local state corporatism, but rather multiple patterns…There is no one-size-fits-all development approach, but a mosaic of local patterns within the national framework.}”

As highlighted in the discussion of previous studies on promotion incentives, a major problem in the literature has been the tendency to look at China as a single case rather than a set of regions/localities. As King, Keohane, and Verba (1994, 208) write, “what
may appear to be a single-case study, or a study of only a few cases, may indeed contain
many potential observations, at different levels of analysis, that are relevant to the theory
being evaluated.” The problem is that much national-level research necessarily involves
national averages, or means, masking internal variation and leading to “mean-spirited”
analysis (Snyder 2001, 98).137

Beyond masking subnational variations and constructing non-representative
national means, lack of focus on subnational units prevents an understanding of how
national policies have differential impacts on regions, often intentionally. For instance,
O’Donnell (1999) argues that within any particular country, rules and norms defining the
national state cannot be assumed to apply to the whole country, as levels of political
development and liberalization are territorially uneven. In the China case, Wang and Hu
(1999) show how China’s regionally divergent development paths have been a direct (and
intentional) consequence of national policies. Similarly, Zweig’s idea of “segmented
deregulation” shows how central decision-makers as opposed to market forces
determined regional comparative advantages in an increasingly open economy (Zweig
2002, 50).

Consequently, comparative political scientists have focused increased attention on
subnational units of analysis. Snyder (2001) shows that the subnational comparative
method “can serve as a powerful tool for increasing the number of observations” and
“makes it easier to construct controlled comparisons.” The subnational units compared

137 Outside of China, several studies have undermined national conclusions: For instance, Linz and de
Miguel (1966) show that national-level findings of causality between industrialization and religiosity in
Spain masked regional differences: less developed regions were actually quite secular. For “whole nation
bias” see Rokkan (1970, Chapter 2), Snyder (2001)
are likely to be much more similar across cultural and historical dimensions than allowed for by cross-country comparisons. Such an approach is highly relevant to China, a large country in which many policies and institutions have explicit regional variation. For instance, the fiscal system exhibits not only temporal evolution, but also strong regional variation, as all central transfers pass through provincial governments, which are authorized to define their own sub-provincial fiscal relationships and transfer arrangements; one level down, prefectures also define their own fiscal relationships with counties. There is no reason to expect that personnel management institutions and criteria for promotion should be identical across regions and provinces; indeed, the central documents focused on local performance measurement are explicit about regional and local variation in targets (see Chapter Six and Chapter Seven). Therefore, a strong finding of pro-growth incentives at the sub-provincial level in case studies and documentary analysis may overlook regional variation. This is implicitly acknowledged in assumptions that central or western regions (or particularly ethnic minority regions) focus predominantly on stability, but explicit comparisons have not been made: case studies have to look only at a few cases, and quantitative studies have concentrated at the provincial level, which prevents regional comparison.

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138 The idea that promotion criteria vary across regions has theoretical roots in the Soviet literature. Moore (1954) hypothesizes that increasing levels of development change the basis of political decision-making from considerations of power to decisions based on rational-technical criteria, and Stewart, et al. (1972) find that this idea has validity within the Soviet Union: “When the post-Stalin era is analyzed as a whole, the most important variable in each region is essentially that predicted by applying Moore's proposition to different levels of development within the Russian republic. In the least developed oblasti, evidence of links with Politburo-Secretariat members explains more than 14 per cent of the variance in mobility. In those oblasti with a highly developed agriculture but no significant industry, while both career group links and industrial performance are significant, performance in food and clothing explains more than half of the variance in mobility. Although the beta for industrial performance in those regions with a highly developed industry but little extensive agriculture is modest (.32), its relative importance tends to support the basic argument” (Stewart, et al. 1972, 1283).
2.5 Conclusions

This chapter has reviewed the considerable literature focused on local developmental states, fiscal decentralization, and personnel management with respect to theory, international empirics, and particularly China experience. These are robust fields with important contributions, but a review of the literature highlights several theoretical and empirical contradictions and gaps. In particular, the questions posed in Chapter One have not been sufficiently answered at the county level: How do counties grow and what explains variation in county economic outcomes? What is the role of County Party Secretaries in determining local growth outcomes? Why do County Party Secretaries emphasize particular developmental priorities?

This is a diverse set of questions with broad implications, but I believe that they are nested/related questions all pointing towards the final question: Why have certain regions in China had virtuous circles of growth and governance improvement while others have experienced vicious circles of low growth and low institutional capacity? Local leaders head highly interventionist states and have large personal systemic effects on outcomes. They are incentivized by a hierarchical promotion system whose criteria are based largely on performance, but these performance criteria differ between regions and provinces as part of a national strategy to maintain both high rates of growth as well as social and political stability. Three decades after Deng’s famous aphorism to let some get rich first, the center is still helping some get rich faster.
3 UNDERSTANDING GROWTH IN CHINA’S COUNTIES

“Scientific development is all about development: the key is discovering and scientifically confronting the relevant contradictions that impede further development at the current stage of development. Xuyi is currently at the beginning stages of industrialization. At this stage, the most important contradiction is the need to speed up industrialization despite weak economic foundations. This contradiction manifests itself in needing to find outside help – the difficulty of attracting investment. And attracting investment difficulties are reflected in Xuyi’s lack of reputation and lack of a beneficial development environment” – Former Xuyi County Party Secretary Wang Youfu (Y. Wang 2005, 79).

“The economic historian and the local industrial promotion agency are both interested in economic growth. Perhaps they should compare notes more often. A sound and useful body of general principles of economic development must be derived at least partly from studies of specific local situations. Conversely, a sound and useful approach to specific problems of promotion and development in a community or a region requires an understanding of general principles.” – Hoover and Fisher (1949, 175).

In May 1994, the State Council approved Anhui Province’s application to upgrade the administrative status of Jiashan County (嘉山县) to a county-level city (xianjishi 县级市). Along with the administrative upgrade, Jiashan got a new name: Mingguang (明光), the city of bright light. As its new name implied, Mingguang in the early 1990s was a developmental success story with a bright future. Per capita GDP in 1993 was 2383 RMB, 25.4 percent greater than Anhui’s county average. Mingguang was geographically well-situated, directly on the rail line from Bengbu City to Chuzhou City (and on to Shanghai), and only an hour and a half from Nanjing on the #104 National Highway. The local ground was blessed with abundant clay minerals (Palygorskite/attapulgite, aotubang 凹凸棒) with uses in pharmaceuticals, pesticides, and fertilizer. Wang Daohan (汪道涵), the county’s most famous son and a former Shanghai Mayor (and mentor/patron to General Secretary Jiang Zeming), had recently become the president of
the Association for Relations Across the Taiwan Straits (ARATS) and continued to encourage Shanghainese investors to target funds at his hometown (Interview AH104). The new administrative “county-level city” status gave Mingguang more favorable tax treatment and more direct access to provincial authorities.\textsuperscript{139}

Xuyi County in Jiangsu Province borders Mingguang to the east. Belonging administratively to Huaian Prefecture, Xuyi is part of Jiangsu’s “backwards” northern region, Subei (苏北). Despite being less than a two hour drive from Jiangsu’s capital city, Nanjing, and the outskirts of the Shanghai metropolitan area, Xuyi had been left behind. Per capita GDP in 1993 was only 51 percent of the provincial average, and while both Xuyi and Mingguang were poorer than the national county average, Mingguang was 6 percent richer on a per capita basis than Xuyi in 1994.

Mingguang in 1994 seemed to have a brighter future than Xuyi, but by 2010 Xuyi had nearly twice as much income on per capita terms as Mingguang (14,330 RMB versus 7,579 RMB). Multiple industrial development zones in Xuyi are now home to highly profitable domestic as well as foreign manufacturing firms. While Mingguang has the same basic city plan that it did two decades ago, Xuyi’s county seat has developed multiple “city” centers that have become increasingly modern as they have progressively moved east, with wide roads and tree-lined streets. For the past decade, Xuyi has branded itself as the crawfish capital of China, hosting a “Crawfish Festival” (longxia jie 龙虾节) each summer that attracts tens of thousands of visitors and serves as an annual

\textsuperscript{139} County-level cities earn this status through a combination of economic success (GDP in the entire county as well as in the county seat itself) and bargaining. Once the status is attained, these cities become a half-step higher in administrative grade and can deal with provincial authorities directly. See Jacobs (1999).
occasion for proactive investment promotion. Investors from the region praise high levels of local administrative efficiency and efficacy as well as the "helping hand" provided by the Xuyi government. Some of these same investors and many others identify the unhelpful attitude of Mingguang’s officials as a major deterrent to investment. Mingguang is most famous for a set of cases of corruption “nests” (wo’an 案) discovered and rooted out over the past twenty years.

The Mingguang and Xuyi divergence is not unique: lying just north of Mingguang and Xuyi, respectively, Wuhe (Anhui) and Sihong (Jiangsu) share a similar albeit less extreme story, and even further north, Si (Anhui) was left behind by Suining (Jiangsu). These six case counties are not outliers; more generally, northern Jiangsu counties outgrew neighboring Anhui counties that had had similar levels of income in the mid-1990s.

What happened? I posed this question to dozens of economic officials, entrepreneurs, and investors in the six case counties. Their responses diverged in specific details, but almost unanimously highlighted several similar themes: cultural and historical differences, geography, provincial policies, local governance, and good leadership. It is worth quoting at length from one Jiangsu county deputy finance bureau chief, who was trying to explain why Northern Jiangsu (Subei) is backwards compared to Southern Jiangsu (Sunan) and why Anhui is backwards compared to Jiangsu:

“We need to look from a historical perspective. There aren’t many land resources in Sunan, so they developed other industries. It’s also close to Shanghai. And then there’s the Suzhou-Singapore connection, which brought in new management methods and human capital. There’s also the historical Silk Road. This is to say that that area has always been developed. On the other hand, Subei from a historical perspective has been just one big agricultural plain with lots of land and people all dependent on the land. Subei’s development really started with Li Yuanchao who wanted to close the gap. This was done in two ways: fiscal
transfers and Sunan enterprises moving north to Subei. The latter happened because Subei had lots of land which it could offer cheaply, and also lots of migrants were returning and labor was cheap and plentiful. In deciding where to locate, enterprises have to consider people’s overall quality (ren de pubian suzhi 人的普遍素质) and the local environment (huanjing zenmeyang 环境怎么样) as well as preferential tax policies. Anhui can’t give away land as cheaply or support enterprises enough, but the bigger problem is the people’s lack of quality. The cadre environment is entirely different (ganbu suzhi dou buyiyang 干部素质都不一样). This cadre environment means that enterprises don’t want to invest there and banks don’t want to support them. If local funds can’t support a good investment environment, then no one wants to come. Anhui’s county funds are far from sufficient (yuanyuan bugou 远远不够)” (Interview JS286).

The deputy bureau chief highlighted several themes: historical/cultural differences, the role of provincial policies and provincial leaders; changing dynamics in factor prices (cheaper land and cheaper labor); and the role of governance and cadre “quality” as opposed to just preferential policies. In exploring the dynamics and causes of county-level growth in China, and particularly in Jiangsu, Anhui, and the six sample counties, this chapter examines the first three of these themes in depth; the final theme, governance, is examined in the subsequent chapter. Traditional explanations of growth that rely on geography and natural endowments can help explain broad regional trends in China’s counties, but they cannot help explain the difference in outcomes among bordering counties. Provincial policies and institutions have resulted in large border effects that help determine outcomes, but also have widely varying sub-provincial effects. Changing factor price dynamics have made counties more attractive as destinations for mobile capital and have changed local approaches to growth, but the ability of counties to take advantage of this transformation has differed greatly both across regions and within regions.
More broadly, this chapter explores how China’s counties grow across time, across regions and provinces, and within the six case study border counties. Much of the chapter is descriptive in nature, explaining how counties grow and serving as a building block for creating a framework of the channels through which administrative efficiency and county leaders themselves affect local growth outcomes; an understanding of county leadership economic roles and personal incentives requires first an understanding of county-level economics and county growth trajectories and determinants. The chapter begins by examining high inequality across China’s counties, demonstrating that while provincial borders have a large effect on outcomes, intra-provincial inequality is also very high. The chapter then explains broad growth trends at the county level during China’s reform period, focusing in particular on the switch from relatively low growth based largely on productivity enhancements in the 1990s to rapid growth based on capital accumulation in the 2000s. A growth accounting exercise confirms this general trend, and a discussion of push and pull factors for mobile capital in the 2000s explains the trend. The chapter concludes by discussing the basis for regional and county differences in growth outcomes, using a growth regression framework to highlight recent correlates of growth.

3.1 Let some get rich first: Inter-provincial and intra-provincial county inequality

China’s richest county in 2010, Kunshan (county-level) City in Jiangsu (295,273 RMB per capita GDP), had 116 times more per capita income than China’s poorest county, Dongxiang Autonomous County in Gansu (2545 RMB per capita GDP). To repeat: 116 times. With a GDP per capita of nearly 44,000 USD at market exchange
rates, Kunshan would have been one of the richest 20 countries in the world, while Dongxiang, with a GDP per capita of 376 USD would have been among the 10 poorest, with lower per capita income than the Central African Republic, Sierra Leone, and Guinea. China’s inter-county inequality is much starker than provincial differences: the richest province, Jiangsu (52,840 RMB per capita) is only four times richer than the poorest, Guizhou (13,119 RMB per capita). County growth outcomes have been highly variable, and these economic outcomes are not determined solely by provincial location: provinces matter but even within provinces, counties have different outcomes. This section demonstrates that: (1) there has been extremely wide variation in county outcomes; (2) counties within a province do not all grow together (high intra-provincial inequality); and (3) provincial borders do matter beyond simple geographic distance (inter-province inequality is high and borders lead to disjunctions).

Understanding the dynamics of county-level inequality through a comparison of the relative contributions of inter-provincial and intra-provincial inequality helps determine the role of geography and provincial borders in explaining county-level growth outcomes. The Theil index enables a disaggregation of inequality into within and between components, treating counties (rather than individuals) as the unit of analysis.

140 These calculations are made comparing all 188 countries with available data for 2010 from the World Bank World Development Indicators. Note that a purchasing power parity (PPP) comparison of per capita income would better reflect local conditions; however, price differences in Kunshan and Dongxiang are likely to be as different as price differences between countries, so applying one PPP conversion in both areas yields extreme results: namely, in 2010 PPP terms, Dongxiang would have been the fifth poorest country in the world and Kunshan would have been the third richest with nearly $90,000 per capita GDP, behind only Qatar and Macao.

141 Including province level municipalities instead of simply provinces, Guizhou is 5.8 times poorer than Shanghai (76,074 RMB per capita).

142 Additionally, sub-provincial variation in county outcomes is important for motivating/enabling yardstick competition between localities, discussed in Chapter Six.

143 The basic expression for the index, first proposed by Theil (1967), is:
China has extremely high variance in county per capita incomes, with an overall Theil index in 2010 of 0.28. For comparative purposes, in the United States, a similarly sized geographic area with a relatively similar number of counties and states/provinces, the county-level Theil index is only 0.03; China has nine times higher county-level inequality (see Figure 3.1 below). In both China and the U.S., over twice as much inequality results from within state/province inequality as from between state/province inequality; but in China, county inequality both between and within provinces is nearly an order of magnitude larger than in the United States. In contrast, it is interesting to note that national individual-level Gini coefficients in both countries are relatively similar (and high), although the data are insufficient to determine what degree of individual inequality in each country stems from within-county versus between-county inequality.

\[ T_T = \frac{1}{N} \sum_i \left( \frac{x_i}{\bar{x}} \cdot \ln \frac{x_i}{\bar{x}} \right) \]

where \( N \) is the population size, \( x_i \) is the unit of measurement across \( i \) individual units of analysis (usually individual wealth, but in this case county average GDP per capita), and \( \bar{x} \) is average county GDP per capita in the entire country. The Theil index can be decomposed as:

\[ T_T = \sum_j s_j T_{Tj} + \sum_j s_j \ln \frac{\bar{x}_j}{\bar{x}} \]

where \( T_T \) is the total Theil index, \( s_j \) is the county share of total GDP, \( T_{Tj} \) is the Theil index within province/state \( j \), \( \bar{x}_j \) is average GDP per capita in province \( j \), and \( \bar{x} \) is average county GDP per capita in the entire country. The left-hand term represents the within-province component of inequality, while the right-hand term represents the between-province component.

144 Note from the Theil index equation in footnote 143 that the greater number of counties in the U.S. should result in higher inequality as measured by the Theil index, all else equal.

145 In the latest official Gini coefficients reported for each country, China reached 0.47 while the U.S. reached 0.45.
The fact that twice as much inequality stems from intra-provincial inequality as from inter-provincial inequality partially challenges the widely held view that regional inequality explains overall inequality; China’s county-level inequality cannot be explained wholly by the contrast between a “developed” coast and a “backwards” inland region. Moreover, the degree of inequality within provinces differs widely, with the intra-province Theil index ranging from 0.044 in Hainan to 0.433 in Gansu, and no easily identifiable provincial characteristic predicts within-province levels of inequality,
implying that specific local factors, policy choices, and institutional differences must explain variability in intra-provincial inequality.\textsuperscript{146}

\textbf{Figure 3.2. No relationship between within-province inequality and provincial income}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.2.png}
\caption{No relationship between within-province inequality and provincial income}
\end{figure}

\textit{Source: China Statistical Yearbook; author’s calculations}

Jiangsu and Anhui, the two provinces under special consideration, are at opposite ends of the within-province inequality spectrum. Jiangsu is extremely unequal; its

\textsuperscript{146} Although one might expect higher inequality in wealthier coastal regions that have seen certain areas develop rapidly or might expect greater inequality in provinces with more counties, none of these hypotheses holds on a strictly correlative basis. Moreover, as discussed in Acemoglu and Dell (2010) and elsewhere, a neo-classical growth model would attribute most income differences to variability in physical capital: China’s provinces could exhibit variation in inequality due to differences in physical capital stocks. This hypothesis does not hold either, using provincial capital stocks from Y. Wu (2009) (results not shown).
internal Theil index is larger than that of the nation as a whole, and this is not an artifact of its size (number of counties or population) or its high income.\footnote{Shandong and Zhejiang, China’s two richest provinces apart from Jiangsu, have much lower levels of inequality. Poor Qinghai and Gansu have the highest levels of internal county inequality, while Anhui, just as poor as these two provinces, has one of the lowest levels of internal inequality.} A rising tide apparently does not lift all boats. In fact, Jiangsu is a clear outlier in Figure 3.2 above: removing Jiangsu leads to a negative relationship between income and inequality.\footnote{Several authors have tried to describe why Jiangsu is so unequal. Wei and Kim (2002) look at within-province inequality in Jiangsu from 1950 through 1995, finding that while inequality between Jiangsu’s sub-regions grew during the Mao era, inequality took off both within and between sub-regions post-1984, as growth switched from extensive agriculture to intensive industry. Inequality in the 1984-1995 period was driven by shares of SOE assets, levels of foreign direct investment, human capital levels, and agglomeration effects. Ho (1994) and Wei (2000) further discuss the advantages of Sunan in achieving agglomeration effects and attracting FDI, not only as a result of geography, particularly proximity to Shanghai, but also as a direct result of national and provincial preferential policies. Similarly, Rozelle (1994) finds rising inter-county inequality in Jiangsu between 1984 and 1989 based on varying speeds of rural industrialization. Long and Ng (2001) identify several factors as contributing to increasing intraprovincial inequality in Jiangsu: not only regional preferential policies (e.g. Nantong and Lianyungang designated as open port cities, Zhangjiagang became only inland river port free trade county in 1993), but also historical factors, including Subei Huaihe flooding and pre-Ming Dynasty conflict!} How important are provincial boundaries for determining outcomes, and how much is geography itself responsible? Given that northern Jiangsu is the poorest part of the province, it is natural to conclude that geography is at play. Southern Jiangsu is an historically rich area with high population density and close proximity to Shanghai. And indeed, GDP per capita is negatively correlated with distance from Shanghai: every additional kilometer distance is associated with a 31 RMB lower per capita GDP in Anhui and 168 RMB lower per capita GDP in Jiangsu (both significant at 99 percent). Feng County in the northwest tip of Jiangsu is 592 kilometers from Shanghai, implying that if it abutted Shanghai its 2010 GDP would be 108,754 RMB rather than 9221 GDP, a nearly 12-fold difference. Given the importance of foreign capital and foreign trade to China’s growth, it is not surprising that this geographical correlation holds more broadly:
proximity to Shanghai is a good proxy for county economic development throughout the country (see Figure 3.3 below).\textsuperscript{149}

**Figure 3.3. Geography as a determinant of income**

*Distance from Shanghai versus per capita GDP*

\[\text{Source: China Data Online; Census Data; author's calculations}\]

These results seem to imply that geography is determinant and that provincial policies are irrelevant, but this is too strong a conclusion; provincial boundaries and thus provincial institutions are important determinants of growth. Continuing with the U.S.-China county comparison, it is informative to compare border dynamics in Jiangsu and

\textsuperscript{149} Mining and oil counties in western China are among China’s richest, explaining some of the observations in the upper right quadrant.
Anhui to border dynamics in the U.S. states of Virginia and West Virginia. These two states share many similarities with Jiangsu and Anhui. Geographically, they are in the country’s central-east, with the richer province on the coast and the poorer bordering to the west (see Figure 3.4 below). While D.C. is not quite the economic growth engine for the U.S. that Shanghai is for China, distance from D.C. is nevertheless a very good income proxy for both Virginia and West Virginia. Virginia (Jiangsu) is one of the richest states (provinces) in the U.S. (China), while West Virginia (Anhui) is one of the poorest, and the West Virginia-Virginia border is the most unequal state border in the U.S.\(^{150}\) Even the number of bordering counties is similar: 14 Virginia counties border 11 counties in West Virginia, while 13 Jiangsu counties border 11 counties in Anhui.\(^{151}\)

However, a comparison of income ratios of bordering counties between the province/state pairs in the two countries shows that while in the federalist United States the state boundary has minimal impact on determining per capita GDP, in China the provincial boundary deeply influences economic outcomes. This is shown graphically in Figure 3.5. The gray line represents the state (province) overall per capita income ratio, and the dotted black line represents equality. The dots represent the ratio of each border county to the average per capita income of the counties (in the adjacent state) that it borders. For the richer state/province counties, these ratios are inverted. If province/state policies were largely irrelevant and geography determined outcomes, then counties

\(^{150}\) This is calculated by taking the per capita GDP ratios of all U.S. states that share a border. The Maryland-West Virginia border is actually slightly less equal, but there are only three counties bordering West Virginia on the Maryland side, making the comparison less useful.

\(^{151}\) Unfortunately rounding out the similarities, negative stereotypes of the poorer counterpart in both countries abound.
bordering each other across provincial/state lines should have income ratios approaching equality; in terms of the graph, points would be expected to lie close to the gray line, or at least between the black dotted line and the gray line. The charts show that in the U.S., bordering counties trend towards equality: geography dominates state policy. In China, however, nearly half (10 out of 24) of the border counties are more unequal than the provincial average. Put another way, the average gap closes by more than half for counties in West Virginia-Virginia, while it closes by less than one-sixth for counties in Anhui-Jiangsu. In a perhaps more intuitive way, Figure 3.6 shows that for any given distance from Shanghai, Jiangsu counties have considerably higher per capita income than Anhui counties. Given the above results showing the importance of distance from Shanghai in determining growth, the results here are especially striking, and imply that provincial-level institutions have a large effect on county growth outcomes.

**Figure 3.4. Geographic position of West Virginia and Virginia versus Anhui and Jiangsu**
Figure 3.5. Provincial (state) borders more determinant of growth in China than U.S.

Per capita income ratios between bordering counties

A. West Virginia v. Virginia

B. Anhui v. Jiangsu

Source: China County Statistical Yearbook; US census data; author’s calculations.

Note: The gray line represents the overall per capita income ratio in each state (province). The dotted black line represents equality. The dots represent the ratio of each border county to the average per capita income of the counties that it borders in the adjacent state or province. For the richer counties, these ratios are inverted.
3.2 County growth trends, development models, and factor markets

Understanding why county growth outcomes have differed within and across provinces requires an understanding of how counties grow: the rest of the chapter focuses on this question. Counties constitute an important economic tier in China’s administrative hierarchy. They are not only responsible for agricultural and rural development, but are also at the nexus of urbanization and industrialization, frequently centered around the county seat (xiancheng 县城), resulting in “comprehensive”

**Figure 3.6. County income, provincial borders, and distance from Shanghai**

*Distance from Shanghai versus per capita GDP in Jiangsu and Anhui*

*Source: China Data Online; Census Data; author’s calculations*
During the post-Mao era, China’s counties have evolved through three broad developmental eras, changing their role within the national economy; while not exact, these three eras can be divided by decade into the 1980s, 1990s, and 2000s. Much of the transformation of China’s economy over this period has resulted from the impact that ownership restructuring, sectoral reallocation (industrialization), openness, and migration patterns have had on factor markets (land, labor, and capital), with inconsistent county-level effects during the separate broadly-defined periods. In the 1980s, counties led China’s growth as agricultural productivity increases generated local capital and surplus labor that created conditions for rural industrialization. The 1990s saw a move towards coastal cities, with a hollowing out of rural counties; the counties that did grow did so with the help of foreign capital (in a few lucky coastal counties) or productivity increases through industrial restructuring (predominantly TVE privatization). The trend towards county hollowing-out was replaced by a return to counties in the 2000s, as labor out-migration slowed and investment searched for high returns outside of increasingly expensive major cities. Counties in this period, like the rest of China, grew through capital accumulation.

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152 Yao (2010) discusses the concept of comprehensive economies in the context of China’s counties: “County-level economies have relatively complete economic systems, touching upon production, distribution, consumption, and allocation as well as primary, secondary, and tertiary industries…” To understand regional growth, a concept of “region” must be first understood. Economists often use ideas of self-sufficiency or homogeneity. Hoover and Fisher (1949, 178) prefer: “geographic area within which there exists an especially high degree of interdependence among individual incomes.” By this standard, counties or prefecture-level areas are a more appropriate regional unit than provinces.

153 The openness story of the 1980s/1990s and the “return to counties” story of the 2000s is a sign of China’s maturing domestic industrial structure and can be seen as a variation (or continuation) of the product life cycle and flying geese theories. A common historical experience of today’s advanced countries has been concentration of urban industry followed by concentration of urban services as manufacturing and heavy industrial firms move to small cities, suburbs, and rural areas (World Bank 2009). In a framework tied to East Asian industrial development patterns, the rise of China’s counties can be seen as a natural continuation of the Japanese “flying geese” theory. Saburo Okita popularized this theory in
With these changes, the role of local governments changed. In the 1980s, with diverse inherited industrial legacies and ownership structures, counties grew in highly disparate ways, generating an idea of “county models” for development. Q. Wang (2003) defines seven “development models” (fazhan moshi 发展模式) based on different regions in China: Sunan (Jiangsu, TVEs), Wenzhou (Zhejiang, private sector), Zhujiang (south China, JVs and FDI), Jiyuan (Henan, SOEs), Jincheng (Shanxi mining), Yiwu (Zhejiang, specialized markets), and Nong’an (Jilin, agricultural products). But over time, these models evolved and converged. For instance, even in the “hands-on” Sunan model the government role changed over time, shifting from involvement in direct operations from 1984-1994 to a greater regulatory and supervisory role after 1994. The models are now largely outdated, and the role of initial industrial structure has diminished as development priorities have shifted from diverse modes of rural industrialization and agricultural productivity enhancement (1980s) to industrial efficiency through restructuring (1990s) to industrial growth through investment and urbanization (2000s).

This dissertation focuses on China’s county growth in the late 1990s and 2000s, as the emphasis switched from industrial restructuring to investment attraction, but brief background on the growth story of the 1980s is useful. China’s growth in the 1980s

1985 (it had been developed as early as the 1930s by Kaname Akamatsu), looking at stages of productive development across countries in East Asia: as early-moving countries move up the industrial value-added chain, next-in-line countries fill the gap. Because of China’s size and spatial inequality, it makes sense to consider China’s advanced industrial cities as separate from more backwards “rural” counties. While recent discussions of China’s economic development highlight growing costs in Shenzhen, Shanghai, and other manufacturing powerhouses, conclusions that these plants will move to Vietnam or other countries slightly lower down on the development spectrum overlooks the role of China’s counties. Note that these counties are not all “inland,” so this is not simply a story of firm migration to inland China. This “flying geese” theory also has similarities to the “product life-cycle theory” proposed by Vernon (1966).

154 These are the same models identified in X. Zhang (2009, 23-24). See also discussion in Tsai (2007, 152-161).
hinged on agricultural productivity enabling the creation of industrial TVEs. The introduction of the household responsibility system in the early 1980s rapidly boosted agricultural productivity, leading to local industrial growth in “non-state” collective and private enterprises; farmers left the land without leaving the village (litubulixiang 离土不离乡). National growth in the 1980s was largely a rural phenomenon centered in China’s counties. Indeed, some authors attribute the rapid growth of the 1980s entirely to rural farmer initiative, divorced from (or in spite of) local state structure.\(^{155}\) TVEs were very flexible and had few institutional constraints, allowing them to compete favorably with unwieldy and inefficient state-owned enterprises (SOEs) that also had social welfare responsibilities and minimal profit motives. Rural industrial employment grew from 28 million in 1978 to over 100 million by the early 1990s, over 20 percent of the rural workforce (Bramall 2008). While nearly all counties benefited from the household responsibility system reforms, some counties were better positioned to take advantage of industrialization.

By the mid-1990s, however, continued economic opening and reform generated conditions that challenged rural industry. Deng’s Southern Tour (nanxun 南巡) in 1992, followed later that year by the 14\(^{th}\) National Party Congress, set the stage for deeper reforms en route to a “socialist market economy.”\(^{156}\) Special economic zones (SEZs) became more important and foreign investment, particularly from Hong Kong, Taiwan,

\(^{155}\) See, for instance, K.X. Zhou (1996).

\(^{156}\) The Third Plenum of the 14th Central Committee in 1993 introduced the idea of the “socialist market economy,” which boosted the non-state sector role, leading to growth in private enterprise and foreign investment. See Suliman (1998).
and Singapore, flowed in. Inefficient SOEs were restructured, creating more efficient private firms, a process that accelerated following the “grasping the large and releasing the small” (zhuada fangxiao 抓大放小) strategy introduced at the 1997 15th CCP National Congress.157 This emerging growth pattern, emphasizing foreign direct investment (FDI) attraction and the growth of large private enterprises, favored coastal cities and an elite subset of geographically well-positioned coastal counties that could take advantage of this environment.

The 1990s thus witnessed a hollowing out of county industry. As SOE reform deepened and China entered the global economy, low efficiency and low technology TVEs could not compete with larger industrial firms in coastal prefecture-level cities, which also benefited from nationally-assigned preferential policies.158 Migrants flowed into industrial cities with large FDI inflows, and county shares of total industrial production fell. China’s net annual urban population growth increased from 11.1 million residents annually from 1981-1990 to 15.7 million over 1991-2000, and most of this was to cities (as opposed to “urban” county townships). In the 1990s, FDI as a share of total gross fixed capital formation surged: this share remained under 3 percent throughout the 1980s before jumping to 17 percent by 1994. The county share of total fixed asset investment declined from 36.7 percent in 1996 to 31.5 percent by 2001;159 in other words,

157 Between 1995 and 2001, SOEs in China shed over 40 million workers. For the effect of this restructuring on urban employment, see Giles, Park, and Cai (2006).
158 See discussion in Q. Wang (2003). One scholar of China’s county development writes: “Following the deepening of reforms of large SOEs and large-scale foreign capital inflows, rural industry lost the bulk of its market space (shichang kongjian 市场空间). The scattered nature of TVEs, high-input-low-efficiency (gaohao dixiao 高耗低效) and low-technology production began to restrain TVE competition, and in the face of this competition many collapsed” (J. Liu 2005, 43). For a discussion of the centrally-determined regional favor given through preferential policies, see Wang and Hu (1999).
159 Good data on county-level investment does not exist until the mid-1990s.
as more investment came from outside the country, less investment went to counties. With capital and labor exiting, factor accumulation was not a reliable growth source, and counties had to rely on productivity increases through TVE restructuring. The speed at which privatization occurred differed across provinces and prefectures depending on upward pressure, but even in Jiangsu, traditionally seen as a leader of the collective/TVE economy, 79 percent of TVEs had undergone “property rights reform” by the end of 1997 (Bao, Zhang and Wang 2000).

In the 2000s, China as a whole has increasingly relied on capital-intensive growth. Factor market conditions have changed rapidly, “pulling” investments into many counties and also “pushing” investments away from many cities. Counties re-emerged through private domestic investment and industrialization. In more recent years, competition, rising domestic demand, and slower growth of foreign demand have added competitive pressures on the supply side while gearing more production towards domestic markets. Despite concerns of “the state advances, the private sector retreats” (guojin mintui 国进民退), privatization has continued, and more and more of China’s domestic industrial output and investment comes from private domestic firms. The mobile capital of firms and investors has fled high city prices to invest in counties; investment and industry flowed out of cities and into counties with cheaper land, lower wages, and more helpful...

\[160\] For a discussion of the regional/spatial variation of privatization in the 1980s and 1990s see Han and Pannell (1999).
\[161\] This is similar to the Ministry of Agriculture national estimate that 80 percent of TVEs had privatized or restructured by 1998 (“converted into SCs, shareholding companies, partnerships, proprietorships, or had been reformed through merger, leasing, collateral contracting, or bankruptcy”) (Yuan 2000). In Xuyi County, one of the case counties, by 2000, TVE reform was basically completed, with over 98 percent reformed, attracting over 990 million RMB in the process. 1993 was a major year for enterprise reform, with 76 enterprises restructured and eight enterprises auctioned off for 3.14 million RMB (Xuyi Yearbook 1994).
(and desperate for revenues) local governments. As the 2000s progressed, growing
domestic demand and growing expectations of domestic demand made non-coastal
counties more attractive.\textsuperscript{162} One young but already very successful real estate investor in
Sihong County, Jiangsu, described how he had previously worked his way up several
export industry firms in both Shenzhen and Southern Jiangsu, but returned to Subei after
the financial crisis:

“Investing in Shenzhen and other first and second tier cities is now impossible.
Small eastern cities at the county and prefecture level have more growth potential.
And once these markets are saturated, investment will move west. For instance,
there are tons of Anhui and Sichuan workers in Sihong right now, and when they
make enough money, they’ll go home and get those economies moving”
(Interview JS240).

The data support these trends. The 1990s trends towards growing importance of
FDI and growing city share of FAI were reversed: the county share of FAI shot up to
over 48 percent by 2011 while the FDI share of gross fixed capital formation (GFCF) fell
to only 3.5 percent (see Figure 3.7). The county shares of FAI in Anhui and Jiangsu rose
from 26.0 percent and 46.3 percent in the 1990s (average over the decade) to 39.4 percent
and 53.0 percent, respectively, in the 2000s, and rising to 44.1 percent and 63.6 percent,
respectively, in 2010.\textsuperscript{163} The county-level investment explosion in Jiangsu and Anhui is
shown in Figure 3.8. China’s urbanization and industrialization in this period relied more
on county growth than city growth, contrary to common perceptions. Manufacturing

\textsuperscript{162} In other words, investments began to be targeted at inland areas in anticipation of new demand, even if
some of this demand has yet to materialize.
\textsuperscript{163} Note again that the rural-urban distinction is misleading. According to national statistics, the “rural”
share of investment actually fell from 21.9 percent in 1995 to 13.2 percent in 2010. While counties
generate a larger share of investment in Jiangsu than in Anhui, the shift away from cities has been more
pronounced in Anhui.
Figure 3.7. Trends in county-level and foreign shares of investment

![Graph showing trends in county-level and foreign shares of investment.](image)

*Source: China Statistical Yearbook, various years; China City Statistical Yearbook, various years; author's calculations.*

Employment in China’s counties rose by 23.4 million people between 2000 and 2010, rising from 41.0 percent of China’s total manufacturing employment to 49.5 percent. The manufacturing share of employment at the county-level rose in 23 out of 31 provinces over 2000-2010, while it *decreased* at the prefecture level in 20 out of 31 provinces. And as counties have industrialized, they have also urbanized. Between

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164 Migration patterns have changed, increasingly favoring counties and inland provinces. In 2012, 65.0 percent of rural migrants worked in cities (prefecture level cities, municipal provinces, and provincial capitals) and 23.6 percent worked in counties (11.4 percent worked in towns and other areas). The share working in counties has increased rapidly in recent years: in 2009, the share was only 18.5 percent. Intra-provincial migration has also increased, from under 47 percent in 2009 to over 53 percent in 2012, reflecting a similar pattern. Increasingly “local” migration patterns reflect more rapid inland growth and more rapid county development.
2000 and 2010, China's urban population grew by 217 million people: 56 percent of this increase was in China's counties, while 44 percent was in cities (urban districts) (see Figure 3.9).  

Figure 3.8. Investment explosion in Jiangsu and Anhui counties

From 1982-2010, according to census data, the rural population in China’s counties shrank by 131 million people while the urban population within counties grew by 248 million. The urban population in prefecture-level cities grew by 219 million.
Figure 3.9. Rapid urbanization in China's "rural" counties

*Urban population in counties and cities (urban districts)*

Countsies, and the national economy as a whole, have grown on the basis of investment as China in the 2000s has become an increasingly capital-intensive economy. Gross fixed capital formation as a share of GDP was 29.1 percent in 1980, 25.9 percent in 1990, 34.1 percent in 2000, and 45.7 percent in 2010. In work with Aart Kraay, I have shown the increasing share of capital accumulation in China’s growth: 42 percent of total growth from 1981-1990, 50 percent from 1991-2000, and 66 percent from 2001-2008 (Bulman and Kraay 2012). An increasing share of this investment comes from self-raised funds and retained profits rather than loans that have in the past favored large SOEs: the
state budget has consistently accounted for only 2-7 percent of total FAI,\textsuperscript{166} and the domestic loan share of FAI has declined from over 20 percent in the 1990s to 15 percent in 2010,\textsuperscript{167} at the same time that the foreign investment share has fallen to less than 2 percent. Taking up the slack, self-financing has risen from 65 percent to nearly 80 percent of total FAI.\textsuperscript{168} While foreign investment favored more convenient and “developed” coastal cities and state capital favored large heavy industrial investment or large city investment, private capital is more malleable and has less geographic (coastal) preference in addition to more local knowledge.

\textsuperscript{166} Supporting this, government expenditure on capital construction in the case counties, despite rising somewhat in recent years, has generally accounted for only 1-3 percent of total expenditure (and a smaller share of total investment). Average for 1996-2006: Suining 0.7, Xuyi 3.1, Sihong 2.0, Wuhe 1.7, Mingguang 1.8, Si 1.2.

\textsuperscript{167} It is difficult to determine at the local level the share of investment from domestic credit. Lending is complicated given the difficulty in pinning down location of loan origination. Many loans for investment in sample counties were taken out from larger city banks. Conversely, many local loans were meant for investment outside of the county. In looking at formal statistics on aggregate local bank lending, we can look at either outstanding loans or year-on-year changes in loans – the relevant statistic depends on what proportion of loans are repaid in a year. Either way, there is a decrease in the importance of lending to total local FAI. While outstanding loans were over 200 percent of FAI in all sample counties in 1997 (the first year with loan data), the outstanding loan-to-FAI ratio in 2010 had fallen to under 75 percent in all counties (as low as 37 percent and 42 percent in Xuyi and Wuhe, respectively). Over the whole period, the average share of the growth in annual loans to total FAI ranged from 5.9 percent in Xuyi to 10.4 percent in Sihong – not much variation, and not much change over time. Even on a per capita basis deposits are not much larger in Jiangsu, but loans are twice as large. But lending is not the whole story: Mingguang has a higher loan-to-GDP ratio (55.4 percent in 2010) than any county in the sample except for Sihong (57.4 percent in 2010) but has low returns to capital and low levels of productive investment.

\textsuperscript{168} Note that much of this self-financing likely comes from informal and secondary loan markets outside the formal system.
Industrialization through investment attraction has become the *sine qua non* for county economic success, but not all counties have had equal success, as the inequality analysis above would suggest. However, there is not a linear coastal-central-western divergence in industrialization outcomes at the county level. Between 2000 and 2010, central provinces as well as coastal provinces saw large increases in county-level manufacturing employment (see Figure 3.10 above). As the provincial borders

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169 Indeed, in recent years there has been a regional transition away from coastal areas. From 2005-2010, the share of non-agricultural employment in eastern provinces fell from 55.7 percent to 54.4 percent, while the eastern province share of manufacturing employment fell from 71.1 percent to 68.1 percent (Census Data). This is a very new trend: from 2000-2005, the eastern share had still been rising, and the eastern share remains by far the largest.
analysis highlighted, provincial policies do matter: the county manufacturing share of employment in central Jiangxi rose by 14.2 percent between 2000 and 2010 – only Jiangsu’s counties changed more, and most central provinces lagged. Additionally, as the inequality exercise above suggests, different outcomes have not varied only by region and province; intra-provincial variation is also high, as seen in Figure 3.11 for Jiangsu and Anhui.

**Figure 3.11. Averages hide wide variation in sub-provincial county investment**

*Fixed asset investment share of GDP by county; black line is average*

In 1994, counties in Jiangsu employed 27.2 million people, including 13.8 employed in agriculture. In 1999, these numbers had barely shifted (27.1 and 13.6), yet by 2010, only 7.3 million out of 23.6 million total were in agriculture. In other words, agricultural employment fell in half, as a result of both out-migration and re-employment in industry and services (if we assume that the entire total employment decline came from agricultural outmigration, then 3.5 million of the total 6.5 million decline was from out-migration, or 54 percent).
The six case counties highlight the changing growth emphasis and capabilities of counties as well as the variation in ability to take advantage of these changes. In 1990, all six case counties had agricultural employment shares over 85 percent and industrial employment shares ranging from only 2 to 6 percent; in the subsequent ten years, these shares grew insignificantly, but by 2010 industry accounted for 38 percent of employment in Suining, 27 percent in Sihong, and 24 percent in Xuyi (the three Jiangsu sample counties), but only 13 percent, 11 percent, and 8 percent, respectively, in Wuhe, Mingguang, and Si (the three Anhui sample counties), as shown in Figure 3.12. The most rapid increases in all six counties occurred from 2000-2010; in fact, during the 1990s, when further industrialization (from the 1980s) remained largely a prefecture-level city and advanced county phenomenon, these sample counties saw little or no additional movement out of agriculture: the minor restructuring and initial inward investment in industry were largely counteracted by TVE closures in a large-firm-led industrialization process in which smaller TVEs were no longer competitive. Investment data shows that in all six counties, while investment grew over the late 1990s, it exploded in the mid-2000s (see Figure 3.13). In the case counties, efforts to industrialize have proved much more effective in Jiangsu than in Anhui, as did efforts to urbanize. In the six counties, the actual (including non-hukou holders) urban population increased from 20.2 percent in 2000 to 35.7 percent in 2010; in the Jiangsu counties, the share almost doubled from 23.6 percent to 42.1 percent, while in the Anhui counties it rose from 16.8
percent to 29.4 percent; in other words, the changes in the actual urban population over 2000-2010 are very different for Jiangsu and Anhui.\(^{171}\)

\[\text{Figure 3.12. County industrial employment growth is a 2000s phenomenon}\]

![Image of a bar chart showing industrial employment growth across different counties in Jiangsu and Anhui. The chart indicates that industrial employment share of total employment (%) varies significantly between 1990, 2000, and 2010 for each county, with some counties showing a notable increase. The chart includes a source note: Census data, various years.]

\(^{171}\) Only Wuhe saw a similar increase (19.3 percentage points). The increase in the registered urban population reflects redistricting and hukou changes. These changes are generally quite small; only in Xuyi more than 10 percentage points (and only Mingguang over 5 percentage points). The increase in the actual urban population reflects more pull/demand forces: urban employment, expansion of affordable urban housing (affordable only in the sense that rural residents were able to afford it, not in a government policy sense).
3.3 Accounting for growth: Factor accumulation and productivity

A growth accounting exercise enables a more rigorous examination of the changing determinants of county growth in the 1990s and 2000s. Growth can come from four general sources: capital accumulation, labor accumulation, labor/capital reallocation, and productivity gains.\textsuperscript{172} Reallocation of labor and capital consists of the movement of factors of production from low productivity areas (agriculture) to higher-productivity areas (e.g., manufacturing). A worker who moves from tilling a field to building

\textsuperscript{172} Note that many growth accounting exercises using Cobb-Douglas forms of the production function, $Y_t = A_t K_t^\alpha Y_t^{1-\alpha}$, subsume reallocation effects under the growth residual, which is identified as total factor productivity growth.
computers adds to growth through higher labor productivity, but there is no labor/capital accumulation, nor is there an increase in technological productivity. Most growth accounting exercises focus only on capital and labor accumulation and residual total factor productivity (TFP) growth. For the nation-wide county analysis, this is also the approach I take, given limited data availability, but the more rigorous analysis for counties in Jiangsu and Anhui can also separate out the growth contribution of labor reallocation out of agriculture, similar to Bulman and Kraay (2012).

The specific methodology used in this section, as well as the data, are presented in the appendix to this chapter, but certain points should be addressed directly in the text. The basic methodology assumes a constant-returns production function at the primary sector and non-primary sector (data cannot be disaggregated sufficiently between industry and services), with aggregate output as the sum of the value of output across the two sectors. I assume that value-added in each county ($i$) and sector ($j$) is produced using a constant returns production function $F_{ij}(\cdot)$ using capital and labor ($K_{ij}$ and $L_{ij}$) and a measure of Hicks-neutral technological progress ($A_{ij}$).\footnote{A Hicks-neutral change being a change to the production function that does not affect the labor/capital balance, i.e., changes only $A_{ij}$ in the expression above, and not relative shares of capital ($K_{ij}$) and labor ($L_{ij}$) (Hicks 1932).} A standard aggregate growth accounting exercise would identify aggregate TFP growth as the difference between total output growth and this aggregate share-weighted (by sector) average of capital and labor growth; this is the approach I take for the nation-wide county-level exercise below. However, such an exercise does not distinguish between productivity growth at the disaggregated level and the contribution of factor reallocation across sectors; a
decomposition of output growth captures this contribution. Because capital cannot be
divided between primary and non-primary sectors, the decomposition looks only at the
role of labor reallocation out of agriculture. In looking at a national sample, the limited
data requires a basic growth accounting analysis that does not include labor reallocation
effects, focusing on 1998-2010. I also conduct a more precise analysis including labor
reallocation for Anhui and Jiangsu counties over 1994-2011.\textsuperscript{174}

The key results from these exercises, showing averages across counties, are
shown in Figure 3.14 and Figure 3.15 below. Over 1998-2010, China’s counties have on
average relied on capital accumulation for over 68 percent of total growth (7.3 percentage
points out of 10.6 percent average annual real GDP growth). Over the whole period,
labor accumulation has had a negligible negative contribution, which reflects widespread
out-migration to cities that has been somewhat counteracted by a demographic dividend
that has boosted the working age population. The remainder of growth, 3.4 percentage
points, has come from TFP.\textsuperscript{175} The national sample is restricted to data from 1998-2010,
but even in this period, county growth dynamics experience a large and steady growth in
the capital accumulation contribution to growth, as expected from the discussion above.
In the three years from 1998-2000, county real GDP growth averaged only 7.6 percent,
and 48 percent of this growth (3.6 percentage points) came from TFP growth, more than
the share from capital accumulation (3.4 percentage points). Between 2007 and 2010,

\textsuperscript{174} The major shortcoming of the national series is the lack of a consistent FAI or GFCF series at the county
level and thus the need to proxy overall investment: as explained in the chapter appendix, this is done by
dividing total county investment within each prefecture based on loan and expenditure growth. These
assumptions make individual observations/estimates less robust, but the overall averages still represent real
trends.  
\textsuperscript{175} This is a relatively large growth residual, but similar to other estimates at the national level in China.
capital contributed nearly 80 percent of faster growth (10.6 percentage points of 13.4 percent GDP growth). In other words, in the 1998-2000 period, TFP contributed nearly half of growth, while from 2004-2010 it contributed less than one-quarter of growth. This trend tracks the national experience cited earlier, but it differs from developed country experiences that see a rising share of TFP in total growth as income rises. Note also that while the TFP contribution as a percentage of total growth has halved, TFP growth itself has remained high and fairly constant at 3-3.5 percentage points of growth.

**Figure 3.14. Average county growth contributions over time, 1998-2010**

*Average national contributions to total county GDP growth, %*

Source: See data appendix.
Turning to Jiangsu and Anhui, the data availability enables a more rigorous analysis that includes labor reallocation effects. Both provinces also witness a large increase in the capital accumulation contribution to growth. Including labor reallocation diminishes the pure TFP growth contribution: in the more recent period, as the shift from agriculture to industrialization has accelerated, labor reallocation contributes over 1 percentage point of growth in both provinces. In Jiangsu, the TFP contribution to growth fell from 3.6 percentage points in 1995-2000 to 1.4 percentage points in 2000-2010, while the capital accumulation share rose from 6.1 to 11.1 percentage points. Anhui had a negative TFP contribution in 1995-2000, but the capital accumulation contribution similarly changed, contributing 7.9 percentage points of growth in 1995-2000 versus 10.7 percentage points in 2000-2010. Restructuring in Jiangsu in the 1990s contributed to
productivity increases, while Anhui had no similar capacity for development in the 1990s due to a less developed TVE sector. Both Anhui and Jiangsu have relied on rapid capital accumulation for growth, while labor accumulation and reallocation combined only provided an additional 1 percentage point of growth annually. But while Anhui has had even larger capital contributions to growth than Jiangsu, this capital has been invested less efficiently, with negative average TFP growth in Anhui and TFP growth in Jiangsu averaging over 3 percentage points.

**Figure 3.16. Growth contributions in sample counties, 1995-2010**

In the sample counties, a similar story is repeated. Both investment and TFP are generally larger throughout the period in the Jiangsu counties. Looking at the geographic pairs: Xuyi’s capital accumulation contribution is 3.1 percentage points higher than
Mingguang’s and its TFP contribution is 1.4 percentage points higher; Suining’s capital accumulation contribution is 1.2 percentage points higher than Si and its TFP contribution is 1.4 percentage points higher; and Sihong’s capital accumulation contribution is 0.1 percentage points lower than Wuhe and its TFP contribution is 0.5 percentage points higher. As a whole, the Jiangsu counties performed similarly to the Jiangsu provincial county average, while the Anhui counties on average had less capital accumulation and more TFP growth than the Anhui provincial county average.

This growth accounting exercise demonstrates a general shift towards capital-intensive county growth in the 2000s but does not explain the regional and county-level variation in growth and productivity. Having worked out a basic growth accounting framework, we can now look to see if particular county conditions help predict particular growth outcomes. An important place to start is to see if geography or initial (pre-reform or pre-sample period) conditions influence growth outcomes. Arguments for such pre-determined growth are common and varied. The most common sentiment expressed in both Jiangsu and Anhui interviews for the difference in outcomes came down to “backwardness” (suzhi luohou 素质落后). When pressed on an explanation for this, most interviewees expounded on the historical differences between the counties, regions, and provinces. One Jiangsu county finance bureau official described the fait accompli of culturally-determined growth paths as “a cultural issue with deep roots (genshen digu 根深蒂固) going back hundreds or thousands of years” (Interview JS245). He referred to the example of the Qing Dynasty Emperor Qian Long traveling to Southern Jiangsu (qianlong xia jiangnan 乾隆下江南) to observe government behavior, noting that “his advisors wouldn’t let him go to a backwards place like Anhui. This shows that these
regions have had their same reputations for centuries.” More broadly, economic growth cannot be separated from geographically-determined comparative advantages and previously-determined economic legacies and structures. Natural factors including geography clearly affect the attractiveness of a region, as noted by former Suining County Party Secretary Wang Tianqi:

“From a geographic perspective, Suining has three important conditions: from a climate perspective, Suining is the closest region to the Yangtze River Delta with winter vegetable production; from a potential consumption perspective, Suining is in the midst of the Yangtze River Delta and Huaihai and the four-province border region with 100 million people; and from a transportation perspective, it has a first class airport nearby and a rail line connecting all four directions” (Q. Li 2010).

The high income level of many counties in Shanxi, Inner Mongolia, and Xinjiang, among other places, demonstrates the importance of natural resource endowments, with local economies based entirely on coal and oil/gas.

Perceptions of cultural determinism existed despite historical and geographic similarities between the sets of counties. Some of the geographic factors can vary sub-provincially and influence intra-provincial inequality; however, if we look at Jiangsu alone, geography is fairly equal, and the case counties in both provinces have very similar geographic conditions. Xuyi and Mingguang both have attapulgite (aotubang 凹凸帮) reserves, yet while Mingguang relies on these reserves for growth, Xuyi has branched out into more value-added industry and tourism. Sihong and Xuyi have taken full advantage of their lakeside location, focusing on crab and crawfish development, respectively. But Wuhe’s Lake Tuohu (沱湖) and the five rivers of the county name (Wuhe 五河 literally translates as “five rivers”) are famous for plentiful freshwater delicacies that have not been as well developed. As for historical industrial composition, Xuyi and Mingguang
were a merged county (Xujia County 虢嘉县) until 1949, and Xuyi remained part of Anhui until 1955. Similarly, Sihong was created out of several Anhui districts in 1949 and was initially under Anhui jurisdiction; it too was placed under Jiangsu jurisdiction in 1955. In other words, while culture may play a role, this is not a “deep-rooted” role.

In addition to geography, historical institutional development and industrial composition inherited from the Maoist era have had a large impact on the ability of private firms and collective firms to grow, as well as on degrees of societal integration and cohesion. Tsai (2002) argues that Maoist legacies determined local government approaches to informal finance and thus the “local logics of economic possibility.” Bramall (2008) finds that heavy industrial growth in Jiangsu’s rural areas was a Maoist legacy, and that reform-era rural industrialization and growth is highly correlated with the 1980 level of industrialization. Similarly, X. Zhang (2006) finds that the agricultural share of the population in 1993 predicts growth over the subsequent decade. Using census data and current economic data, scatter plots of industrial employment shares in 1982 (the closest observation to the beginning of the reform era using census data) versus current GDP per capita show that initial industrialization strongly predicts per capita GDP three decades later, seen in Figure 3.17 below using data for Jiangsu and Anhui. However, industrial employment shares do not strongly predict growth rates over 2000-2010 (see the right panel of Figure 3.17) – in other words, initial industrial structures and income are persistent, but in the past decade other factors have become more important.

176 The slogan “the priority is to develop heavy industry” (youxian fazhan zhonggongye 优先发展重工业) was adopted in Jiangsu in the 1950s as part of the first five year plan.
177 For another industrial legacy argument, see Whiting (2000).
Figure 3.17. Mao-era industrial legacy predicts current income but not recent growth

![Graph](image)

*Source: China County Statistical Yearbook; author’s calculations.*

To look more rigorously at the importance of geography and initial conditions, Table 3.1 below shows results for regressions of recent growth and income on previous period conditions, using as controls static variables from 1982 and 2000, geographic variables, and provincial fixed effects. Looking at columns (1) and (2) that regress 2010 GDP and recent growth rates on 1982 static variables, high income counties in 1982 remained high income, although they grew more slowly over 2000-2010, indicating recent convergence. Conditions in 1982 explain 64 percent of variance in 2010 GDP per capita but only 21 percent of GDP growth over 2000-2010. Looking more recently,

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178 These are the years that census data at the county-level are released. Census data are also released in 1990, but those results are not reported here.
column (3) reports coefficients and standard errors for a regression of the 10-year per capita growth average over 2000-2010 on a set of static variables from 2000 and geographic variables. Here, initial conditions account for only 28 percent of variance in growth over the past decade. In other words, geography and preconditions matter, but they are far from determinative. Generally, we see convergence, but counties with higher levels of human capital, higher revenue shares, and more industrial employment were able to partly offset this convergence – in other words, strong preconditions for growth were more important than geography. Moreover, growth in 2000-2010 is largely unexplained by preconditions; in this period of rapid investment and mobile capital, factors unrelated to preconditions have most influenced growth patterns.

In addition to looking at preconditions it is valuable to look at which variables are correlated with faster overall growth and faster productivity growth over 2000-2010. Note that the following growth regressions use concurrent data and thus look simply at correlations rather than at causation; the next section explores in more depth the specific paths through which some of these factors affect growth. Regression results are shown in Table 3.2 below. As before, capital is the most important correlate of growth: 2 percentage points of additional growth in the capital stock leads to an additional 1 percentage point of GDP growth. In addition, counties that grew faster had higher employment growth, more rapid urbanization, greater industrial growth, and greater growth in the college educated population, but they had lower growth in loan and
expenditure shares of GDP. Structural transformation is important, but it is the transformation towards industry, not services, that matters (there is a negative but insignificant correlation with tertiary growth). Urban district growth in the prefecture-level area in which a county is administratively located negatively predicts county growth, implying a core-periphery type argument in which fast growing prefecture-level cities suck growth away from counties. Regressions of TFP growth on these same controls (columns 3 and 4) demonstrate the importance of human capital (college education) and industrialization (secondary employment share) for productivity increases.

Note that this is the GDP share of expenditure and loans, not total expenditure and loans, which are positively correlated with GDP growth (in regressions not shown here). This looks at whether expenditure and loans outpacing GDP growth happens in faster growing counties.
Table 3.1. Preconditions and geography as determinants of income and growth

<table>
<thead>
<tr>
<th>Dependent variable:</th>
<th>(1) Log per capita GDP, 2010</th>
<th>(2) GDP growth avg 2000-2010</th>
<th>(3) GDP growth avg 2000-2010</th>
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<td>-1.460***</td>
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<td></td>
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<td>-0.0268</td>
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<td>(-1.22)</td>
</tr>
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<td>-8.70e-07*</td>
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<td>(-1.81)</td>
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<td>Illiteracy (% working age)</td>
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<td>(1.17)</td>
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<td>13.95***</td>
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t statistics in parentheses. All regressions include provincial fixed effects.

*** p<0.01, ** p<0.05, * p<0.1
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<td>10 year growth average, 2000-2010</td>
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<td>10 year TFP average, 2000-2010</td>
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<td>(18.72)</td>
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<td>Employment growth (CAGR)</td>
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<td>(4.52)</td>
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<td>3.528***</td>
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$t$ statistics errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1
Table 3.3. Predictors of GDP growth in Jiangsu and Anhui counties

<table>
<thead>
<tr>
<th></th>
<th>Jiangsu</th>
<th>Anhui</th>
<th>Jiangsu</th>
<th>Anhui</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital growth</td>
<td>0.340***</td>
<td>0.370***</td>
<td>0.493***</td>
<td>0.373***</td>
</tr>
<tr>
<td></td>
<td>(0.125)</td>
<td>(0.0870)</td>
<td>(0.134)</td>
<td>(0.0840)</td>
</tr>
<tr>
<td>Employment growth</td>
<td>3.083***</td>
<td>-2.029**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.754)</td>
<td>(0.814)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth in industry share of GDP</td>
<td>-0.0149</td>
<td>0.0559</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.183)</td>
<td>(0.101)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth in gov. rev.</td>
<td>0.0229</td>
<td>0.0223</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.0261)</td>
<td>(0.0232)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth in gov. exp.</td>
<td>0.0437</td>
<td>-0.0158</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.0275)</td>
<td>(0.0293)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan growth</td>
<td>0.0636*</td>
<td>0.00752**</td>
<td>0.0688**</td>
<td>0.00989***</td>
</tr>
<tr>
<td></td>
<td>(0.0344)</td>
<td>(0.00295)</td>
<td>(0.0329)</td>
<td>(0.00281)</td>
</tr>
<tr>
<td>Log GDP per capita</td>
<td>-23.07***</td>
<td>-12.52***</td>
<td>-19.70***</td>
<td>-13.07***</td>
</tr>
<tr>
<td></td>
<td>(2.238)</td>
<td>(2.891)</td>
<td>(2.467)</td>
<td>(2.998)</td>
</tr>
<tr>
<td>Population growth</td>
<td>0.212</td>
<td>-0.171**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.250)</td>
<td>(0.0789)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>238.2***</td>
<td>99.22***</td>
<td>203.0***</td>
<td>111.2***</td>
</tr>
<tr>
<td></td>
<td>(22.78)</td>
<td>(22.92)</td>
<td>(24.81)</td>
<td>(24.41)</td>
</tr>
<tr>
<td>County fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>582</td>
<td>684</td>
<td>582</td>
<td>684</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.485</td>
<td>0.440</td>
<td>0.450</td>
<td>0.430</td>
</tr>
<tr>
<td>Number of counties</td>
<td>51</td>
<td>57</td>
<td>51</td>
<td>57</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Using data for Jiangsu and Anhui from 1994-2010 and looking at one year lagged independent variables in a county and year fixed effects model confirms the importance of capital accumulation; lagged changes in government revenue and expenditure, population, labor, and industry growth add almost no explanatory power to the model (see Table 3.3). Income in the previous year along with capital growth and loan growth in the previous year explain nearly half of all growth. Note also the negative and
significant coefficient on lagged (log) per capita GDP, which implies that the provinces are experiencing convergence, with poorer counties growing faster.

3.4 Explaining investment decisions: Push and pull factors

The story above focused on the importance of investment for county growth, highlighting that initial conditions do not fully explain recent growth and investment. This section looks in more depth at the push and pull factors that enabled the re-emergence of counties as industrial units in the 2000s through increased investment, using the case county examples. These factors had to do with changing conditions in cities and counties as well as national and provincial reforms to the financial system, fiscal system, and industrial structure. Rising factor prices and changing investment conditions pushed firms and investment out of large cities at the same time that counties faced added incentives to seek outside investment as a result of changing fiscal conditions. Counties were able to capitalize on lower relative factor prices to pull firms from cities. In addition to these factors, in recent years domestic demand has made counties more attractive, pulling investment away from coastal cities that produced for external demand, and infrastructure investments have made counties more accessible with lower transportation costs (measured in both time and money).

Changing factor market conditions and rising factor prices in cities have “pushed” firms and investors to seek alternative investment opportunities. Rising wages, rising land prices, fewer preferential policies and greater levels of regulation have diminished profit margins in cities, and counties have attempted to capitalize on this development.
Hu Qiwang, the former County Party Secretary of Wuhe, notes that, “Industry from developed coastal regions is relocating, especially labor-intensive (laodong mijixing 劳动密集型) and resource-intensive (ziyuan mijixing 资源密集型), and they’re looking for places to settle down (luojiao didian 落脚地点). Anhui is close to the Yangtze River Delta and is a good place to invest, with a low level of development but lots of advantages for relocating” (Q. Hu 2010). Relative land and labor prices have risen rapidly in major cities. Low land prices have been a major factor in China’s industrial expansion and high rates of fixed asset investment, spurring growth.\footnote{180} Tao, et al. (2007) discuss the race-to-the-bottom competition for low land prices in some of China’s most successful prefecture-level cities in Southern Jiangsu.\footnote{181} With high incentives to convert rural farmland, the urbanization of rural farmland has vastly outpaced the urbanization of people, particularly in sub-tier one prefecture-level cities, reducing the potential for continued conversion (World Bank 2014). However, competition in major cities is beginning to focus on quality as much as quantity, particularly given growing incentives to switch towards tertiary industries. For instance, Keng (2010) discusses policies in Kunshan City in Jiangsu Province to free up land and kick out labor-intensive industries.

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\footnote{180}{Land in China is owned and allocated by the state, although long-term leases can be bought and sold and convey many of the benefits of property ownership. In converting rural land to urban land, local governments can expropriate farmland while compensating the rural land-rights holders for only the agricultural value of the land, typically only a fraction of the urban value of the land. Particularly when this land is converted as part of an industrial development park, the local government takes responsibility for land grading and building out infrastructure. As the industrial firms will pay taxes, it benefits the local government to sell land at bargain or zero cost. Even when sold at nationally mandated minimums, such land transfers entail a one-time loss for local governments that must be recouped through multiple years of taxation.}

\footnote{181}{According to Tao, et al. (2007), in one quarter of city development zones, the land leasing price is less than half the land requisition and preparation costs. Wujiang and Wuxi (in Jiangsu) lowered their average leasing prices to a fraction of the price in neighboring Suzhou in order to compete; all cities incurred revenue loss from this land price competition.}
Nationally mandated minimum transfer prices for industrial land are staggered by region as well as city size and income, with benchmark prices based on average local conditions.\textsuperscript{182} For 2007, the Ministry of Land and Resources issued minimum industrial land prices in 15 categories that ranged from 60 RMB per square meter in poorer western areas (Tibet and Yunnan) to 840 RMB per square meter in Shanghai’s nine downtown districts – land in Shanghai had a 1400 percent premium (J. Cai 2006). Even within localities, prices differ by assigned grade, which is determined by pseudo-market means.\textsuperscript{183} Additionally, particularly in large cities, increasing amounts of media attention has been paid to farmer rights, leading many provincial and city governments to crack down on local land conversions and sales.\textsuperscript{184} All this has led to rising city land prices, which in turn make counties, particularly in coastal and central provinces, more capable of competing for industrial investments through low land prices.\textsuperscript{185}

Additionally, labor costs in advanced industrial cities have risen rapidly, following rising costs of living, particularly for housing, combined with lack of \textit{hukou}

\textsuperscript{182} For instance, in 2001, two technical regulations were promulgated: \textit{Regulations for Gradation and Classification on Urban Land} and \textit{Regulations for Valuation on Urban Land}, which set benchmark land prices based on average regional conditions.

\textsuperscript{183} Prices should be determined by proximity to business centers, road quality, public traffic, level of urban planning, population, parks, hospitals, and schools, as well as previous real estate transactions, leading to high price variation within localities. For instance, in 2011 Guangzhou Grade One industrial land sold for 1419 RMB per square meter, while Guangzhou Grade Seven industrial land sold for only 309 RMB per square meter (W. Dong 2013).

\textsuperscript{184} In 2002 and 2003, the central government put limits on land use quotas (\textit{yongdi zhibiao} 用地指标) to slow down over-conversion of arable land to urban use (Keng 2010). More recently, in Jiangsu, as of 2013 all local land conversion decisions must be approved by the National Land Bureau (P. Wang 2013).

\textsuperscript{185} Such diversity in land prices across counties and cities in China helps explain why rising average land prices have not undermined China’s industrial competitiveness. For instance, the Boston Consulting Group notes that the national average price of industrial land in China has reached 10.22 USD per square foot, higher than industrial land in Alabama, Tennessee, and North Carolina, which ranges in price from 1.30 USD to 7.43 USD per square foot (Sirkin, Zinser and Hohner 2011). But much of China’s industrial land remains well below these prices.
provision for labor migrants, which makes non-hometown employment more costly. Regional variation in wages is seen in provincial minimum wages; as of the end of 2013, Shenzhen’s minimum wage was 1808 RMB per month, while Anhui’s minimum wage was only 1260 RMB per month (MOHRSS 2013). Since 2008, in China’s major manufacturing cities, wages have grown faster than industrial output, reversing a decades old trend. With wages at one half the value of nearby cities, as highlighted by local businesses in multiple interviews, counties are increasingly attractive to industry.

As costs have risen in cities, new local financing models and diminishing returns to capital nation-wide have increased the pool of funds available for county investment and made more county projects economically viable at the same time that local fiscal incentives have changed. Following SOE/TVE restructuring and changes to the fiscal system, counties are increasingly dependent on the taxation of private industrial enterprises for local revenue. From the late 1990s, counties were increasingly pressured to generate local industrial revenue. Not only did upper-level governments impose more expenditure requirements on local governments, but traditional revenue sources, mainly

186 According to China’s Employment Promotion Plan, minimum wage levels should not be lower than 40 percent of average local salaries (X. Chen 2012).
187 Much of this has to do with the slowdown in industrial growth, but the important factor in firm relocation is the relative speeds of the growth in input costs and output value. Based on simple calculations using Shanghai, Wuxi (Jiangsu), Suzhou (Jiangsu), Hangzhou (Zhejiang), Ningbo (Zhejiang), Wenzhou (Zhejiang), Guangzhou (Guangdong), and Shenzhen (Guangdong), while average wages grew 13.2 percent annually over 1997-2007, industrial output grew 22.4 percent; from 2008 through 2011, wages grew 11.2 percent annually while industrial output growth slowed to 10.7 percent. (Data from China Data Online, using “urban districts” under the city.)
188 The former County Party Secretary of Xuyi, Wang Youfu, characterizes the county-city difference as the “five lacks and two manys” (wuque liangduo 五缺两多) versus the “two lacks and five manys” (liangque wuduo 两缺五多): cities have lots of projects, lots of money to invest, high levels of technology, high management experience, and high human capital, but few agricultural sideline products and rural labor (Y. Wang 2005). This means that counties should focus on their comparative advantage: cheap and abundant labor.
fees and agricultural taxes, were eliminated.\textsuperscript{189} Formerly, extra-budgetary funds provided the greatest degree of freedom and autonomy for county governments (Blecher and Shue 1996), but national laws have worked to bring these funds on-budget, with varying degrees of success across different regions (Zhan 2011). This was particularly the case in agricultural counties. For instance, Siyang County is explicit in noting that agricultural tax elimination provided the impetus for it to develop industrial development parks.\textsuperscript{190} At the same time that traditional revenue sources were eliminated, central mandates for increased local social outlays led to higher government expenditure: counties in Jiangsu and Anhui had expenditures of 4.5 percent of GDP and 5.8 percent of GDP, respectively, in 1996, but by 2010 these shares had more than doubled to 10.9 percent and 19.5 percent. While transfers increased as well, revenue had to rise to keep up, and revenue became increasingly dependent on industrial taxes: the share of business VAT, business sales taxation, and enterprise taxation rose from 21.3 percent of all revenue in Anhui in 1996 to 45.5 percent in 2010, while in Jiangsu the combined share rose from 40.1 percent to 53.2 percent (see Table 3.4).

\textsuperscript{189} For the impact on township governments of tax-for-fee reform and the abolition of agricultural taxes, see Kennedy (2007). See also L. C. Li (2005), Yep (2004), D. Yang (2004).

\textsuperscript{190} Siyang is an agricultural county, so agricultural tax reform \textit{(nongye shuifei gaige} 农业税费改革) in 2001 decimated local finances, leading to a one year decline in revenue from 106.37 million RMB to 39.94 million RMB. As a consequence, the county had to rely on industrial growth, leading to the 2002 opening of the Western Industrial Park \textit{(xiqu gongyeyuan} 西区工业园) and the 2003 opening of the Eastern Industrial Park \textit{(dongqu gongyeyuan} (Tai 2004).
Table 3.4. Industrial taxation is an increasingly important source of revenue

<table>
<thead>
<tr>
<th></th>
<th>Jiangsu</th>
<th>Anhui</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average across counties</td>
<td>1996</td>
<td>2010</td>
</tr>
<tr>
<td>Expenditure share of GDP</td>
<td>4.5%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Capital constr. share of exp.</td>
<td>1.4%</td>
<td>3.3% (2006)</td>
</tr>
<tr>
<td>Revenue share of GDP</td>
<td>2.8%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Industrial tax share total rev.</td>
<td>40.1%</td>
<td>53.2% (2006)</td>
</tr>
</tbody>
</table>

In response to these pressures, county governments devoted increasing efforts towards attracting investment and industries, a widely acknowledged and discussed phenomenon: “Because SOEs and TVEs experienced a large-scale restructuring since the mid-1990s, local governments’ development policies have gradually shifted from protecting local SOEs and TVEs to promoting the development of new firms initiated by private entrepreneurs and investors from other regions in China and abroad” (Liu, et al. 2008). Changing emphases in county economic strategies from restructuring to investment promotion are clear in annual development plans, as seen in an analysis of the evolving economic emphases in annual government work reports (zhengfu gongzuo baogao 政府工作报告). Industrialization remains a constant theme, but in the early- and mid-1990s, the means to achieve industrialization focused on rural upgrading and privatization/restructuring, with some attention to FDI attraction in richer counties. For instance, the Xuyi 1995 work report, delivered by County Magistrate Wang Shigao (王士高) emphasized the “central plan” of “grasp the opportunity (zhuazhu jiuyu 抓住机遇),

191 See also Li, Li, and Zhang (1998).
deepen reform, (shenhu gaige 深化改革), expand openness (kuoda kaifang 扩大开放), promote development (cujin fazhan 促进发展), maintain stability (baochi wending 保持稳定).” This 20 character phrase appears throughout the 1995 Xuyi Almanac.\textsuperscript{192} The work report focused on industrial growth, with a particular emphasis on the growth in private enterprise, whose industrial output tripled from the year before, although it was still less than one-eighth the value of TVE output (101 million RMB versus 830 million RMB). The 1995 government work report includes an entire section on enterprise reform, with a major emphasis on leasing (zulin 租赁) and “publicly-owned, privately-run” (gongyou minying 公有民营) management to enliven (gaohua 搞活) enterprises.\textsuperscript{193}

Similarly, in the 1996 Xuyi Almanac, an entire section is devoted to a discussion on enterprise restructuring, with adherence to “selling first and shareholding after” (xianshou hougu 先售后股). However, in more recent years, “investment promotion” (zhaoshang yinzi 招商引资) has become the most important economic pursuit of counties.

According to County Party Secretary Hu Qiwang of Wuhe: “We need to soberly recognize that a small economy remains Wuhe’s most important reality, an undeveloped economy is Wuhe’s most important county situation, speeding up development and seeking investment from beginning to end are Wuhe’s main goals and most pressing mission” (Q. Hu 2012).

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\textsuperscript{192} Xuyi in 1994 also continued the “three foci, three breakthroughs” (san weizhu, san tupo 三为主，三突破) economic development strategy to focus on industry, rural income, and privatization. The 1995 goals demonstrate the lack of attention to investment: while the GDP growth goal is 8.6 percent, the FAI growth goal is only 6 percent, a far cry from a decade later when FAI growth is expected to outpace GDP growth by a 2:1 ratio.

\textsuperscript{193} In 1995, the county completed property rights reform (chanquan zhidu gaige 产权制度改革) for 490 firms, of which 220 were leased (zulin 租赁), generating over 15 million RMB.
Investment promotion has worked based on cheaper costs of land and labor as well as the creation of local development zones, effective preferential policies, and enhanced government efforts through outside promotion efforts and local assistance. At the center of county investment promotion efforts are industrial development zones, which serve as foci for preferential policies and government investment attraction efforts. Development zones have long been an important part of China’s development, and in the past decade they have taken off at the county level. At the end of 2003, China had 3837 development zones, with only 6 percent approved by the national government and 27 percent approved by provinces; by the end of 2006, there were 6015 development zones, and each of the 2862 county-level administrative units in China has on average over two development zones (Zhai and Xiang 2007). This national trend is seen in the sample counties, all of which introduced provincial-level development zones in the 2000s. On the Jiangsu side, Xuyi established a provincial-level development zone in October 2001, the earliest in the sample. Begun in eastern Xuyi in a space of 3 square kilometers, in 2003 this was expanded to 17.1 square kilometers. The Sihong Economic Development Zone was established in March 2003 and has attracted over 300 investments. Suining had the latest Jiangsu start, with a provincial-level zone established in April 2006, but has developed the fastest, with seven industrial parks with total area over 100 square kilometers. The major zone is the Suining Economic Development Zone

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194 See also discussion in Lin, Liu, and Tao (2013).
195 By the end of 2003, 321 firms had already invested, paying taxes of 11 million and employing over 6000 people.
to the west of downtown Suicheng Zhen. Anhui has seen slower development, with all three counties getting their first provincial-level development zone approval in 2006.

Development zone effectiveness consists of the quality of the zone (particularly infrastructure), the availability of preferential policies, and the quality of government services. Development zones have benefits in terms agglomeration, specialization, and scale economies, including concentrated skilled and semi-skilled labor, and they also serve as focal points for preferential policies, particularly regarding land and taxation.

According to a former Wuhe County Party Secretary, “development zones are the vehicle/medium (zaiti 载体), and the quality of enterprises a county attracts depends on the quality of its development zone” (Q. Hu 2010). Preferential policies are a key aspect of development zone attractiveness. A CEO of one large Jiangsu plastics manufacturer attributed recent growth in Northern Jiangsu to the provincial willingness to allow looser preferential policies in recent years, particularly those related to immigration, land, and tax: lower prices for land sales were allowed as were greater tax rebates and subsidies for newly investing businesses. These “good policies” (haode zhengce 好的政策) have enabled northern counties to develop (Interview JS172).

Basic preferential policies (youhui zhengce 优惠政策) are divided into land, taxes, and fees, and are generally graded by size of investment. Land and tax rebates are

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196 The planning area is 60 square kilometers, while the core region is 10 square kilometers. Within the zone, the population is 32,000, with three schools, two private hospitals, and 43 enterprises above designated size (in 2012).

197 Of these, Wuhe is the most developed. At the end of 2012, it had two industrial parks with 263 companies, 136 already in operation, 69 being built, and 58 contracted (Wuhe Government 2013). This includes three investments over 1 billion RMB, and 20 over 100 million. Si County’s provincial development zone in 2009 attracted 13 new projects, 9 of which were industrial. Contracted FAI was 524 million RMB, and completed investment attraction was 469.3 million RMB (Wang and Hui 2010).
the key preferential policies. For instance, in Suining, big investments can get land prices cut drastically, from 25,000 per *mu* to 10,000, and even larger investments are decided on a case by case basis. Local taxes are fully refunded for the first two or three years, and personal taxes for managers are waived. There are no fees imposed for this time. In Suining, while some policies are explicit, the general determination is “one project one discussion” (*yishi yiyi* 一事一议), “according to the investment scale, investment intensity and industrial promotional effects,” so long as the investment is greater than 50 million RMB (Suining Investment Promotion Office 2012). Preferential policies are given to industrial projects with average tax per *mu* greater than 1.8 million RMB. On taxes, Suining rewards (*jiangli* 奖励) companies a set percentage of the VAT and enterprise income tax retained by the county (i.e., the portion not transferred upward) for three years (longer if the company is in the Fortune 500 or if the initial investment is greater than 100 million RMB). The reward/rebate range for industrial projects depends on the size of the tax base, and during the first three years ranges from 40 percent (2-5 million in taxes) to 70 percent (10-30 million in taxes), with 10 additional percentage points to government promoted (high-tech) projects. Individual investors and outside management do not have to pay personal income tax for the first three years.\(^{198}\)

Preferential land policies in the sample counties highlight cheap and negotiable industrial land prices, and interviews with investors in the region make clear that these policies are attractive. Preferential policies are very flexible, and informal decisions

\(^{198}\) Similarly, in Wuhe, industrial investments of 100 million and above get the entire period’s fees returned to them; investments of 30-100 million RMB get 50 percent returned. Industrial land is sold at the minimum national lowest price for all investments greater than 1.5 million RMB per *mu*. For these and other similar policies in Wuhe, see Wuhe Government (2012).
allow for rapid changes in preferred investment foci. The lowest price is based on the legal national standard (Suining Party Committee and Suining Government 2012). With cheap land and easy rural-urban land conversion, land can also be given out as a reward. One real estate investor in northern Jiangsu took me to several project sites 5-10 kilometers outside of the county seat, showing off an eight-story complex meant to attract rural workers that was built on 20 mu of the 80 mu that he had been given for free for doing “pro-bono work,” consisting of setting up cheap brick housing to house workers in a government-supported agricultural production space (Interview JS153). In other words, for setting up minimal low income housing he received free land for profitable housing.\footnote{This was not industrial land, and should not have been given out for free (even if it were industrial it shouldn’t have been), but the “pro bono” work was identified as a payment.} The same plastics manufacturing CEO quoted above thinks that the major reason Subei has started to grow more rapidly than Sunan is that “Subei also has more land and thus more land expropriation (zhengdi 征地) possibilities, as long as this is done smartly” (Interview JS172).

Preferential policies have also helped to attract back migrant workers, which has combined with a virtuous circle of more local opportunities and greater levels of local human capital: these changing labor conditions in counties have made them more attractive, and have resulted from both national trends and general socioeconomic development as well as specific county policies. Counties have seen a transformation with regard to both the quantity and quality of labor. In the 1990s urbanization model, counties were largely drained of surplus agricultural laborers who moved to cities in the coastal belt. In successful counties, this flow has begun to reverse: not only are many

\footnote{This was not industrial land, and should not have been given out for free (even if it were industrial it shouldn’t have been), but the “pro bono” work was identified as a payment.}
migrants returning to their home counties with enhanced levels of human and financial
capital, but successful counties themselves are becoming employment magnets for
migrants from poorer counties and provinces. Part of this process has arisen based on
the central government’s urbanization model, which focuses on “townshipization”
(chengzhenhua 城镇化) rather than city urbanization (chengshihua 城市化), and thus has
accelerated local county rural/urban hukou unification prior to city unification (World
Bank 2014). Also, married and older individuals with deeper local roots and family ties
and responsibilities are reluctant to move too far. This was very apparent in discussions
with factory workers and basic service employees in Jiangsu. Many of these individuals
migrated from neighboring counties in Anhui and returned home very frequently. They
were unwilling to migrate to larger cities further away, despite the potential wage
premium gained from doing so. At one Chinese medicine farm in Suining, all of the
laborers were from Anhui (mostly from neighboring Si) and were all at least 40 years old.

Reversing migration flows by attracting back migrants, or at least stemming the
outward flow, is essential for maintaining a sufficient labor force. In the city-led
urbanization model of the 1990s, out-migration made more sense: TVEs were losing their
competitiveness against well-financed larger enterprises with economies of scale, and
county-level SOEs were rapidly being privatized, restructured, or simply shuttered (see
above). In this environment, labor outflows prevented local unemployment.200 But as
counties began to compete for industrial investments with rising labor, land, and capital
prices in cities, the lack of local employment turned into a liability, spurring local

200 Remittances were also an important source of local income. In many poorer provinces, remittances can account for 15-30 percent of net rural income (Bramall 2006).
governments to provide incentives to migrants to return. In Anhui Province, all three case counties have explicit policies to attract back migrants, with varying degrees of success. Of Mingguang’s 330,000 person workforce, for much of the past decade 150,000 workers have worked outside the city annually. But starting in 2005, Mingguang began to evolve from an “emigrating to work tide” (waichu dagong chao 外出打工潮) to a “return to open a business tide” (fanxiang chuangye chao 返乡创业潮) (F. Yang 2012). Much of this change can be attributed to the local government: since 2005, policies have attracted back 551 enterprises, of which 10 had investments over 10 million RMB. Returned enterprises had 165.3 million RMB in sales in 2011, and contributed 56.85 million RMB in taxes, 10.1 percent of the city total. They employed 11,600 people.

Similarly, in Si County, township governments are responsible for giving seed capital to returning migrants who want to start local businesses. In addition to attracting back migrants, counties still have large populations of surplus labor, and many counties have taken advantage, setting up programs to train these laborers. Considerable room remains for within-county labor reallocation. In Suining in 2007, of a total population of 1.33 million people, the rural labor force was 724,500, over 300,000 of whom had migrated outside of the county to work, with an additional 124,900

201 Almost half of all returned enterprises are in mining and services rather than manufacturing.
202 In February 2012, the government also released Implementation Methods for Mingguang City to Encourage Returnees to Establish Industrial Enterprises 《明光市鼓励返乡创办工业企业实施办法》 to clarify supporting policies and encouragement, including reduced taxation, employment requirements, and land use, as well as assistance in finding funding channels.
203 One interviewee who himself had been enticed to return and open a photography store, said the government assistance was helpful, and that it was also easy to get a bank loan if you were a returning worker (Interview AH136). However, the economic impact of returning migrants is unclear. Wang and Fan (2006) find that returnees are more often those who fail in the emigration destination than those who succeed, and therefore do not bring back strong skills or investment. De Brauw and Rozelle (2008) find that these returnees do not substantially increase rural investment.
(29 percent) migrating to work in townships within the county. The local government identifies out-migration as hurting the local economy and has thus opened 32 professional training schools, which in 2007 trained 24,149 people. Of the 724,500 rural labor force, 297,000 are still employed in primary industry, working on 150,000 mu. The local government calculates that based on factors including current levels of mechanization, operational standards, and agriculture adaptability to new technology, every rural laborer should have 10 mu of arable land, meaning that the county should have 150,000 primary sector laborers overall, which in turn implies that the rural labor force is still 42.8 percent over-capacity and should shed another 127,000 workers who can work in industry and services in local townships (Qin 2009).

Labor migration patterns have shifted slowly, but levels of human capital have increased markedly. This is a China-wide phenomenon (although it excludes many poorer regions), and a key condition for high growth. The regression results earlier in this chapter highlighted the importance of human capital (education) levels for determining total factor productivity growth, i.e., growth not based on capital accumulation, which will tend to have future diminishing returns. In the sample counties, similarly to the rest of China, average years of education have increased

204 Barriers still remain to rural workers coming to urban areas: while hukou restrictions have been largely removed, so the urban-rural dual structure (chengxiang eryuan jiegou 城乡二元结构) is less and less of an impediment to rural to urban labor migration; systemic deficiencies create additional migration obstacles, as rural migrants still do not receive equal social services and insurance (unemployment, health, pension, and childhood education social security).

205 For the importance for human capital for growth, particularly in endogenous growth models, see Barro and Sala-I-Martin (1995) and Lucas (1988). In China, see Cai, Wang, and Du (2002); Zhang and Zou (2007); and Zhang and Xu (2011).
substantially even between 2000 and 2010, and these increases have been felt equally in the Anhui and Jiangsu counties, as seen in Figure 3.18 below.

Figure 3.18. Improvements in sample county educational attainment

<table>
<thead>
<tr>
<th>Share of population with secondary education or higher, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
</tr>
<tr>
<td>60</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>40</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Suijing | Xuji | Sheng | Wuhu | Mingzhou | Sixian |

- Suijing: 2000: 50, 2010: 60
- Sheng: 2000: 60, 2010: 70
- Sixian: 2000: 45, 2010: 50

Source: Census data, 2000, 2010; author’s calculations.

In addition to local labor and capital conditions, conditions for capital and financing have also made counties more suitable for investment, with higher levels of expenditure on infrastructure and greater capacity for local lending. Local capital consists not only of outside investment, but also of local self-financed investment, lending, and revenue. Revenue is an important determinant of growth potential: it can boost infrastructure investment and support investing enterprises. But despite perceptions of northern Jiangsu counties developing based on greater fiscal support, there
is minimal evidence for this. Revenue comes from both own capacity and upper-level transfers, and while Jiangsu county own revenue is higher (a function of higher local output), the Anhui share of transfers is much higher than the Jiangsu share of transfers. Most of these transfers cannot be used on “productive investment” in poorer counties (see Table 3.4 above demonstrating the low capital construction share of expenditure). \(^{206}\)

Local financial conditions differ greatly across counties as a result of varying development of local banks, informal finance, and local government financing vehicles (LGFV). Local banks have evolved out of rural cooperatives into rural commercial banks (\textit{nongcun shangye yinhang 农村商业银行}) with large and growing portfolios. These rural commercial banks have become important sources of local lending, with larger annual lending volumes in individual counties than the local branches of China’s four major national banks. For instance, in Xuyi in 2011 the Xuyi Rural Commercial Bank had 3.66 billion RMB in outstanding loans, more than the next three largest banks combined: the Bank of China (1.34 billion RMB), the Industrial and Commercial Bank of China (1.23 billion RMB), and the Agricultural Bank of China (969 million RMB) (Xuyi Yearbook 2012). These local rural commercial banks do not have to get permission for

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\(^{206}\) Most government expenditure, particularly at the county level, is non-productive and intended for social services, predominantly education and health. China’s county expenditure share is much higher than its revenue share, leading to a large local government revenue-expenditure gap that must be filled by upper level fiscal transfers or debt. When local budgetary revenue increases, this can offset transfers while keeping overall expenditure the same. Even when increased own revenue does not offset transfers, it is most likely to be used for social spending, security spending, or administrative spending. There are many laws about specific centrally-mandated local expenditure increases: the 1993 Agricultural Law (\textit{农业法}) mandated that agriculture expenditure increases should be higher than increases in revenue; the 1994 Education Law (\textit{教育法}) mandated that education expenditure increases should reach 4 percent of GDP; the 1996 State Council Decision on Issues Concerning Environmental Protection (\textit{国务院关于环境保护问题的决定}) mandated that environmental protection expenditures should reach 1.5 percent of GDP (Yin and Zhu 2011). When revenue is only a small share of GDP, there is little freedom in the uses to which it can be put.
lending from higher levels, as the four big banks do, and they therefore are able to extend much more local lending (Interview JS192). With the development of these local banks, local financing capacity has increased greatly, closing the gap with nearby cities.

Informal lending is also very important for local development (Tsai 2002), although also very difficult to quantify. In Sihong a high-interest loan bubble (pyramid scheme) made national news in 2011. Loans had been 7-8 percentage points above bank rates, and thousands of people in the county were making money. At one point, an epicenter of the lending, Shiji Township (石集乡), became known as “BMW town” (baoma xiang 宝马乡) due to all the BMWs on the streets. According to a local PBOC employee, the central bank efforts to control lending to the real estate market had led to a decline in official bank loans of almost fifty percent, and the informal high-interest markets naturally rose to meet the unfulfilled demand. A local saying arose: “if you don’t lend (fang zhuazi 放爪子) you’re an idiot (lengzi 愣子)”; by one estimate, as many as 95 percent of local citizens in two particularly loan-friendly villages (Xinbian 新汴村 and Shiji 石集村) were not “idiots.” The situation eventually blew up, making national news. At its height, according to the local Politics and Law Committee Secretary, Xu Yijun, the informal person-to-person financing had reached 2 billion RMB, although 1.5-1.7 billion RMB of this total was legitimate and not at usury type rates, possibly providing an indication of a massive “normal” size of local informal financial markets (Money Weekly 2011).

In addition to local bank development and informal finance, local governments play a major role in securing loans for infrastructure investment and company loan guarantees, and the rise of local government debt has boosted infrastructure expenditure
and direct financing that have helped counties grow. LGFVs play a quasi-fiscal role that allows for expanded infrastructure investment without commensurate fiscal balance sheet increases. By the end of 2010, these LGFV at all administrative levels in China had debt of nearly 5 trillion RMB, equal to two-thirds of total local revenue and transfers (Lu and Sun 2013). In one of the Jiangsu case counties, the LGFV started operations in 2008 and is run by a deputy county Finance Bureau chief. 207 While this LGFV helps support local enterprises, the vast majority of its loans are for urban development and “other government needs,” which are off-budget and do not show up on the government balance sheet. The “company” has between 1 and 2 billion RMB (shijiyi 十几亿) in loans, which is “nothing compared to Sunan counties with 20 billion or more.” 208 As an example of one loan (the largest individual loan), the LGFV has a 100 million RMB loan from the China Development Bank that is supposed to be used for small-and medium enterprise (SME) development; 40 million RMB has indeed been loaned to the 18 businesses that the company supports, but 60 million RMB of this loan has been added to general government funds. Much of the remaining loan volume is used not only for potentially positive-return infrastructure projects, but also for paying salaries and covering other gaps – in other words, investments with no return potential.

The brief discussion above of preferential policies and labor conditions in the sample counties highlights the lower relative factor prices and growing attractiveness of

207 This paragraph is based on Interview JS254 and Interview JS230 with employees of the LGFV.
208 All of this lending is short term, usually one year, but this is automatically rolled over as long as interest payments are met, which they invariably are. According to the official, the banks have nothing to worry about, as local governments have lots of assets (mostly land) that can be sold if need be, and also have the backing of the city, province, and national governments if worst comes to worst.
investment in counties, but it does not sufficiently explain why certain counties have been more successful than others. Similarly, differences in the degree of development of local banks, informal finance, and LGFV clearly influence county growth, both directly and through making the county more attractive for outside investment, but it is not entirely clear why some counties are more developed along these lines.

Preferential policies are largely the same across counties, and therefore do not explain why particular development zones are more attractive than others. Most counties have engaged in a race to the bottom: industrial land is basically free (or as close to free as national and provincial authorities will tolerate); so while trends in land prices can help explain the transition from city industry to county industry, they cannot help explain differentiation among counties. In terms of labor, while migration patterns have slowly started to reverse and local human capital has increased, these changing labor dynamics help to explain differentiation between cities and counties but do not explain differentiation between counties: wages, policies on returning migrants, and volumes of surplus rural labor are all fairly undifferentiated across the sample counties.

In terms of local finance, rules governing the creation of banks, LGFVs, and informal financial markets do not differ by county, although the extent of financial

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209 In the words of Hu Qiwang, former County Party Secretary of Wuhe: “Regional competition for investment increases by the day, causing the ‘price tag’ for good projects and the cost of investment attraction to increase as well… There are four kinds of good projects: (1) large investments; (2) strong industry-pull effect; (3) high value-added (and thus large potential for taxation); (4) and mature firms or firms with high potential. These types of projects are the targets everyone is striving for, so the price tag continually rises. The rising price tag manifests in the following aspects: free industrial land, matching real estate and infrastructure development, fiscal subsidies, and assistance in factory construction. The rising price tag necessitates a new approach and a new level of investment promotion work” (Hu 2010).

210 Basically, industrial land is sold at the lowest possible value – either the nationally mandated minimum or lower in the (illegal) case of “one project one discussion.” Most land transfers do not simply include land, but also land grading and infrastructure buildout.
development clearly does; how much does finance follow local growth and how much does it lead growth? Local deposits for formal lending and rules on banking are relatively equalized across counties. Tsai (2002) discusses the need for development-minded local governments to support informal financial markets, but again, this is not a rules-based cross-county distinction. In terms of LGFVs, they operate in a semi-market environment, securing loans based on perceived capacity to repay – the largest loan for the LGFV identified above was from a national institution, not a provincial institution. Banks provide 8.5 trillion of the 10.7 trillion RMB in outstanding local government debt, and “apart from assessing the stand-alone repayment capacity of individual companies or projects, banks also evaluate the regional economic situation, the respective industries of the specific LGFP investments – including sectoral support from the central government – and local governments’ aggregate fiscal position. By taking into account local governments’ financial health, banks implicitly or explicitly assume that local governments would be ultimately responsible for LGFPs’ liabilities” (Lu and Sun 2013). So the attractiveness of an LGFV for a bank is based on the projected value of its land and its ability to grow. In sum, while local financial development and LGFV size clearly impact developmental possibilities and the attractiveness of the investment environment, local government approaches to finance and the endogenous perceived potential for growth seem to determine this financial development, rather than finance stemming from provincial decisions or initial county conditions.
3.5 Conclusions

Intra-provincial inequality is extremely high and varies across provinces. County policies matter, as do provincial institutions (provincial boundaries are important determinants of growth). As factor market conditions across labor, land, and capital have changed, counties have emerged in the 2000s as attractive destinations for mobile capital. This broad transformation is easy to document: changing factor market conditions have made counties increasingly attractive relative to larger cities. But what differentiates counties from each other? In a new economic environment in which mobile capital is king, many counties have thrived. Others have been left behind. Why are some counties able to attract more investment than their neighbors? And why do some counties seemingly stagnate, unable to attract investment or boost productivity? The rest of the dissertation attempts to explain capital differences and productivity differences between counties using political explanations. In the following chapter, I argue that governance and administrative quality and efficiency are an important determinant of local growth, helping to attract finance both through investment promotion and through increased lending.
3.6 Appendix: Growth accounting data and methodology

This section describes the data and methodology used in the growth accounting exercise whose results were reported in the text above. The data come from Chinese local statistical yearbooks, compiled for convenient analysis by the China Data Center at the University of Michigan. The data is for all counties (xian 县) and county-level cities (xianjishi 县级市), excluding urban county-level districts (qu 区) over 1996-2010. As national county-level data in 1996 is partially incomplete, I select 1997 as the first year of analysis, and thus 1998 is the first year in which growth rates are calculated.

GDP and Value Added. Current RMB GDP data is available on an annual basis at the county level. To convert to constant 2000 RMB, several potential concerns arise. First, significant debate exists over whether China’s official deflators overestimate growth; however, with no consensus on a superior deflator I opt to use official statistics. Second, the most robust analysis would use county-level deflators, but these do not exist for China. Therefore, to convert to constant prices, I use the annual GDP deflator from the prefecture-level to which the county belongs. This data is unavailable for many prefecture-years; when it is unavailable, I use provincial GDP deflators. Figure 3.19 shows how average constant price county GDP growth compares to national GDP growth over 1998-2010. While county growth is higher from 2002-2010, this does not necessarily imply a problem with the data (either over-reporting by local authorities or a too-low GDP deflator); rather, counties may have grown faster than the national average over this period, as the discussion above highlighted. The lower-than-national county growth prior to 2002 supports this argument.
Employment. For the growth accounting analysis, I focus on total employment rather than working-age population or an education-weighted human capital measure. Adjusting employment for human capital gains would tend to lower the TFP estimates. For the national data, I focus only on total employment. For Anhui and Jiangsu, I can disaggregate further to look at primary sector employment, enabling an analysis of the growth contribution of labor reallocation out of agriculture. For primary sector employment, I use data on employment in rural farming. When rural farming data is missing and only rural total employment data is available, I proxy primary sector
employment by assuming the rural farming share of rural employment in the proximate year.

*Fixed Capital Stock.* To calculate local fixed capital stock estimates, I use annual investment data and a perpetual inventory method, assuming annual depreciation of 10 percent. For Anhui and Jiangsu, I use official county-level annual fixed asset investment (FAI) data reported in provincial statistical yearbooks. No county-level investment data exists in the national county data, requiring broad estimations. The approach I take is to use FAI data at the prefecture and urban district (within prefecture) level; the difference between these two is the within-prefecture county sum of investment. To generate individual county shares of this within-prefecture county sum of investment I calculate the within-prefecture county share of annual loan growth and government expenditure, which serves as a loose proxy for total investment, and divide the investment by these shares:

\[
I_{cpt} = (I_{pt} - I_{dpt}) \cdot \left( \frac{L_{cpt} - L_{cpt-1} + Exp_{cpt}}{\sum_c (L_{cpt} - L_{cpt-1} + Exp_{cpt})} \right)
\]

where \(I_{cpt}\) is investment in county \(c\) in prefecture \(p\) in time \(t\); \(I_{pt}\) is investment in prefecture \(p\); \(I_{dpt}\) is investment in urban districts, \(d\), within prefecture \(p\); \(L_{cpt}\) is county loans in time, and \(Exp_{cpt}\) is county government expenditure in time \(t\). Without access to a

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211 Ideally, the annual investment series would use gross fixed capital formation (GFCF) rather than fixed asset investment, as this series more accurately reflects total investment levels across large- and small-scale projects, excluding land sales, but GFCF data is only available at the provincial level. NBS counts the value of purchased land and expenditure on used machinery as part of FAI, and also excludes survey data for small investments (only investments over 500,000 RMB are included after 1997). See Bai (2008).
county or prefecture level FAI or GFCF deflator, I choose to deflate these investment data using the same GDP deflators described above. To generate a capital stock estimate based on this constant price county-level investment estimate, I apply a perpetual inventory method of the form:

\[ K_t = (1 - \delta) \cdot K_{t-1} + I_t \]

Here, \( K_t \) is the capital stock in time \( t \); \( \delta \) represents the depreciation rate (assumed to be 10 percent), and \( I_t \) represents investment. I suppress county subscripts for convenience. For the initial capital stock in 1997, \( K_0 \), I use two estimates, one which assumes capital is equal to GDP and one that assumes capital is two times GDP. The former approach is taken as a baseline—while a capital-output ratio of one seems low, China’s counties received very little investment and were predominantly agricultural in the mid-1990s. Given rapid investment in the late 1990s and 2000s, the choice of the initial capital stock does not have a large effect on the growth accounting exercise outcomes.

*Capital share.* The final ingredient in the growth accounting exercise is an estimate of the output elasticities of capital and labor. Most studies for China in addition assume a constant and arbitrarily imposed capital share over time and across sectors (typically a value ranging from 0.4 to 0.6). Here, I use the sectoral capital shares calculated in Bulman and Kraay (2012), which impose the assumption of constant returns to scale at the level of sectoral production functions, so that the capital output elasticity is one minus the labor output elasticity. The national sectoral capital shares assume competitive factor markets, so that the labor output elasticity is approximated by the
share of labor compensation in value added. For data, that analysis relied on Hsueh and Li (1999) for provincial-level sectoral value added and compensation for 1978-1995 and input-output table figures for 1997, 2000, 2005, and 2007, with intervening years estimated. Similar to the GDP price deflators discussed above, capital shares will differ across localities, and a more robust analysis would include separate capital shares for each province, but this is impossible due to data limitations.

For the growth accounting analysis, I take the annual growth rate of GDP, capital stock, and employment. Summary statistics for these data as well as the capital share data and growth in the alternative capital stock estimate are presented in Table 3.5 below. For the analysis, I focus on a limited sample including only county-year observations for which data exist for the full set of variables, and also excluding outlying observations below the first percentile or above the ninety-ninth percentile of each variable (except the capita share, which is assumed constant across counties). The unrestricted sample 1% and 99% observations thus represent the minimum and maximum variable values for the limited sample.
Table 3.5. Summary statistics for variables used in national growth accounting analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Total Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min.</th>
<th>Max.</th>
<th>1% cutoff</th>
<th>99% cutoff</th>
<th>Sample Obs.</th>
<th>Sample Mean</th>
<th>Sample Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>25,570</td>
<td>10.77</td>
<td>14.85</td>
<td>-333.2</td>
<td>320.8</td>
<td>-34.58</td>
<td>52.77</td>
<td>19,050</td>
<td>10.70</td>
<td>9.00</td>
</tr>
<tr>
<td>Capital growth</td>
<td>21,498</td>
<td>17.54</td>
<td>16.32</td>
<td>-254.3</td>
<td>320.8</td>
<td>-10.49</td>
<td>63.44</td>
<td>19,050</td>
<td>16.80</td>
<td>12.91</td>
</tr>
<tr>
<td>Capital growth (alt.)</td>
<td>21,500</td>
<td>13.25</td>
<td>15.88</td>
<td>-254.3</td>
<td>392.6</td>
<td>-10.49</td>
<td>61.76</td>
<td>19,050</td>
<td>12.26</td>
<td>12.33</td>
</tr>
<tr>
<td>Employment growth</td>
<td>25,631</td>
<td>-0.09</td>
<td>2.14</td>
<td>-104.6</td>
<td>107.3</td>
<td>-4.93</td>
<td>4.66</td>
<td>19,050</td>
<td>-0.14</td>
<td>1.54</td>
</tr>
<tr>
<td>Capital share</td>
<td>27,707</td>
<td>0.41</td>
<td>0.09</td>
<td>0.12</td>
<td>0.65</td>
<td>0.12</td>
<td>0.65</td>
<td>19,050</td>
<td>0.43</td>
<td>0.08</td>
</tr>
</tbody>
</table>

Note: The alternative capital measure is based on K=2Y in 1997 (versus K=Y in 1997 in the baseline). The sample for analysis is based on county-year observations for which data exist for the full set of variables, excluding observations below and above, respectively, the 1% and 99% percentile of each variable (except the capita share, which is assumed constant across counties, and only varies by year). The unrestricted sample 1% and 99% observations thus represent the minimum and maximum variable values for the limited sample.
Methodology

Following Jorgenson (1991), World Bank (1997), and Bulman and Kraay (2012), I begin by assuming a constant-returns production function at the level of each sector, with aggregate output as the sum of the value of output across sectors and ownership forms:

\[
Y_i = \sum_j Y_j = \sum_j A_{ij} F_{ij}(K_{ij}, L_{ij})
\]

Here \(Y_i\) is county value added and \(Y_{ij}\) is value added in county \(i\) and sector \(j\). In the national analysis, there is only one sector (the whole local economy), so the \(j\) subscript is omitted. In the Anhui and Jiangsu analysis, \(j\) indexes agriculture and non-agriculture. I assume that value added in each sector is produced using a constant returns production function \(F_{ij}(.)\) using capital and labor \((K_{ij} \text{ and } L_{ij})\), and \(A_{ij}\) is a measure of Hicks-neutral technological progress. Time subscripts are suppressed for notational convenience.

County aggregate GDP growth can be written as a share-weighted sum of growth in each sector:

\[
g_{Y_i} = s_{ij} \left( g_{A_{ij}} + \alpha_j g_{K_{ij}} + (1 - \alpha_j) g_{L_{ij}} \right)
\]
where $s_{ij}$ is the constant-price share of sector $j$ in county $i$ GDP, and $\alpha_j$ is the output elasticity of capital in sector $j$ (as discussed above, I am unable to differentiate capital shares at less than a national level, so these shares do not differ by county). A useful decomposition of output growth is as follows:

$$g_{Y_i} = \alpha g_{K_i} + (1 - \alpha)g_{L_i} + \sum_j s_{ij}(1 - \alpha_j)\left(g_{K_{ij}} - g_{L_i}\right) + \sum_j s_{ij}\alpha_j\left(g_{K_{ij}} - g_{K_i}\right) + \sum_j s_{ij}g_{A_{ij}}$$

where $g_{K_i}$ and $g_{L_i}$ are the growth rates of the county stocks of capital and labor; $g_{K_{ij}}$ and $g_{L_{ij}}$ are the growth rates of capital and labor in sector $j$; $s_{ij}$ is the share of county GDP in sector $j$; and $\alpha = \sum_j s_j\alpha_j$ is the weighted average of the output elasticity for the economy as a whole.

The first two terms can be interpreted as the contributions of capital and labor accumulation to output growth. A standard aggregate growth accounting exercise would identify aggregate TFP growth as the difference between total output growth and this aggregate share-weighted average of capital and labor growth. Such an exercise would not distinguish between productivity growth at the disaggregated level, and the contribution of factor reallocation across sectors, to overall growth; these are captured by the third and fourth terms. The final term is a share-weighted average of TFP growth across sectors. Note that for the national analysis, excluding the sector terms results in a simplified one-sector analysis that groups the final three terms into a TFP growth measure that also includes all reallocation effects. The other two terms, representing the growth contributions of capital and labor accumulation, remain the same. For the Jiangsu
and Anhui analysis, while I can disaggregate labor and output across sectors, I cannot disaggregate capital, so the residual TFP estimate includes the final two terms: sectoral capital reallocation and pure TFP growth.

Table 3.6 presents growth contributions under the baseline for the national sample as well as the coastal and central regional samples, and also presents results using the alternate capital and labor estimates.
Table 3.6. Robustness check of national growth accounting exercise

<table>
<thead>
<tr>
<th></th>
<th>National Baseline</th>
<th>National Alternate capital estimate</th>
<th>National Alternate labor estimate</th>
<th>Coast Baseline</th>
<th>Center Baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Whole period</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total growth</td>
<td>10.6</td>
<td>10.6</td>
<td>11.8</td>
<td>11.3</td>
<td>9.9</td>
</tr>
<tr>
<td>Capital accum.</td>
<td>7.3</td>
<td>5.4</td>
<td>8.8</td>
<td>7.6</td>
<td>7.6</td>
</tr>
<tr>
<td>Labor accum.</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>TFP growth</td>
<td>3.4</td>
<td>5.3</td>
<td>3.1</td>
<td>3.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Observations</td>
<td>19,464</td>
<td>19,489</td>
<td>14,092</td>
<td>4290</td>
<td>7741</td>
</tr>
<tr>
<td><strong>1998-2000</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total growth</td>
<td>7.6</td>
<td>7.5</td>
<td>5.9</td>
<td>8.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Capital accum.</td>
<td>3.4</td>
<td>1.4</td>
<td>2.0</td>
<td>3.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Labor accum.</td>
<td>0.5</td>
<td>0.5</td>
<td>-3.9</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>TFP growth</td>
<td>3.6</td>
<td>5.6</td>
<td>7.8</td>
<td>5.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Observations</td>
<td>5806</td>
<td>5833</td>
<td>323</td>
<td>1101</td>
<td>1885</td>
</tr>
<tr>
<td><strong>2001-2003</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total growth</td>
<td>9.2</td>
<td>9.2</td>
<td>9.2</td>
<td>10.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Capital accum.</td>
<td>5.9</td>
<td>3.1</td>
<td>5.9</td>
<td>6.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Labor accum.</td>
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<td>-0.3</td>
<td>-1.7</td>
<td>-0.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>TFP growth</td>
<td>3.7</td>
<td>6.5</td>
<td>5.0</td>
<td>3.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Observations</td>
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<td>4124</td>
<td>4123</td>
<td>955</td>
<td>1762</td>
</tr>
<tr>
<td><strong>2004-2006</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Total growth</td>
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<td>12.7</td>
<td>12.7</td>
<td>12.8</td>
<td>12.6</td>
</tr>
<tr>
<td>Capital accum.</td>
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<td>7.6</td>
<td>9.8</td>
<td>10.6</td>
<td>10.2</td>
</tr>
<tr>
<td>Labor accum.</td>
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<td>-0.3</td>
<td>0.4</td>
<td>-0.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>TFP growth</td>
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<td>5.4</td>
<td>2.6</td>
<td>2.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Observations</td>
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<td>4092</td>
<td>4120</td>
<td>956</td>
<td>1755</td>
</tr>
<tr>
<td><strong>2007-2010</strong></td>
<td></td>
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<tr>
<td>Total growth</td>
<td>13.4</td>
<td>13.4</td>
<td>13.4</td>
<td>12.8</td>
<td>12.4</td>
</tr>
<tr>
<td>Capital accum.</td>
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<td>9.7</td>
<td>10.6</td>
<td>9.6</td>
<td>11.1</td>
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<tr>
<td>Labor accum.</td>
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<td>-0.1</td>
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</tr>
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<td>TFP growth</td>
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4 LOCAL GOVERNANCE AND INVESTMENT ATTRACTION

“In recent years, the Suining Development Zone has made ‘emphasize trust, high efficiency, excellent service’ the objective, further establishing the theory of ‘government creates the environment, businesses create the wealth,’ and adhering to the work plan of ‘select people based on trust, keep projects based on service, win people’s hearts based on relationships’…” – Wu and Wang (2013)

“The goal of reform in Suining is to make cadres clean (ranglingganjing 让干部干净) and to make cadres administrators (rangganbu ganshi 让干部干事)... We gave cadres lots of targets. At first they didn’t get it, complaining that the entire pressure of development shouldn’t be placed on cadre shoulders, and that you can’t rely on administrative strength to promote economic development. But afterwards they slowly began to accept the responsibility. Why? Because no matter the time or place, politics and economics cannot be separated (zhengzhihejingji, zai renhe shihou, renhe guojia dou shi fenbukaide 政治和经济，在任何时候、任何国家都是分不开的).” – Suining County Party Secretary Wang Tianqi

In April 2013 I spent time in Suining County (Jiangsu) and Si County (Anhui) speaking with investors and local officials to learn about preferential policies and local investment climates. In both counties I wanted to learn how the county presented itself and tried to appeal to potential investors. In particular, building off of ideas from the previous chapter, I wanted to see how development zone preferential policies differed, and, when these policies converged, how counties differentiated themselves from the competition, i.e., neighboring counties. My experiences in the two counties were starkly different. In Suining, the deputy head of the investment promotion bureau (zhaoshangju 招商局) eagerly met me in a large conference room, located in a new building directly next to the county government headquarters. He graciously met me in his office and apologized for not having a translator on hand. I was offered tea and small talk. I asked him to speak to me as he would a potential investor, and to explain why a company
facing rising costs elsewhere in China should consider relocating in Suining. The deputy bureau chief handed me a glossy 58-page booklet introducing Suining’s investment climate and advantages in both Chinese and English and talked me through the preferential policies that businesses could receive based on how large their investments were. He also handed me a print-out from the previous month with all updated policies, but said that with a large investment all policies would be up for discussion. I pushed him a bit: why invest in Suining, especially since it seems like the preferential policies were equal in all nearby localities? He concurred:

“Preferential policies are largely the same in all the surrounding areas. The reason we [in Suining] get more investment [than Si] is government service (zhengfu de fuwu 政府的服务), which is much more important for investors than preferential policies. The government’s service mentality means that you can be confident that the government will help your company develop (bangzhu nide qiye fazhan 帮助你的企业发展) (Interview JS290).

I asked him to explain, and he discussed government provision of labor services, partnering with local firms, financial assistance, infrastructure provision, lack of red tape, one centralized contact point for firms to avoid excessive fees, assistance selling the factory were it ever to close, and technological and worker training assistance. He was a gracious host with a lot of information, treating a foreign researcher with the same openness and helpfulness that might be extended to an actual investor, and he differentiated his county on the merits of its service mentality.

A week later I went to Si County in Anhui. Si and Suining border each other, and as I discovered, their official preferential policies are practically identical, but the presentation of these policies is entirely different. The investment promotion bureau refused to grant me an audience, although the preferential policies were listed online, albeit in a much less professional and less detailed manner than in Suining. In Si, I
encountered a closed and suspicious environment that was worlds away from the environment directly across the provincial border. One official in Jiangsu had described the reason for Subei’s emergence relative to neighboring Anhui in one word: “openness,” which he elaborated upon as an eagerness to invite in outside ideas, people, and capital (Interview JS281). I began to give credence to this attitudinal difference. The deputy director of the Suining investment promotion bureau, when I thanked him for meeting with me, further demonstrated the contrast, mentioning that as a foreign researcher I could potentially provide a reputational boost to his county that would help attract future foreign investment (a grandiose view of dissertation readership to which I did not overly object). The suspicious Si atmosphere could of course have rationally resulted from confusion as to my research goals, but the county contrast is nevertheless stark.

My experience in Suining and Si of course does not serve as a rigorous controlled comparison, but if I were a real investor, I would invest in Suining rather than Si. Actual investors agree: between 1997 and 2010, Suining received 69 percent more investment than Si. Currently in Si there are no western companies, and only a few Japanese companies investing in make-up and clothing. As one investor mentioned based on his experience in real estate markets in Si, Wuhe, and Lingbi (three counties that border each other in northeast Anhui): “In Suining County, the government is my partner. In Anhui, several county governments all tried to get me to invest, but the conditions were terrible and the governments were corrupt and just wanted my money” (Interview JS240). As we saw in the last chapter, investment is the strongest source of growth in China. Holding all else equal, if Si had received 70 percent more investment over 1994-2010, its expected
growth rate would be 35 percent higher and its per capita GDP today would be nearly 60 percent larger than its actual value.\textsuperscript{212}

This chapter explores local governance and local economic development in China’s counties, using the case counties to demonstrate that governance and institutional capacity differ widely at the local level and are extremely important for determining growth outcomes. China’s counties are in stark competition with one another for resources, particularly outside investment, and they must search out some form of competitive advantage; given low variability in factor and demand conditions, local governance becomes an important potential competitive advantage. The chapter begins by discussing what “governance” means, particularly as it relates to local economic development, and by looking at how China as a whole fares on these pro-growth dimensions of governance. Attention is paid to problems of endogeneity as well as the difference between local governance and national governance. The subsequent section looks at governance as it relates to government failures and market failures, and uses the case counties to develop an understanding of the ways that pro-growth governance differs across counties as well as the direct ways that these differences manifest in different growth outcomes through enhanced investment attractiveness. Efforts are made to quantify some of these effects using county-level data for all counties in Jiangsu and Anhui.

\textsuperscript{212} This calculation is based on Si’s 9.5 percent average annual growth rate and an assumed coefficient of 0.5 on investment growth for GDP growth.
4.1 Pro-growth local governance

“Governance” as a concept has proved notoriously difficult to define. One British newspaper described it as “slippery as an eel swathed in Swarfega” (Flinders and Matthews 2007). Its use across fields and issue areas gives rise to concerns that the term suffers from “concept stretching” that undermines theory-building based on the term (Sartori 1970). Nevertheless, governance remains a key concept that is important to understand. According to Shah (2006), “Local governance is a broader concept and is defined as the formulation and execution of collective action at the local level,” encompassing “the direct and indirect roles of formal institutions of local government” as well as informal norms, networks, community organizations (Shah 2006).

In this chapter I refer only to the roles and institutions of local governance, looking at public governance rather than the mix of public-private governance. I build off the influential definition of governance behind the World Bank’s Worldwide Governance Indicators, namely, “the traditions and institutions by which authority in a country is exercised,” including “the process by which governments are selected, monitored and replaced,” “the capacity of the government to effectively formulate and implement sound policies,” and

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213 In settling on a definition for governance, there are several approaches, for instance structure versus process and bureaucratic versus political economy. The majority of the literature on growth and governance applies to this latter definition/approach, and that is the approach used here. Flinders and Matthews (2007) differentiate between “structure” and “process” approaches to governance, as well as “vertical” and “horizontal” approaches. Fukuyama (2013) discusses different ways to measure governance: process, capacity, and output.

214 Shah goes further, arguing that, “Good local governance is not just about providing a range of local services but also about preserving the life and liberty of local residents; creating space for democratic participation and civic dialogue; supporting market-led, environmentally sustainable local development; and facilitating outcomes that enrich the quality of life of local residents.” Recent literature highlights the large network of non-government entities that provide local services (Bailey 1999). However, in China these local organizations and civil society have been less apparent, helping motivate a focus on government itself.
“the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann, Kraay and Zoido-Lobatón 1999, 1). The Worldwide Governance Indicators operationalize this definition through six composite governance indicators representing voice and accountability, government effectiveness, rule of law, control of corruption, political stability, and regulatory quality.215

How do government quality, constraints on government action, and the relationship of government to citizenry affect economic outcomes? The relationship between governance and growth has long been hypothesized and explored. Much economic analysis of government tends towards two extremes: a welfare economics perspective stressing government action for the public interest and a public choice perspective that sees government as an agglomeration of actors acting in their own private interest.216 In a public choice perspective, pro-growth governance consists of the government controlling itself, while in the welfare economics perspective, governments should proactively address market failures to eliminate Pareto sub-optimal outcomes. In the 1950s, modernization theory took a welfare perspective and equated governance with democratization, perceiving economic development and governance enhancements as two sides of the same coin. In the 1980s, governance was seen as secondary: state reform was an essential component, but structural adjustment would itself lead to state reform by removing incentives for rent-seeking and corruption (Khan 2008); in other words, a

215 Similarly, as early as 1993 Knack and Keefer developed IRIS at the University of Maryland based on the International Country Risk Guide and consisting of six indicators: corruption, rule of law, bureaucratic quality, repudiation of government contracts, ethnic tensions, and expropriation risks. 216 More nuanced views see a spectrum, with governments able to act more or less in the public interest while also fulfilling personal aims. See Besley (2007) for a more in-depth discussion.
public choice perspective seeing government itself as the problem took over. As the structural adjustment approach failed, the 1990s saw the mainstream emergence of theoretical and empirical studies of governance and growth, largely as a part of New Institutional Economics. These approaches were more nuanced, identifying both positive and negative roles for the exercise of public authority. In this perspective, good governance was identified as an essential component of enhancing growth through the promotion of markets and the elimination of government failures.

Institutional approaches to economics and politics have theorized on the linkages between governance and growth. Particularly popular have been theories explaining virtuous circles of good governance and growth and vicious circles of bad governance and stagnation or decline. Recently, several books have looked at institutional and political foundations of long-term growth. North, Wallis, and Weingast (2009) distinguish between “natural states” that create and extract rents, and “open access” states that are vulnerable to political entry and thus embrace public interests; these latter states develop and prosper, whereas natural states trend towards violence. Similarly, Acemoglu and Robinson (2012) distinguish between “extractive” and “inclusive” institutions, with the first resulting in exploitative, low growth, violence-prone vicious circles, and the latter resulting in pro-development virtuous circles. In both of these approaches, the idea of vicious circles of low institutional quality and low growth contrast with virtuous

\[\text{\footnotesize \cite{217} Many of these ideas were part of the development of “new political economy” that included Krueger (1974); Posner (1975); Bhagwati (1982); Bardhan (1984); Colander (1984); Alt and Shepsle (1990); Lal and Myint (1996). See Khan (2008) for a discussion.}\]
circles of high institutional quality and high growth. Khan (2008) presents theoretical policy linkages between governance and growth: stagnant economies lead to unaccountable governments, rent-seeking and corruption, and therefore weak property rights; weak property rights lead to high transactions costs, which lead to stagnant economies, completing the vicious circle. Conversely, where markets are efficient, growth follows, making governments accountable, reducing rent-seeking and corruption, and thus leading to stable property rights and rule of law, which combine to make markets efficient.

Empirical evidence tends to support the positive relationship between governance conditions and economic growth, and there is now abundant research from both political science and economics demonstrating how a state’s governance quality can improve economic outcomes. While many empirical studies focus on the correlation between growth and governance and do not reject reverse causality, limited evidence exists that the governance-to-growth pathway has more empirical validity than the growth-to-governance pathway. Using instrumental variables to control for the endogeneity problem, whereby growth higher incomes could lead to governance rather than vice versa, several papers still identify causal effects running from governance to wealth.

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218 Similarly, Gradstein (2004) presents a model showing that economic performance and enforcement of property rights are complementary and tend to reinforce one another.

219 See, for example Knack and Keefer (1995); Mauro (1995); Barro (1997); Evans and Rauch (1999); Aidt (2009); Holmberg and Rothstein (2012).

220 Empirical evidence demonstrates a high correlation between wealth and growth, but there has been a long debate on the direction of causality between governance and growth. Does higher growth lead to better institutional quality and better governance, or does better governance enable higher growth? Correlation between governance and growth could be causation from one to the other or an omitted variable causing both. Some, such as Sachs, et al. (2004) show that when taking initial incomes into account, governance quality has no relationship with growth in Africa.

221 See, for example, Hall and Jones (1999); Kaufmann, Kraay, and Zoido-Lobatón (1999); Acemoglu, Johnson, and Robinson (2001); Easterly and Levine (2003).
Going even further, Kaufmann and Kraay (2002) find evidence confirming not only the importance of good governance for economic development, but also the absence of “virtuous circles” in which higher incomes lead to governance improvements; in other words, causality runs in only one direction.222

However, this strong empirical linkage between governance and growth does not hold closely with every country: in the China case, without effective democracy and institutionalized downward accountability, the governance-to-growth chain seems broken, and yet China has achieved rapid growth. Indeed, many see China as a case in need of explanation: how has China grown so fast despite such poor governance? As Keefer (2007) writes, “Fast growth, and in the Chinese case, extraordinary growth, have been accompanied by strictly average governance indicators. From the 1980s to the present, international risk rating firms report that investors have confronted frequently arbitrary government decision making and insecure contractual and property rights.”223 High levels of corruption and minimal downward accountability are identified as particularly problematic.224

China’s governance shortcomings are widely identified as becoming amplified at the local level. Keefer (2007) discusses the microeconomic evidence of corrupt collusion

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222 The paper uses worldwide governance indicators for 175 countries over 2000/2001, speculating that elite influence and state capture help account for the surprising negative effects of per capita income on governance.

223 Note that Keefer still concludes that governance is important for explaining China’s growth: “First, broadly speaking, China and India were able to leverage policy reforms into sustained, fast growth, despite only average governance, because of their large markets and abundance of low cost labor. In smaller markets, the same policy and governance environment would yield slower growth. Second, governance in China and India was better than in other poor countries. And third, in both countries, growth did not occur until significant improvements in governance occurred in the late 1970s and early 1980s” (189-190).

224 For a discussion of the anti-growth consequences of corruption in China, see Pei (2006).
between firms and local governments that “reinforces the conclusion that growth has proceeded despite a somewhat challenging governance environment.”\(^{225}\) Pei (2006) discusses in depth the capture of local government. If satisfaction with government can indicate governance quality, then localities are significantly worse than center: Saich (2013) finds that while 92 percent of respondents in China were relatively or extremely satisfied with Central Government work in 2011, only 64 percent were satisfied at the local level.\(^{226}\) As Saich explains:

“…one could argue that many of China’s core problems arise from deficiencies in governance. The system is riddled with corruption, a sure sign of poor governance, with officials abusing official position for personal gain and with the sale of government positions undermining the notion of promotion based on meritocratic principles. Many, if not most, of the local protests are caused by the improper or illegal actions of local officials. This includes the poor implementation of good national regulation at the local level (leading to environmental pollution or sale of substandard products), the illegal transfer of land that dispossesses or undercompensates farmers, and restricting access to public goods and services.”

Interestingly, however, many theories of China’s growth rely on decentralization and autonomy given to local governments (see discussion in Chapter Two), so on the one hand China’s local governments are seen as privately motivated and lacking good governance, and on the other hand they are seen as capable of producing the world’s fastest sustained growth over the past three and a half decades. This seeming

\(^{225}\) For instance, Cai, Fang, and Xu (2005) find that firms make large payments to government officials in order to prevent opportunistic local government behavior and bureaucratic burdens, rather than to create rents. Nee and Opper (2006) find that CEOs engaged in political activity have significantly better access to credit.

\(^{226}\) Similarly, while the China Survey 2008 on trust in leaders finds that 45 percent had high levels of trust in the central leadership, only 17 percent had high levels of trust in county and township leaders. A Horizon Survey Group 2003 survey showed that four out of seven county magistrates failed to meet 50 percent target of public support (if asked to vote for their mayor), while just one level up 13 of 13 prefecture city mayors reached more than 50 percent (D. Yang 2004).
contradiction has two explanations. First, there is variance in governance quality at the local level in China: some localities have better governance than others, so we cannot discuss “good” and “bad” local governance as a nation-wide local constant. Second, and more compellingly given that even “bad governance” localities in China have achieved growth rates above the global average, governance itself can be broken into components representing a broad range of government roles and government-society interactions.227

China’s local governments have performed very well on some of these governance components and very poorly on others; in particular, they have often performed well on governance dimensions that are most directly related to local growth.228

The “local economic development” (LED) literature provides a useful starting point for identifying some of these components of local governance that are beneficial for local growth. LED evolved in the 1970s as a policy approach as municipal governments realized that businesses were seeking to move between locations to gain competitive advantages (Swinburn, Goga and Murphy 2006, 1-2).229

In response, these local
governments attempted to understand the local obstacles to investment and how to facilitate capital entry. LED consists of policy responses to create conditions conducive to job growth and investment attraction, and “[it] is essentially about maximizing the potential of a range of factors including location, physical infrastructure, human resources, capital and finance, knowledge and technology, industrial structure, quality of life, investment climate, institutional capacity and community” (Abrams and Murphy 2005, 232). LED highlights that governance can enhance both inputs and efficiency through agency coordination, firm connections, worker training, labor and technology matching, as well as other mechanisms requiring government involvement. OECD (2004) focuses on the government’s role in boosting efficiency and productivity through skilled labor, entrepreneurship, and innovation polices. Innovation policies require governments to build local knowledge bases by providing risk capital (particularly for SMEs) and attracting talented researchers and labor, as well as exploiting production and distribution advantages by becoming “technology brokers” and sharing of equipment as well as researchers for firm-to-firm and firm-to-institute networking (Giguere 2004, 13-15). The policy-intervening capacity of local authorities/agencies is important to LED, and a major focus is on the “welcome mat” effect of “financial incentives, relocation packages and other activities of local development agencies” (C. Wong 2002). Note also that LED strategies and pro-growth governance requirements differ across levels of development. At early stages the focus is simply on attracting capital, but later stages of

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230 This effect has been especially apparent in explaining cross-border FDI decisions. For instance, Munday (1990) describes the ‘welcome mat’ incentives provided by Wales and their effectiveness at enticing Japanese investment.
development require a shift towards efficiency and rational/selective investment seeking/approval, which requires more attention to pro-clustering policies to enhance localization economies.\textsuperscript{231} In other words, the role of governance in developing and developed countries may be different.\textsuperscript{232}

Looking at the LED literature, government “effectiveness” (i.e., the quality of the civil service and the quality of policy formulation and implementation) and regulatory quality should have the strongest relationship to local growth. However, despite theoretical reasons to believe that local governance in the form of institutional capacity and government efficiency affects growth outcomes, the quantitative evidence is limited, more as a result of the difficulty in assessing local institutional capacity than a consequence of contradictory evidence.\textsuperscript{233} Traditional governance indicators related to the rule of law and corruption would seem to have a second-order relationship in helping to improve government effectiveness and quality, while indicators related to

\textsuperscript{231} Much of the efficiency/productivity benefits of local governance depend on localization and urbanization economies. The relative weight of urbanization and localization economies remains highly contested, but the policy implications are important (Parkinson 2004). Localization economies require pro-clustering policies, related firms, inter-firm connections, perhaps through creation of highly specialized industrial districts – these policies often have private goods and private benefits (see Porter). Urbanization economies benefit all firms, and focus more on the public goods of infrastructure, education, research and development, as well as making livable cities good environments, social cohesion, and high service quality. Policies that work for urbanization economies tend to also work at boosting inputs; this is not as relevant for localization economies.

\textsuperscript{232} For instance, Khan (2008) makes a distinction between market-enhancing and growth-enhancing governance: “Growth-enhancing governance should not be confused with interventionism. Achieving market-enhancing governance also requires intervention…” But market-enhancing governance is often unachievable in undeveloped countries. Growth-enhancing governance requires three interrelated capabilities/processes: “governance capabilities for managing non-market asset transfers to accelerate productive investment…”; (2) “Success in rapid technology acquisition has therefore been associated with governance capabilities enabling states to effectively discipline learning processes and manage the rents involved.”; and (3) political stability.

\textsuperscript{233} For instance, C. Wong (2002, 1843) includes institutional capacity as one of 11 factors essential for local development, but not among her 29 indicators: “Due to the qualitative nature of institutional capacity, it is not possible to devise any reliable and valid measure for this factor.”
accountability may have little direct relationship to short-term local growth. Voice and accountability are likely important for long-term growth through ensuring continued government effectiveness and rule of law, but may be orthogonal to short-term growth. Accountability generally refers to downward accountability towards citizens, but the accountability that matters in the local government capacity framework in China comes from within-institution horizontal and vertical accountability; in other words, do agencies and bureaus coordinate in policy formulation and implementation? I will argue later that where upward accountability mechanisms lead to pro-growth “good governance,” by which I mean high levels of government effectiveness and good regulatory quality, corruption declines as growth (and government effectiveness) rises. Similar limited definitions of governance have been used before. Fukuyama (2013) defines governance as “a government’s ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or not.” He complains that most measures of governance concentrate more attention on “checking’ institutions than on “power-deploying” institutions. Importantly, he also notes that “government is an organization which can do its functions better or worse; governance is thus about execution, or what has traditionally fallen within the domain of public administration, as opposed to politics” (Fukuyama 2013, 4).

Thought about in this way, the apparent puzzle of poor local governance and rapid economic growth in China is less puzzling: there is a low level of downward accountability and a high level of corruption, but governments have at times been highly effective and implemented pro-growth regulations and policies. In cross-national comparison, as shown in Figure 4.1, China is an outlier on the voice and accountability
Figure 4.1. China is an outlier in "accountability" measures but not "quality" measures

*Log per capita GDP versus governance indicator component, all countries, 2010*

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indicator, but performs as expected on government effectiveness.\(^{234}\) Similarly, China’s local governments perform well in government effectiveness and regulatory quality, less well in corruption control and rule of law, and worst in downward accountability. Indeed, China has its own definitions of governance that focus on economic efficiency, control of corruption, and policy implementation, in addition to trust in government

\(^{234}\) Note also that not a single country with above-average government effectiveness has per capita GDP below US$3800 (and only seven are below the global median of US$7957), whereas many countries with high voice and accountability rankings have very low incomes (lower right quadrant), and many rich countries have low levels of voice and accountability (upper left quadrant).
And over the reform period, while explicit political reforms that would significantly alter citizen voice and improve downward accountability have been limited, there have been deep institutional reforms at all levels of government focused on administrative restructuring, cadre competency, and institutional capacity.²³⁵

Looking at China’s local governance and growth, China’s governance capacity matches those that the World Bank identifies as important for developing an effective five process LED framework (Swinburn, Goga and Murphy 2006). These five processes include organization of the LED effort, assessment of the local economy, development of a strategy, implementation, and review. Organizing the effort requires institutional arrangements that enable coordination. At the national level and cross-hierarchy levels in China this is highly problematic, but local governments have had more success ensuring horizontal accountability and coordination, as well as proactive interactions with businesses themselves. This coordination and interface is supported by a highly institutionalized process of assessments, strategy making, and review, identified most clearly through government work reports that highlight the major difficulties of previous years and goals moving forward. These plans/reports are the result of multi-month processes of consultation between bureaus: each bureau submits its own annual report to the government work office, which reviews and adjusts and then makes county-level plans based on all inputs (Interview JS281). Finally, while reporting and implementation problems continue to exist, the formal framework is very strong, and at the local level, implementation of local strategies is less problematic, particularly where County Party

²³⁵ Brodsgaard (2010) discusses many of these institutional reforms. For more in-depth accounts, see Shambaugh (2008) and D. Yang (2004).
Secretaries can ensure high levels of compliance (see Chapter Five). In other words, China’s local institutions seem to be designed for managerial efficiency and governance capacity along the lines that have been identified as important for local economic development and growth.

A useful way to look at the characteristics of pro-growth governance in China’s counties and understand the variance in government efficiency and capacity involves looking at local economic development as a policy response framework for correcting government failures and market failures. The former includes corruption, excessive regulations, high transactions costs, and risks for local investors, while the latter involves increasing the efficiency of factor markets (Abrams and Murphy 2005). In their use here, government and market failures correspond to the ideas of “grabbing hands” and “helping hands” of governments described in Chapter Two; “grabbing hands” are government failures, while “helping hands” alleviate market failures. Similarly, and more descriptively, in Suining County the government differentiates the pro-business role of government into “bodyguarding” (baobiao 保镖) and “nannying” (baomu 保姆); “bodyguarding” refers to preventing the government from collecting fees and harming enterprises, similar to the idea of government failure here, while “nannying” refers to proactively helping enterprises, similar to the market failure approach here. The government failure approach in some ways corresponds to a public-choice conception of government as an accumulation of actors with private interests that can oppose public interests; the market failure approach sees governments as acting in the public interest. In the government failure area, pro-growth governance implies prevention, or a diminution/elimination of certain types of government behavior. Eliminating the
government from areas in which it should not engage can lower business costs and decrease waste (measured in time and money); enhancing “good” behavior can boost productivity and performance. All of this makes localities more attractive to investors and makes local firms operate more efficiently. In the market failure area, pro-growth governance requires proactively enlarging, enhancing, or refining certain types of government behavior. These relate to many of the government roles identified in the developmental state literature.⁴³⁶

4.2 Local economic development and government failure

Government failure comes in many forms. Often the term is used to describe bad policies, or policies that lead to the inefficient allocation of resources compared with the absence of policy: “Government failure, then, arises when government has created inefficiencies because it should not have intervened in the first place or when it could have solved a given problem or set of problems more efficiently, that is, by generating greater net benefits” (Winston 2006, 3). Coase (1964) used the term with regard to inefficient and harmful industrial regulations. Examples include regulatory arbitrage, regulatory capture, economic crowding out of private sector spending and investment. Whereas a market failure is a Pareto-inefficient equilibrium allocation of resources, a government failure is a sub-optimal allocation of resources resulting from government

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²³⁶ For instance, Evans (1995) identifies four major roles that government can play in the economy: custodian (protecting, policing, and regulating); midwife (creating new businesses in specific sectors); husbandry (cultivating and nurturing entrepreneurial forces); and demiurge (becoming directly involved in production). And indeed, all four of these roles are played by China’s local governments.
efforts to correct market failures. Here I focus on behavior rather than policy and take a slightly more expansive view of government failure, looking at government pathologies that lead to inefficient outcomes, with particular attention to corruption and excessive fee collection, corresponding to the “grabbing hand” idea of government failure.

Corruption in Chinese counties is rife, although it comes in different forms, only some of which appear to have strong anti-growth implications. In the country as a whole, corruption is seen as hindering growth, and many authors have developed costs of corruption that reach as high as 13-16 percent of GDP. The incidence of corruption seems to have been relatively constant over time: China’s corruption perception index has not changed significantly since the mid-1990s. But the relationship between corruption and growth is not entirely clear, and others note the potential for positive-sum corruption. For instance, Kang (2002) argues that corruption in South Korea and the Philippines has been relatively similar, but that South Korea has been able to develop due to the greater power of business groups relative to the government. Leff (1964) and

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237 Kreuger (1990, 10) distinguishes between government failures of “omission and commission”: failures of commission include government involvement in a variety of economic activities not generally associated with the public sector (state marketing boards, SOEs monopoly rights, inefficient government investment programs, price controls, etc.). These failures of commission are failures of policy, not a priori failures (e.g., some SOE monopolies work). Failures of omission included deteriorating infrastructure, refusing to eliminate exchange controls and fixed exchange rates, low nominal interest rates. As a result of these failures, Kreuger argues, corruption arose.

238 Manion (2004, 96-110) provides a taxonomy of the most common forms of corruption in China: bureaucratic commerce (businesses of government agencies, basically the “entrepreneurial state”), predatory extraction (“excessive compulsory and irregular non-tax charges”), corrupt exchanges (basic bribery), use of public funds as private capital, and illegal privatization of state enterprise assets. This taxonomy largely ignores the buying and selling of offices, although this appears to be the most common type of corruption at the county level.

239 Hu and Guo (2001) estimate 13.2-16.8 percent. According to Wu and Zhu (2011), counties with higher anti-corruption efforts have higher income levels based on data for 2003. Indicators are the number of audits, number of auditors, and illegal funds uncovered in the year before (2002).

Huntington (1968) suggested ways in which corruption could actually enhance growth: corruption in the form of “speed money” enables businesses and individuals to avoid bureaucratic red tape and delay. Additionally, if corruption is seen as a payment, then it can incentivize those government employees who levy bribes. However, more arguments focus on the negative consequences of corruption, and Rose-Ackerman (1978) notes that even if certain forms of corruption have pro-growth consequences, limiting corruption only to these areas may be impossible. In other words, the key is identifying the type of corruption and its effects. “Speed money” may be pro-growth, or at the very least not anti-growth, while assigning government positions based on bribes may lead to an unqualified and incapable bureaucracy; these are not contradictory conclusions. Corruption as a deterrent to local investment is bad, while corruption to entice local investment may not have negative short-term consequences.

Corruption has been very common at the county level in Jiangsu and Anhui. In the six case counties, over the past 20 years, four have had County Party Secretaries convicted of corrupt behavior, and all have had multiple cases of corruption lower down the administrative ranks. But the negative consequences of corruption in the counties have differed, and the timing and degree of corruption has differed across Jiangsu and Anhui counties more broadly. In the two Jiangsu case counties with past corrupt

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241 See, for example, Shleifer and Vishny (1993).
242 Most literature now highlights the negative growth effects of corruption. Kaufmann and Wei (1999) find that “speed money” (what they refer to as “efficient grease”) does not exist empirically: firms that pay bribes spend more time dealing with bureaucrats and have higher costs of capital than firms that do not.
243 Si and Suining, the poorest sample counties in Anhui and Jiangsu, respectively, had no documented cases of corruption at the highest level – this may simply be because of poor oversight in less institutionalized environments. Note that if this explanation is correct, then the higher prevalence of corruption in poorer Anhui described below is likely even more extreme than identified.
leadership, one County Party Secretary and one County Magistrate in Sihong and Xuyi, respectively, were arrested for corruption in the early- to mid-1990s. In Sihong, a magistrate in the early 1990s, Li Yuanzhang (李元章), was found guilty for accepting 49,000 RMB in bribes from eight people. The Xuyi County Party Secretary from 1995-97, Xin Lizhong (欣立忠), accepted cash, a color TV, a microwave, and jewelry worth 274,070 RMB (including his final two years as the propaganda bureau chief in Huaiyin City). These are not trivial amounts, but in both cases the frequency and volume of bribes was relatively low. Moreover, these cases, with the most recent concerning bribery in 1997, preceded the switch in growth emphasis from restructuring to investment promotion described in the previous chapter.

In Mingguang and Wuhe in Anhui, corruption at the highest level has been more systematic, larger in magnitude, and more recent – both have had County Party Secretaries arrested for corrupt behavior as recently as 2007. In Wuhe, two successive County Party Secretaries who served from 2001 to 2007 were convicted of corruption. Zhang Guiyi (张桂义) served as Wuhe magistrate from January 1999 to March 2002 and Party Secretary from November 2001 to February 2004. During his time in office he accepted 245,199 RMB and 4000 US dollars for appointments, promotions, recommendations, personnel transfers, and project development. More recently, Xu Shexin (徐社新) spent six years as an official in Wuhe, becoming known as an “official

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244 In November 2000, he told the Finance department head (Sun Liping) to take 800,000 RMB from the department coffers and transfer it to a land bureau account to substitute the Xinghua Company land transfer fund. The land bureau then transferred 800,000 RMB back to the county finance department, as if it had come from a transfer. For a much more in-depth discussion of this case, see the court judgment: Yuhui District People’s Court (2005).
position retailer” \((\text{guanmao shouhuolang} \text{ 官帽售货郎})\) who “wasted time away” selling all important bureau and township head positions. According to one local official, it was an “open secret” \((\text{gongkai de mimi} \text{ 公开的秘密})\) that the only way to get promoted was to pay a bribe (G. Li 2010). While in office Xu accepted 3.1 million RMB, 13,789 USD, 500 Euros, 5000 HKD, and 55,000 RMB worth of shopping cards. The largest single “briber” was Yang Jingxue, the CEO of a local beer company, who between 2003 and 2006 paid Xu over 650,000 RMB. In order to get a low auction price for a Tianjing Beer Factory in June 2006, Yang gave Xu 100,000 RMB, along with a further 40,000 RMB to convince Xu to arrange the auction as soon as possible.

Two of the four Mingguang County Party Secretaries who served over 1992-2007 were convicted of corruption. Xue Xianzao (薛贤早) and Zhang Songjian (张松坚) served collectively for 9 years (not successively), and both left legacies of entrenched corruption. Indeed, corruption was frequently identified in interviews as the key reason for Mingguang’s backwardness since the mid-1990s. One well-informed interviewee identified corruption \((\text{tanwu fubai} \text{ 贪污腐败})\) as the most problematic issue in Mingguang’s development, and particularly the corruption case under Party Secretary Xue in the early 1990s that resulted in convictions of over 130 people, including the Party Secretary, Magistrate, two other department-level \((\text{chuji} \text{ 处级})\) cadres, and 15 section-level \((\text{kejuji} \text{ 科局级})\) cadres (Ming 1998). The incident became known as the “Mingguang nest case” \((\text{mingguang wo’an} \text{ 明光窝案})\), and if you ask a local about the “nest case,” they know exactly what you’re talking about. Indeed, in one academic survey of corruption in China, the “corruption nest” under Party Secretary Xue is identified as the archetype \((\text{dianxing} \text{ 典型})\) of a process that evolves from “self-initiated
individual corruption” (zhudongxing geti fubai 主动型个体腐败) to “group corruption” (qunti fubai 群体腐败), particularly “between-bureau group corruption” (bumenqunti fubai 部门间群体腐败), and on to “regional corruption” (quyuhuai fubai 区域怀腐败) (Xu and Wang 2000). This case involved the buying and selling of offices, and it negatively affected government operations for years to come, for multiple reasons. First, almost the entire government structure had to be re-staffed. Second, local government lost the people’s trust. And third, no qualified officials wanted to go to Mingguang, so Chuzhou City and Anhui Province itself basically wrote the county off (Interview JS133; Interview AH104; Interview AH138).

More recently, Zhang Songjian (张松坚) is remembered for having further undermined the cadre system, permitting and promoting a lawless culture of corruption. In selling off state assets at bargain basement prices for personal gain and in appointing only cadres who paid bribes, Zhang undermined local revenue sources and permanently damaged state-society and state-business relations. Zhang was convicted of corruption, involving enterprise restructuring, cadre appointments, and land transfers, after he accepted bribes from 162 people worth 4.3 million RMB, with an additional 70,000 RMB worth of shopping cards. One factory CEO gave him over 100,000 RMB on one occasion, but he wasn’t above accepting as little as 800 RMB (L. Wu 2010). There was a popular saying while Zhang was in office: “Zhang Songjian, Zhang County Magistrate, after one year on the job, the sky over Mingguang grew a foot” (张松坚，张知县，走马

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245 County Magistrate here is zhixian, implying the county head of imperial times, not xianzhang, which is the modern day Magistrate or government chief executive.
上任才一年，明光高出一尺天: Zhang sold off land with alacrity, meaning all the land lost a foot and the sky gained a foot. While Zhang accepted nine bribes from local CEOs, the vast majority (132) of the bribes came from other cadres. When he fell, many of these other cadres were ousted as well.\textsuperscript{246}

One particular bribe was frequently mentioned in local interviews, with considerable still-festering anger: the below-value sale of Old Mingguang Liquor (老明光酒). The factory dated to the Southern Song dynasty (1127-1279 AD), and by the turn of the millennium it had four major brands and over 100 varieties, employing over 3000 workers. For several years running it was one of China’s 500 biggest industrial enterprises, with fixed assets of 460 million RMB and a factory covering 600,000 square meters. Zhang controversially decided to auction off the factory, and in 2006 sold it to Wang Zhenshuang (王振爽), a Wenzhou (Zhejiang) businessman, for well below its market price (as confirmed later in court). According to local accounts, another offer from Zhejiang was made for over 200 million RMB, but Zhang sold the factory to Wang for only 60 million RMB.\textsuperscript{247} Zhang, in addition to the Deputy Party Secretary Lin Changyou, the liquor factory restructuring leading small group head Sun Hong (孙红).

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{246} Several of these ousted cadres held some of the county’s most important positions, including Party Committee member Li Luguang (李鲁光), Vice Mayor Zhu Bin (朱彬), Urban Construction Bureau Chief Yuan Xiuzhong (袁秀忠), Water Conservancy Bureau Chief Wang Guoli (王国利), County Grain Bureau Chief Zhang Jingui (张金贵), Land Bureau Chief Li Jinheng (李金衡), Public Health Bureau Chief Zhang Xuemin (张学民), Public Security Bureau Chief Zhang Jiawang (张家旺), Radio and Television Bureau Chief Hu Xuebiao (胡学彪), and Education Bureau Chief Zhao Yang (赵祥).
\item \textsuperscript{247} To make matters worse, Wang had no intention of running a liquor factory, but wanted to use the good location of the land for commercial purposes: he turned the land from industrial use into commercial use. After selling the factory, the employees collectively petitioned at the higher level (jiti shangfang 集体上访), but Zhang accused them of “gathering to disturb public order.”
\end{itemize}
\end{footnotesize}
and the Price Bureau Bureau Chief Li Jianhua (李建华), took nearly 2 million in bribes for this transaction: in other words, for 2 million RMB in private gains, they gave away 140 million RMB in potential public county revenue.

A comparison of these cases in Wuhe and Mingguang to those in Xuyi and Sihong suggests that corruption in the Anhui counties is more systematic and has covered a longer period than corruption in the Jiangsu counties. To repeat the local official quoted above, “everyone” in these counties knew that bribery was the only means of promotion. In Xuyi and Sihong, the volume of cases was low enough that while bribery clearly greased the wheels, it was not a prerequisite for getting everything done. The corruption in Wuhe and Mingguang undermined trust in the system, eliminating meritocratic promotions and harming county revenue collection.

More broadly in the two provinces, corruption at the County Party Secretary level has been higher in Anhui than Jiangsu, in terms of both perceptions and convicted cases. Much has been written about local corruption in Anhui, including One Hand Covering Heaven (2006) about 18 corrupt Party Secretaries as well as Chen Guidi and Wu Chuntao’s “Will the Boat Sink the Water?” (2006), an exposé of brutal treatment of Anhui’s peasantry by local cadres. Using the biographical data developed for this dissertation and looking at cases of corrupt County Party Secretaries between 1998 and 2010, over this period 7.3 percent of all county-year observations in Anhui had a corrupt County Party Secretary, while the corresponding number in Jiangsu was 2.4 percent,

\[248\] However, this interpretation comes with a grain of salt. As with all studies of corruption, there is a problem with using prosecution data. Another possible explanation is that prosecutors and investigators are more active in the Anhui counties, or that the Anhui leaders are simply less “good” at corruption and therefore more likely to get caught.
Figure 4.2. Corruption more prevalent in Anhui than Jiangsu

Share of County Party Secretaries eventually convicted of corruption

As shown in Figure 4.2, while in the mid-1990s Jiangsu actually had more cases of corruption among its county leaders than Anhui, in more recent years Jiangsu has become much “cleaner” while Anhui has stayed similarly corrupt.\(^{249}\) Not only are the number of cases higher, but perceptions of corruption are also higher in Anhui than in Jiangsu, with interviewees frequently identifying a “culture of corruption”

\(^{249}\) Note that the recent data do not mean that there was no corruption – there is generally a lag in corruption convictions, so many corrupt leaders in 2008-2010 are likely to be prosecuted later than 2012-2013 (when this research was conducted).
(fubai wenhua 腐败文化) in Anhui, characterized by local lack of control over local cadres.\textsuperscript{250}

This lack of trust hints at the negative effect of local corruption on growth. The generally accepted channels by which corruption hinders growth are through negative incentives for businesses to invest and through distorting the allocation of human capital.\textsuperscript{251} This latter effect harms growth by making government itself less effective by decreasing the capability of the civil service. In the case counties, the most prevalent form of local corruption seems to be the buying and selling of official positions (maiguan maiguan 买官卖官), which creates a bureaucracy based on money rather than meritocracy and impedes the positive roles that the state can play. It also implies that positions themselves will be used to gain money (otherwise why pay for the position?). The buying and selling of offices “de-institutionalizes the state” by transforming public authority into a form of private property (J. Zhu 2008). Buying and selling office cases can reverberate throughout the entire administrative hierarchy: for instance, in a famous case in Heilongjiang, a provincial leader sold the position of Party Secretary of Suihua, a prefecture-level municipality, who sold the Suiling County Party Secretary position to Li Gang, who then sold many positions under him. Similarly, in Mingguang, as mentioned

\textsuperscript{250} Myrdal (1968) discusses the “folklore of corruption,” a concept that Manion (2004) has applied to problems of anticorruption work in China: “anticorruption reform in a setting of widespread corruption is a problem not only of reducing corrupt payoffs, but also of changing the shared expectations of rank venality that define a ‘folklore of corruption.’” Such a “folklore” can dominate even when the actual practice diminishes (Oldenburg 1987, 532-533). This “folklore” has grown to surround the Anhui case counties, extending to locals and investors alike, and consequently diminishing levels of trust.

\textsuperscript{251} See Aaidt (2009). Mauro (1995) finds that corruption lowers private investment: “A one-standard-deviation increase (an improvement) in the corruption index is associated with an increase in the investment rate by 2.9 percent of GDP…The finding that corruption is negatively and significantly associated with investment is consistent with the view that corruption lowers the private marginal product of capital (for example, by acting as a tax on the proceeds of the investment).”
above, the behavior of former Party Secretary Xue has been identified as the epitome of a
corruption process by which individual leader corruption leads to corruption throughout
the bureaucratic hierarchy and then to corruption within an entire local region (Xu and
Wang 2000).

Alternatively, firm bribery and favors can have different consequences.
Corruption should be differentiated from wining and dining, but the two overlap. In a
culture that prizes personal connections, some wining and dining is unavoidable.252 On
investment promotion, the problem becomes even trickier. In The English Constitution,
Walter Bagehot differentiated between two components of government: the dignified
part, dealing with matters of ceremony and state occasions, and the efficient part that
actually governs. But in the case of investment attraction, the two may not be
differentiable. According to Jiang Guoxing, the former County Party Secretary of
Suining: “The locals said that I’d brought ‘eating and drinking culture’ (chihe feng 吃喝
风), but that implies sitting around doing nothing – to attract investment, you may need to
wine and dine, but this isn’t ‘eating and drinking culture’ – you have to spend money to
make money (xianhuaqian houzhengqian 先花钱后挣钱)” (F. Wang 2006). Sometimes,
as in the Sihong corruption case identified above, the goal is to help an industry or firm,
and involves a transfer from state coffers to individual coffers, but less overall cost for
the firm. Other gift-giving may in effect be “speed money.” One official described
entrenched “legal” corruption in a Jiangsu county:

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252 In addition, study tours and investment tours are often seen as wasteful, but they can prove productive. For instance, Foster (2006) finds that the Yantai study trip to Hong Kong led to administrative innovations and reforms based on the Hong Kong governance model.
Assume there are 5000 cadres in [XX] County, with 500 leaders and 1000 minor section chiefs (xiaokezhang 小科长), and then gradations all the way down. The lowest level cadres, like myself, make 40,000 RMB a year but spend 60,000. The rest of this money comes in the form of meals, gas, etc. charged to the bureau’s account, as well as gifts from companies and individuals. It’s not convenient (bufangbian 不方便) to give a physically large gift, and cash gifts are expressly forbidden, so most gifts come in the form of store gift cards. So assume a low level cadre makes 20,000 a year in ‘legal corruption.’ And if you work your way up the chain, county magistrates make 20 million in corruption and Party Secretaries make 50 million. If you add this all up, we’re talking about a few “100 millions” (yi 亿) in [XX] county alone” (Interview JS254).

The “legal” and semi-legal corruption described in this interview blurs the line between out-and-out corruption and administrative red-tape. China is a country of diverse and plentiful overlapping codes and regulations, as well as diverse and plentiful overlapping state organizations assigned to administer and implement these codes and regulations. To get an official signature, or turn on the water, or transfer land use rights, companies must interface with these bodies. Many counties have moved to unilaterally remove red tape as an incentive for investment (see below), but other counties have added corruption to the mix, creating a “disorderly fee collection” (luan shoufei 乱收费) environment.

This out-of-control fee collection is a clear deterrent to outside investment, but local dependence on industrial enterprises for revenue has made its elimination difficult. As Whiting (2004) has documented, dependence on rural enterprises has spawned an array of metaphors, including “money trees” (yaoqianshu 摇钱树) and “flesh of a Tang monk” (tangsengrou 唐僧肉), a reference to the mythological belief found in Journey to the West that consuming a monk’s flesh will let one live forever. The former Mayor of Mingguang, Gong Ronggang (龚荣刚), acknowledges the problem, noting that eliminating “disorderly fee collection” is essential in order to “improve investment
attraction work and create a positive investment environment” (Gong 2000). Fees are a strong deterrent to investment with high levels of interjurisdictional competition for investment, preventing industry from locating locally. Such red tape is problematic in China as a whole: in the World Bank “Doing Business” rankings, China ranks in the top half of the 2013 rankings in terms of getting credit, trading across borders, enforcing contracts, and resolving insolvency, but it ranks in the bottom half of starting a business, dealing with construction permits, getting electricity, and paying taxes – in other words, red tape categories.  This red tape was highly apparent in the same Anhui counties that exhibited higher degrees of corruption; in both cases the problem is one of government failure. This was readily apparent in interviews: “No one wants to invest in Anhui. Instead of helping companies, every bureau just collects fees from companies” (Interview JS128).

What is the effect of corruption in the sample provinces and case counties? In Jiangsu, corrupt counties (i.e., those with corrupt County Party Secretaries in the given year) tend to be poorer at the start of the sample (3469 RMB per capita GDP versus 6147 RMB per capita GDP), an artifact of the greater prevalence of corruption in Subei rather than Sunan. In Anhui, however, corrupt counties are insignificantly different from non-corrupt counties at the start of the period (2411 RMB per capita GDP versus 2589 RMB per capita GDP). By 2010, however, corrupt counties in Anhui are much poorer: 7699

253 See: http://www.doingbusiness.org/data/exploreeconomies/china/
254 Note that the problem of fee collection in China is compounded by a fiscal system that does not allow local governments the discretion to modify taxation or create new sources of taxation. While such fee collection that drives away enterprises seems irrational (killing the goose that laid the golden egg), it can be seen as a collective action problem: fee collecting makes sense from the perspective of each individual bureau and each official within the bureau, even if not from the perspective of the county as a whole.
RMB per capita GDP versus 11,774 RMB per capita GDP. To look at this slightly more rigorously, I construct a measure for the degree of corruption in each county, defined as the share of years in the sample in which either a corrupt County Party Secretary or County Magistrate hold office. This variable ranges from 0 to 65 percent. Note that this variable attempts to capture the effect of entrenched cultures of corruption more than the effect of a corrupt leader in a single year. Regressing growth on this “degree of corruption” variable while controlling for initial wealth and population, corruption has a negative correlation with average growth over the 17-year two-province sample, as seen in Table 4.1 below. Separating the regression into individual province regressions, the effect in Anhui is large and significant, with the coefficient implying that an additional leader-year of corruption results in 0.24 percent lower annual growth. Of course, this does not imply causality; rather, it is likely that a lack of growth opportunities incentivizes corrupt behavior, which in turn lowers growth, resulting in a vicious circle.\textsuperscript{255} The effect in Jiangsu is small in magnitude and insignificant, implying that corruption has little effect on growth. One interpretation of these results is that corruption in Jiangsu has been of a different type that has less effect on growth; the other possibility is that Jiangsu’s corruption was concentrated in early years of the sample, during which corruption had fewer negative effects given the lack of importance of attracting investment during that period.

\textsuperscript{255} Indeed, that is my conjecture. Chapters Six and Seven will show that Jiangsu focuses more political attention on achieving economic growth, thus incentivizing increased investment seeking, and this investment seeking itself is likely to lower corruption. Several authors have documented how openness to trade is associated with less corruption (Ades and Di Tella 1999; Treisman 2000; Knack and Azfar 2003; Bhagwati 1982). Similarly, investment seeking should dis-incentivize many types of corruption.
Table 4.1. Corruption and growth in Anhui and Jiangsu

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV = Growth</td>
<td>Full</td>
<td>Anhui</td>
<td>Jiangsu</td>
</tr>
<tr>
<td>Degree of corruption</td>
<td>-4.616***</td>
<td>-5.120***</td>
<td>0.986</td>
</tr>
<tr>
<td></td>
<td>(-2.88)</td>
<td>(-2.91)</td>
<td>(0.56)</td>
</tr>
<tr>
<td>1994 log per capita GDP</td>
<td>0.961**</td>
<td>-3.081***</td>
<td>0.134</td>
</tr>
<tr>
<td></td>
<td>(2.51)</td>
<td>(-3.23)</td>
<td>(0.41)</td>
</tr>
<tr>
<td>1994 population</td>
<td>0.00470</td>
<td>-0.0252***</td>
<td>-0.00648</td>
</tr>
<tr>
<td></td>
<td>(0.76)</td>
<td>(-2.89)</td>
<td>(-0.97)</td>
</tr>
<tr>
<td>Constant</td>
<td>2.261</td>
<td>34.86***</td>
<td>11.04***</td>
</tr>
<tr>
<td></td>
<td>(0.70)</td>
<td>(4.49)</td>
<td>(3.68)</td>
</tr>
<tr>
<td>Observations</td>
<td>116</td>
<td>61</td>
<td>55</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.137</td>
<td>0.312</td>
<td>0.029</td>
</tr>
</tbody>
</table>

Note: degree of corruption defined as the share of years that a county has a corrupt County Party Secretary or County Magistrate (identified by subsequent conviction).

Anti-growth corruption and fee collection are not culturally determined, but stem from county-level institutions and control of local cadres. From a rational-choice institutionalist perspective, these government failures – corruption and excessive fee collection – are the original sin of government, and institutional reforms must attempt to dis-incentivize and successfully monitor such behavior. Case counties have explicitly experimented with such institutional reforms, including mechanisms to enhance control over lower levels cadres, create “one-stop shops” for businesses, and increase transparency, with varying degrees of success.

In Sihong, in order to instill and provide a customer-oriented (“everything for the customer, for the customer everything” 一切为了客商、为了客商一切) environment,
the county government created the Administrative Service Center (*xingzheng fuwu zhongxin* 行政服务中心) that combines examination and approval, fee collection, firm assistance, and complaint services into one location, provided at zero cost (Sihong Economic Development Zone Regulatory Commission 2013). Additionally, in order to control government-business interfaces, Sihong has set up a firm responsibility system by producing a list of the 100 most important companies and their corresponding contact person/unit for management assistance (*bangban lingdao ji bangban danwei* 帮办领导及帮办单位) (Sihong County Government 2013). The top 38 firms on the list all have individual contact people listed; while the rest have associated government bodies. The top firm on the list\(^\text{256}\) has Xu De (徐德), the Party Secretary, listed as the contact person, while the County Magistrate, Xu Qinzhong (徐勤忠), is listed as the contact person for the second largest firm.

Similarly, in Suining, the government created a large new government Service Center in the middle of downtown which now houses representatives from over ten departments who were put in the same place to make firm services easier. The Center was a bustling place with good internal propaganda: huge character signs on every wall about speed and ease and good service, for instance “handle affairs for common people with zero obstruction” (*baixing banshi ling zhang'ai* 百姓办事零障碍). Suining prides itself as having “the fewest approval procedures in the province; the lowest charges in the

\(^{256}\) Jiangsu Shouyi (江苏首义薄膜有限公司), involved in plastic membrane manufacturing, was established in 2008 as an investment from the Zhejiang Shouyi Corporation, with registered capital of over 200 million RMB, total investment of 1 billion RMB, and annual output value of over 2 billion RMB.
province; the easiest process in the province.” The “bodyguarding” (baobao 保镖) of firms mentioned above refers specifically to the work of the #110 Economic Office in ensuring that enterprises are not bothered about local fees and problems – they have one number to call to solve any interference (Q. Li 2010). Complementary to the #110 office, Suining has instituted a rule whereby functional bureaus can only interface with enterprises on one predetermined day in each month, which limits unnecessary fees and time wasting (Interview JS290).

Suining has also gone the furthest in controlling local cadres through increased transparency. In March 2009, the county began a “county power transparency” (xianquan gongkai 县权公开) campaign with several complementary laws and regulations designed to rein in the negative behavior of local bureaus as well as the Party Committee itself. The “County Standing Committee Advance Notice System 《县委常委会提前预告制度》 specifies rules on publishing pre- and post- meeting reports and plans, and every town and bureau has to publish work goals (gongzuo de mubiao renwu 工作的目标任务) in the local newspaper and local television (Yi and He 2012).

Complementary reforms range from “not speaking official-ese” (bushuo guanhua 不说官话) to regulations requiring all bureaus to have an online spokesman who answers all queries within 48 hours. As former Party Secretary Wang Tianqi noted, “Supervision is necessary in order to correctly use Party Committee power, and transparency is the foundation of supervision.” These reform initiatives have received national attention. The county recognizes that this supervision and transparency is conducive to attracting investment. In the Suining Guide, under the service and policy and investment cost section, the first sentence is “Suining is one of the three pilot counties which make the
county authority open and transparent determined by the CCDI and the CCP’s Organization Department.”

Counties that have combated their own government failures have been able to reduce the “grabbing hand” nature of local administration. In the Anhui counties such one-stop shopping and institutionalized transparency have been much less apparent. Attempts to rein in control do not always work. A former Magistrate of Mingguang discussed efforts in the early 2000s to rein in fee collection, including the release of a “Fee Clarification Outline” (shoufei mingbai ka 收费明白卡) and greater punishment for units engaging in excessive fee collection: “Units that engage in disorderly fee collection will have the responsible leader lose his position and the responsible person lose his ‘rice bowl’ (fanwan 饭碗) [secure employment], which will improve the investment attraction environment and improve Mingguang’s ability to attract investment” (Gong 2000). But Mingguang’s efforts to actually rein in such behavior have been relatively ineffective. Indeed the effectiveness of reining in government failures in the Jiangsu case counties relative to the Anhui case counties helps explain different economic outcomes.

Subsequent chapters provide an explanation for this cross-provincial difference by exploring the role of county leaders and the incentives that these leaders face.

4.3 Local economic development and market failures

The above “grabbing hand” approach to local governance has its counterpart in the “helping hand” approach: local governments frequently and proactively step in where imperfect information and externalities create Pareto-sub-optimal outcomes, taking on
pseudo-developmental roles and acting as service-oriented agents of local industry.\textsuperscript{257} In many ways these local governments are acting in market-enhancing ways – cutting down red tape, as described above, is a move towards markets – but they also operate in market-defying ways. Below, I focus mostly on development zone policy. Interviews with both officials and private sector investors confirmed the importance of “helping policies.” Counties often have different names, different content, and different capabilities when it comes to these policies, but the general idea is to go beyond explicit preferential policies and provide government assistance to firms in legal but highly specialized ways by using government monopoly power, information advantages, and economies of scale. The ability and demeanor of local officials and investment promotion offices are good indicators of the ability to attract outside capital. While the preferential policies with regard to land and taxation were nearly identical in all sample counties, the government-business relationship was highly variable. As the Suining investment bureau deputy director argued, the difference is “government service” (zhengfu de fuwu 政府的服务).

“Management assistance,” or "bangban (帮办), best summarizes much of the “helping hand” content, although counties often have their own terminology. No county among my cases had a dedicated bangban office, but others in the Subei region do.\textsuperscript{258} Several aspects of government assistance are related to bangban: employment matching, sales and product placement, technological support, financial guarantees, and bankruptcy

\textsuperscript{257} Here, I use “local developmental state” in its broadest sense.

\textsuperscript{258} For example, Shuyang County has a dedicated bangban office, whose specific policies and roles can be found online at http://sykfq.cn/bangbanfuwu/713.jhtml.
protection. Other government roles are county-wide rather than firm-based: for instance, supporting informal finance and employment training. Local governments have different approaches to firms as well as different levels of capacity. Tsai (2002) refers to the “local logics of economic possibility,” highlighting the developmental orientation of local governments toward the private sector, and how this translates into varying degrees of support for informal finance. Today, the general role of local governments in helping private industry is more universal, but government developmental perspectives and capacities still vary.

The three Jiangsu case counties have highly institutionalized approaches towards creating a pro-business and pro-growth government service environment. In Xuyi officials are urged to adhere to the “101 percent service concept” and follow the “three relations” role (sanqin 三亲) by “treating businesses as close as parents, treating businessmen as close as brothers, and treating projects as close as children” (对待企业亲如父母，对待客商亲如兄弟，对待项目亲如子) in order to give projects “full process” (quan guocheng 全过程), “omni-directional” (quan fangwei 全方位), and “all-weather”

259 Unfortunately, I do not have a great sense of the comparative size of informal financial markets in the case counties. Sihong had a massive informal finance bubble (pyramid scheme) that was largely supported by the government, even though it identified risks. According to a local employee of the local PBOC, lots of government officials were participating in the high lending, so supervision existed in name only (jian guan xing tong xu she 监管形同虚设) (Tu 2011). According to Zhengfa secretary Xu Yijun, the informal person-to-person financing had reached two billion RMB, but “once the government intervened, the illegal market collapsed.”

260 Governmental support for local private business is one of the clearest “developmental state” examples. Blecher and Shue (1996) document county government involvement in the development of private commerce, particularly the creation of local markets in which the county invested, sought other investors, gave zoning permits, and set up stalls to rent: the market thrived and “the planning and execution of the building of Hebei Yiji provide an excellent example of the Shulu county government acting in the mode of a developmentally oriented state.”
(quantianhou 全天候) management assistance service (bangbanfuwu 帮办服务) (Xuyi Almanac 2011). These policies are implemented through economic development zones: “Bangban is the key to development zone attractiveness, along with local infrastructure. The zone is run by a deputy Party Secretary who wears two hats (xianzhi 兼职), and under him is an entire microcosm of the county level government; nearly every bureau has a sub-bureau under the development zone which reports to both the county level bureau as well as the deputy Party Secretary in charge of the development zone” (Interview JS169).

In Sihong, bangban is formalized, with required government behavior based on the “Sihong Economic Development Zone Complete Personnel Service Implementation Plan” 《泗洪经济开发区全员服务工作实施方案》. According to the document, the economic service bureaus must publish bangban notifications (tongzhi 通知) based on work plans; relevant bangban personnel must implement and provide feedback on the completion conditions; and the bureau along with the supervising office (jiansu) must conduct monthly and quarterly evaluations. All bangban personnel should provide “start-to-finish, face-to-face, nannying-style” (全过程、零距离、保姆式) bangban service. Through these requirements, Sihong aims to achieve a “service environment” for attracting investment through five service mechanisms (fuwuzhi 服务机制): namely, a start-to-finish bangban mechanism (quancheng bangban zhi 全程帮办制), employment guarantee mechanism, (yonggong baozhang zhi 用工保障制), inspection and reporting mechanism (jiancha shenbao zhi 检查申报制), advanced claims settlement mechanism
David J. Bulman

(yuxian lipei zhi 预先理赔制), and service appraisal mechanism (fuwu pingyi zhi 服务评议制) (Sihong Development Zone Regulatory Committee 2013).

In Suining, “nannying” refers to ensuring that large projects can operate smoothly, with government assistance across diverse categories including administrative approval, technology financing, children’s education, etc. In other words, in the words of former Suining County Party Secretary Wang Tianqi, “We’ll take care of all those things that enterprises used to run and break their legs over in order to achieve.” The official Suining development zone mentality is: “the government creates the environment, businesses create the wealth,” which is obtained through “restaurant-style service” (jiudianshi fuwu 酒店式服务), and can turn the intangible “soft environment” (ruan huanjing 软环境) into a tangible “hard strength” (ying shili 硬实力). Suining has explicit policies to help small and medium size enterprise (SME) development through three platforms: a science and technology information platform (keji xinxi pingtai 科技信息平台), mostly by establishing cooperation with national level universities and research institutes; an intermediary service platform (zhongjie fuwu pingtai 中介服务平台), namely legal, accounting, and patent mechanisms; and a human capital and financing platform, which consists of expert centers and uniting firms with banks and providing loan guarantees (Wu and Wang 2013).261

These three Jiangsu counties demonstrate many specific approaches to proactive government-business partnership. Along with general service orientation, they have

261 These policies seem effective: at the end of 2012, the Suining development zone had 131 SMEs with 21,000 employees (55 percent of total employment in the zone) (X. Qi 2013).
developed many specific approaches towards local employment; finding business partners and product placement; and significant financial assistance, including loan guarantees, financial assistance, and assistance with bankruptcy.\textsuperscript{262} Successful county governments take on explicit roles in helping firms secure employment and train employees. Investors are guaranteed that if they invest, the government will ensure that their factory is staffed with qualified employees on day one. One investor in Xuyi noted the employment assistance as the most helpful role, arguing that once he invested he was not forgotten, but rather the government continued to help him find employees (\textit{zhaogong 招工}), publicize employment ads (\textit{zhaogong xuanchuan 招工宣传}), and train workers (\textit{peixun gongzuo 培训工作}) (Interview JS143). In Suining, the local government identifies out-migration as hurting the local economy, and has thus opened 32 professional training schools which in 2007 trained 24,149 people to make them locally employable (Qin 2009). These governments also help establish business partners and find sales venues and complementary upstream parts. One Zhejiang businessman with two factories in Xuyi explained how these factories were no longer profitable for him, and how the local government had been proactively reaching out to other investors on his behalf who wanted to buy the factories; they had recently brought in a group from Shanghai, and negotiations were in progress. He waxed eloquent about the government’s role in helping him do this, saying that nowhere else he had invested in the past (Zhejiang, Sunan, Shanghai) provided nearly as much support – in those places, once

\textsuperscript{262} According to the Suining Guide, “The government provides the platform for the cooperation of bank and enterprises. It funds Xingqi Guarantee Company (兴企担保公司) and Runqi Investment Company (润企投资公司) to help enterprises solve financing problems and improve the financial environment.”
they had your money they just forgot about you (Interview JS259). To boost sales for local products, governments seek out specialty branding and certification, lobbying prefecture-level, province-level, and national governments for brand and product certification. For instance, in Sihong, the government has subsidized “national organic farming” standardization for over half of the county’s arable land, and there are now 306 county products branded with one of the three organic standards (C. Xu 2013).263

Within this framework, quality and efficiency are key. Any government can make these promises (although many do not), but firms have to believe that the government has sufficient capacity and will follow through. The Suining investment promotion bureau official emphasized that beyond the specific promises, the government “makes good on all of its promises” (duixian chengnuo 兑现承诺): Suining has done its best to establish a “government of integrity” (chengxin de zhengfu 诚信的政府), and this government ability and honesty is what makes Suining a good place to invest, summarized as the government’s “work style” (gongzuo zuofeng 工作作风). Many interviews with the private sector supported this. An owner of one of the most successful factories in Suining says that in Jiangsu, the government and cadres are extremely hardworking (ting nuli 挺努力), which is lacking in Anhui (Interview JS172).

263 Similarly, Xuyi Crawfish branding, discussed in Chapter Five.
4.4 Local growth effects of good county governance

This focus on efficient and proactive government service provision can be seen as pro-growth “good governance,” and it directly encourages outside investment while also boosting revenue and making banks more likely to lend.\(^{264}\) Mauro (1995) finds that the specific components of investment most associated with growth are closely associated with bureaucratic efficiency, and that private investment is more closely associated than public investment with bureaucratic efficiency.\(^ {265}\) Governance improvements of this sort can also help explain better infrastructure and revenue outcomes.\(^ {266}\) And governance quality differs across counties and regions, helping to explain investment variation. Thun (2006, 9) notes that because different institutional arrangements vary in their capacity to help develop different industrial sectors, it is possible to define a “locality’s comparative institutional advantage.” Foresight and quality of economic strategic planning matters,

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\(^{264}\) One county finance bureau official described Anhui’s continued backwardness as largely stemming from the unwillingness of banks to lend: many national lenders (banks and financial organizations) and mobile direct investment are turned off from investing in Anhui due to perceptions of government inefficiency and corruption (Interview JS172).

\(^{265}\) He looks at equipment investment, whose relationship with growth is documented by DeLong and Summers (1991), and private investment, whose relationship with growth is documented by Barro (1991).

\(^{266}\) Zhang, et al. (2007) find a large role of governance in explaining growth in local infrastructure spending: controlling for the level of development and financial depth, among other variables, they find that FDI-driven competition and governance are both significant in providing incentives to local governments to improve infrastructure. The variance in local revenue (extraction) capacity differs not only in the local economic size and structure, but also in the institutionalization of the tax collection agencies. As the head of the Si County (Anhui) State Tax Bureau complained in 1995, Si County has a “sliding economy, feeble markets, and enterprises and tax bureaus that have created a ‘you have, I have, we all have, only tax payments don’t exist’ and ‘You owe, I owe, we all owe, those who don’t owe are idiots’ phenomenon, whereby lots of enterprises have small payments, but because enterprise leaders lack an understanding of taxation, tax payments are always in arrears, and overdue payments are impossible to collect.” In other words, there is a sense that in low revenue areas, vicious circles make it tough to break out.
particularly in the sense of deciding which firms to target; this becomes increasingly important for richer counties that have the leisure of being selective.\textsuperscript{267}

While it is difficult to determine growth effects beyond the anecdotal experiences within the case counties, two exercises provide initial supportive evidence: evidence from fiscal expenditure on administration, which can loosely proxy for government quality, and correlations between perceptions of “government effectiveness” and growth using data collected from Anhui. In analyzing fiscal data, it is likely that increases in administrative expenditure are associated with increases in administrative quality: according to the Chinese expression, “cheap goods aren’t good, and good goods aren’t cheap” (pianyi mei haohuo, haohuo bu pianyi 便宜没好货, 好货不便宜): you get what you pay for.\textsuperscript{268} The regression results reported in Table 4.2 show that increases in government expenditure on administration in year $t-1$ positively predict higher GDP growth and higher capital accumulation growth, although this effect is concentrated in Jiangsu and is insignificant in Anhui. This is true regardless of the controls used (a full set of controls are reported here; other results are not shown). In the growth regression, even controlling for lagged growth and lagged revenue, administrative expenditure growth remains positive, and lagged non-administrative expenditure (which generally accounts for $\sim$90 percent of total expenditure) is generally insignificant. In other words,

\begin{flushleft}
\textsuperscript{267} For example, Kunshan has become very selective in attracting firms, and has attempted to promote industrial concentration and agglomeration effects. After 1996, the focus became concentration (san zhuan ju 散转聚), particularly of Taiwanese firms in information technology and precision machinery (Zhang and Zhang 2008, 15-30).
\textsuperscript{268} This contrasts with a view that administrative expenditure increases indicate waste and even corruption, and it is true that the central government tries to rein in administrative expenditures. Administrative expenditure is thus at best a weak proxy for administrative quality, and may simply reflect patronage.
\end{flushleft}
Table 4.2. Administrative expenditure and future growth

<table>
<thead>
<tr>
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<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
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<tr>
<td></td>
<td>Pooled</td>
<td>Jiangsu</td>
<td>Anhui</td>
<td>Pooled</td>
<td>Jiangsu</td>
<td>Anhui</td>
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<td>ALL IND. VARS.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>LAGGED ONE YR.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin. exp. growth</td>
<td>0.0197</td>
<td>0.0537**</td>
<td>0.0210</td>
<td>0.0321*</td>
<td>0.0671**</td>
<td>0.00554</td>
</tr>
<tr>
<td></td>
<td>(1.11)</td>
<td>(2.03)</td>
<td>(0.88)</td>
<td>(1.82)</td>
<td>(2.28)</td>
<td>(0.28)</td>
</tr>
<tr>
<td>Non-admin. exp. growth</td>
<td>0.00931</td>
<td>0.0186</td>
<td>-0.0278</td>
<td>-0.0146</td>
<td>0.0239</td>
<td>-0.0162</td>
</tr>
<tr>
<td></td>
<td>(0.41)</td>
<td>(0.63)</td>
<td>(-0.92)</td>
<td>(-0.70)</td>
<td>(0.67)</td>
<td>(-0.56)</td>
</tr>
<tr>
<td>GDP growth</td>
<td>0.153***</td>
<td>0.108*</td>
<td>0.124***</td>
<td>0.0190</td>
<td>0.132**</td>
<td>0.0661</td>
</tr>
<tr>
<td></td>
<td>(5.14)</td>
<td>(1.84)</td>
<td>(2.68)</td>
<td>(0.56)</td>
<td>(2.31)</td>
<td>(1.28)</td>
</tr>
<tr>
<td>FAI growth</td>
<td>0.00526</td>
<td>0.0188</td>
<td>0.00791</td>
<td>0.041***</td>
<td>0.044***</td>
<td>0.0350**</td>
</tr>
<tr>
<td></td>
<td>(0.86)</td>
<td>(1.33)</td>
<td>(1.07)</td>
<td>(3.10)</td>
<td>(3.02)</td>
<td>(2.32)</td>
</tr>
<tr>
<td>Log per capita GDP</td>
<td>-30.48***</td>
<td>-12.99***</td>
<td>-41.82***</td>
<td>0.280</td>
<td>-4.402</td>
<td>-4.707</td>
</tr>
<tr>
<td></td>
<td>(-7.62)</td>
<td>(-3.82)</td>
<td>(-7.82)</td>
<td>(0.09)</td>
<td>(-1.40)</td>
<td>(-0.64)</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>0.0347*</td>
<td>0.0147</td>
<td>0.0230</td>
<td>0.076***</td>
<td>0.0333</td>
<td>0.0712**</td>
</tr>
<tr>
<td></td>
<td>(1.68)</td>
<td>(0.48)</td>
<td>(1.04)</td>
<td>(3.84)</td>
<td>(1.07)</td>
<td>(2.32)</td>
</tr>
<tr>
<td>Population</td>
<td>-0.579***</td>
<td>-0.564***</td>
<td>-0.653***</td>
<td>-0.595***</td>
<td>-0.780**</td>
<td>-0.556***</td>
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<td></td>
<td>(-3.86)</td>
<td>(-2.80)</td>
<td>(-3.34)</td>
<td>(-3.57)</td>
<td>(-2.56)</td>
<td>(-2.68)</td>
</tr>
<tr>
<td>Loan growth</td>
<td>-0.00112</td>
<td>0.0302</td>
<td>0.00186</td>
<td>0.021***</td>
<td>-0.0357</td>
<td>0.019***</td>
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<td></td>
<td>(-0.24)</td>
<td>(1.04)</td>
<td>(0.45)</td>
<td>(5.85)</td>
<td>(-1.01)</td>
<td>(4.15)</td>
</tr>
<tr>
<td>Secondary share GDP</td>
<td>0.152</td>
<td>-0.244</td>
<td>0.522***</td>
<td>0.293***</td>
<td>0.0791</td>
<td>0.385**</td>
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<tr>
<td></td>
<td>(1.43)</td>
<td>(-1.62)</td>
<td>(4.15)</td>
<td>(2.66)</td>
<td>(0.56)</td>
<td>(2.32)</td>
</tr>
<tr>
<td>Constant</td>
<td>306.7***</td>
<td>200.1***</td>
<td>372.9***</td>
<td>51.31*</td>
<td>127.8***</td>
<td>90.48</td>
</tr>
<tr>
<td></td>
<td>(7.95)</td>
<td>(4.79)</td>
<td>(7.21)</td>
<td>(1.67)</td>
<td>(2.77)</td>
<td>(1.41)</td>
</tr>
<tr>
<td>Years covered</td>
<td>1997-</td>
<td>1997-</td>
<td>1997-</td>
<td>1997-</td>
<td>1997-</td>
<td>1997-</td>
</tr>
<tr>
<td>Year fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>County fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>1013</td>
<td>464</td>
<td>549</td>
<td>963</td>
<td>450</td>
<td>513</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.425</td>
<td>0.377</td>
<td>0.516</td>
<td>0.339</td>
<td>0.363</td>
<td>0.390</td>
</tr>
</tbody>
</table>

All statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

it does not seem that the effect is merely a correlation of past success translating into current success. The explanation that I pursue here is that the addition of government
employees (or pay increases for talented employees) allows the government to more effectively manage the economy; for instance, creating a development zone requires an entirely new administrative apparatus. Additionally, and perhaps more importantly, pay increases may induce cadres to behave more proactively. Bonuses are given for meeting promotion targets, so concurrent growth should clearly be associated with administrative expenditure growth, but there might also be a lagged motivation effect. The insignificant correlation in Anhui may result from administrative expenditure being wasted or focusing on improving aspects of administration with no relation to economic growth, an explanation explored in Chapter Seven.

Additional evidence for the channel from government capacity to growth comes from Anhui. A group of official Anhui provincial research institutes collaborated to put out the *Anhui County Economic Competitiveness Report 2011-2012* that ranks Anhui’s 61 counties and county-level cities according to several components and correlates of economic development (Zhou, Zhu and Zhang 2012). Of interest here, the authors create a measure of “government capacity competitiveness” (zhengfu nenglixing jingzhengli 政府能力性竞争力) that includes public services investment, organizational structure, quality of investment attraction work, and several other categories. Zhou,

\[269\] An alternative possibility is that there is no causation, and that an omitted variable increases administrative expenditure in the current period and GDP growth in the subsequent period; for instance, if investment is channeled into greater administrative expenses. One final possibility is that in the current period, officials recognize that next period growth will be higher, and therefore preemptively raise administrative expenditures.

\[270\] The same analysis is not conducted for Jiangsu, unfortunately.

\[271\] In justifying the potential accuracy of the “government capacity” variable, it is worth comparing the three case counties in Anhui. Mingguang, Si, and Wuhe ranked 53rd, 54th, and 49th out of Anhui’s 61 counties in 2010. The low rankings coincide with the fieldwork findings, as does Wuhe’s slightly superior ranking.
Zhu, and Zhang (2012) also report competitiveness rankings for infrastructure, human capital, social development, and geography and natural resources. Regressing GDP per capita and recent GDP growth on these other scores, including government capacity, enables an identification of the correlates of economic competitiveness. As the charts and regression results below show, geographic and natural resource characteristics have a negative relationship with economic competitiveness, while infrastructure, human capital, and government capacity all have positive relationships. The largest positive effect (as well as the most significant effect) is for government capacity. The scatter plots in Figure 4.3 looking at bivariate correlations with log GDP per capita in 2010 support this, with low levels of dispersion across predicted values in the positive relationship between government capacity and economic competitiveness (top right chart).

### Table 4.3. Government capacity and other correlates of economic success

<table>
<thead>
<tr>
<th>Independent variables:</th>
<th>County log GDP per capita, 2010</th>
<th>County GDP growth, 2000-2010 (CAGR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography and natural endowment</td>
<td>-0.352*** (0.089)</td>
<td>-3.424*** (1.040)</td>
</tr>
<tr>
<td>Government capacity</td>
<td>0.427*** (0.094)</td>
<td>1.958* (1.106)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0.210* (0.109)</td>
<td>1.892 (1.279)</td>
</tr>
<tr>
<td>Human capital</td>
<td>-0.114 (0.099)</td>
<td>0.818 (1.160)</td>
</tr>
<tr>
<td>Social development</td>
<td>0.109 (0.128)</td>
<td>2.928* (1.500)</td>
</tr>
<tr>
<td>Constant</td>
<td>9.652*** (0.034)</td>
<td>15.712*** (0.398)</td>
</tr>
</tbody>
</table>

Observations: 61
R-squared: 0.635 0.527

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

*Note: All independent variables are 2010 indexes over [-2,2] constructed by Zhou, Zhu, and Zhang (2012).*
Figure 4.3. Correlates of economic success in Anhui counties, 2010

*Scatter plots of [-2,2] competitiveness indices versus log per capita GDP*

**Source:** Zhou, Zhu, and Zhang (2012); author’s calculations.

4.5 Conclusions

Governance matters for growth. It is important to re-emphasize that “good governance” here is defined in the very limited sense of “pro-growth governance”; downward accountability and responsiveness to citizenship may not exist. The role of governments in local development has shifted in the reform era; as TVEs closed, a “cadre-led” growth model turned to a more market-led growth model. But the shift away
from direct management of firms did not make government quality less important for growth. Feedback and endogeneity and virtuous circles are possible, but the arguments presented above suggest that there is also a causal direction from good governance to growth. Preventing government failures of corruption and excessive fee collection while setting up capable service-oriented governments helps counties attract investment and grow.

This chapter has helped explain some of the additional variation in county growth identified in Chapter Three. Pro-growth governance boosts productivity and attracts investment, the two most important components of growth at the county level. But why are some counties more pro-growth than others? And why do Jiangsu counties appear to have better pro-growth governance quality, controlling for initial income levels?\textsuperscript{272} The argument in the following three chapters explores an institutional explanation for pro-growth governance, demonstrating that County Party Secretaries are largely responsible for local pro-growth institutional reforms (Chapter Five) and that the personnel management system determines how County Party Secretaries act (Chapter Six and Chapter Seven).

\textsuperscript{272} Governance is not perfect in northern Jiangsu, by any means. I could fill pages with local cadre complaints and questionable (or even immoral) behaviors. One official in Subei opined on the lack of meritocracy, sneering at sycophants “with no ideas” but close relationships to superiors who were in line for major promotions. He had a lot of disgust about promotions and having to brown nose (\textit{paimapi} 拍马屁) to local leaders. He was still positive about the capacity and civic duty of younger cadres, although he whined about older cadres with “sweepover hair and dirty hick [\textit{laotu} 老土] western suits.” When this official entered the finance bureau in 1995, the leaders just wanted to get drunk at lunch and play cards or go home and sleep in the afternoon; and they did. Now, \textit{guanxi} is still important, but you also need ability.
5 LEADER IMPACT ON COUNTY DEVELOPMENT

“Cadre ability is essential. Why are Beijing and Shanghai so successful? Because they attract all the best cadres and people. If all of the Jiangsu local leaders replaced all of the Anhui local leaders, they [Anhui] would be much better off, but obviously this can’t be done. As it stands, not much can be done and it will take time.” – Jiangsu County Finance Bureau official, explaining why Anhui had worse economic outcomes (Interview JS245).

“The biggest difference is that you do not seem to manage the economy much. When I was mayor of Shouguang my main effort was on grasping the economy, everything from fiscal growth to enterprise profit, peasant income, private economy, structural adjustments…” – Li Qun, mayor of Shouguang (county-level) City, speaking to the mayor of New Haven about the difference in their job descriptions (Song and He 2003), cited in Guo (2009).

Zhao Peng (赵鹏) became Xuyi County Party Secretary in February 1998, having served as County Magistrate since September 1996. Zhao hailed from neighboring Hongze County, also located within Huai’an Prefecture, and started his career in Hongze as a teacher in the early 1980s before entering the Communist Party in 1985 and subsequently working his way up the ranks of the Hongze government office and Huaiyin Prefecture Organization Department. Zhao served as Xuyi County Party Secretary for nearly three years, transferring at the end of 2000. While he was in office, Xuyi’s laggard economy took off. In the four years prior to his arrival (1994-1997) Xuyi’s average annual GDP growth had been 5.0 percentage points below Jiangsu’s county average over that period. During Zhao’s three years in office growth averaged 20.5 percent at a time that provincial growth as a whole slowed down; Xuyi’s average annual growth over this period was 9.3 percentage points above the provincial county average.
Xuyi residents and local officials have developed a narrative of local growth that credits Zhao with starting an economic boom; his successor, Wang Youfu, is credited with “courageously” taking the ball and running with it. Zhao “had the most personal impact,” helping set up the economic development zone and also starting the Crawfish Festival (longxiajie 龙虾节) in 2000, the year of the Dragon (Interview JS281). In Xuyi, the “general development strategy” has been in place since Zhao, who personally outlined the 16 character “four major strategy” (sida zhanlüe 四大战略), a development path focused on industry (gongyeqiang xian 工业强县), tourism (lïyouxing xian 旅游兴县), urban construction (chengjianju xian 城建举县), and the environment (huanjingli xian 环境立县). The strategy focuses on promoting industrialization as the basis for development, because without industry there are no taxes; promoting tourism by focusing on Xuyi’s long history and ecology, which creates a strong local reputation as well as employment without pollution; facilitating urbanization; and creating a good environment by creating a service-oriented government for a positive investment environment (touzi huanjing 投资环境) and also creating a good living environment (shenghuo huanjing 生活环境) by not allowing polluting companies to invest. These four broad guidelines for growth have been in place since 2000, surviving through three successive governments. During Zhao’s three years in office, inward investment took off with the creation of the economic development zone along with new rules for cadres and stricter local evaluations. Tourism exploded with the Crawfish Festival and increased investments in eco-tourism, and urban development expanded rapidly, with the county urban center moving east from its old location.
In neighboring Mingguang City, Anhui, Zhang Songjian (张松坚) became Party Secretary in March 2003. He had a promising early career, becoming the Mayor of Nanqiao County-level Urban District in 1997 at age 43, and soon after the Party Secretary. During the four year term of his predecessor, Chen Bingbing (1999-2002), Mingguang’s average annual GDP growth was 5.2 percentage points above Anhui’s county average, allowing Mingguang’s economy to begin to converge after several years of falling behind provincial averages, largely as a result of the early 1990s corruption nest described in the previous chapter. But during Zhang’s five year tenure, growth was 10.7 percentage points below Anhui’s county average, averaging only 2.1 percent annually from 2003-2007 (Zhang transferred in May 2008). Zhang is remembered as a “spineless” (mei poli 没魄力) leader who looked after only his own personal gains, halting or reversing the beneficial reform directions of Chen (Interview AH138). Perhaps more harmful than the immediate growth effects, Zhang is also remembered for having undermined the cadre system, allowing and contributing to a lawless culture of corruption as described in Chapter Four. In selling off state assets at bargain basement prices for personal gain and in appointing only cadres who paid bribes, Zhang undermined local revenue sources and permanently damaged state-society and state-business relations. Mingguang has yet to recover.

* * *

Individual cases do not demonstrate systematic leadership effects, but they help identify the channels through which individual leaders can enhance or undermine local
economic growth. Xuyi Party Secretary Zhao provides a case study in how bold and innovative local leadership can improve local economic outcomes by enhancing investment environments and improving local governance. Mingguang Party Secretary Zhang demonstrates a cautionary tale of a leader’s personal corruption trickling down the administrative ranks and ruining a county’s reputation as a place to invest. This chapter argues that the power and initiative of County Party Secretaries explains much of the county-level economic growth variation and local approaches to governance identified in the previous two chapters, and it lays out a framework describing the roles that County Party Secretaries play in the local economy.

The chapter proceeds in several sections. First, I look at the power of Party Secretaries in general – as “yibashou” they wield awesome levels of control over local personnel, political, and economic decision-making. A quantitative assessment looking at systematic leadership effects on growth follows, demonstrating that individual leaders explain more variance in growth than either time or county fixed effects. Subsequently, I lay out a broad framework of leader/economy interactions. The goal here is not to look at every individual decision but rather to see what types of leader characteristics result in what types of economic outcomes through local decision making. A review of leadership roles in the six case counties demonstrates the overriding importance of four leader characteristics, here referred to as the “4 Cs”: connections, control, creativity, and courage. These characteristics manifest in growth through the channels identified in the last two chapters: investment promotion, pro-growth policy decisions and innovations, and creation of pro-growth governance environments. Note that an important fifth “C,” competence, is subsumed under these other characteristics: competent leaders are those
who can effectively ensure compliance, generate and implement bold new ideas, and build and take advantage of their relationships. In elucidating the roles of County Party Secretaries, this chapter relies on three approaches: the personal rhetoric of leaders in local media, interviews and analysis of county primary sources, and actual outcomes during leaders’ terms in office. A discussion of leader backgrounds and how leaders come to power is reserved for the next chapter.

5.1 The leadership role of County Party Secretaries

County Party Secretaries wield tremendous amounts of local power. Although County Party Secretaries do not even account for one percent of national department--level (chuji 处级) and above leadership cadres, they have “great power, responsibility, and influence” (quanli da, zeren da, yingxiang da 权力大、责任大、影响大) and “they are not normal (yibande 一般的) department-level cadres” (Wang, et al. 2011). To understand the source of this power, it is important to differentiate between structure (i.e., the distribution of authority and resources) and process (i.e., how policies are actually formulated and implemented). China’s formal decentralized structure endows counties and county leaders with considerable power; but the informal de facto process by which authority is exercised gives County Party Secretaries considerably more power. Such informal “power” comes from two sources: the lack of effective monitoring and control by superiors and the ability to ensure compliance by subordinates. With regard to the former, County Party Secretaries are largely given free reign locally. China utilizes a “police patrol” rather than a “fire alarm” approach to monitoring as a solution to
principal-agent problems, which requires oversight from bureaucratic superiors.\textsuperscript{273} But as highlighted by the fragmented authoritarianism model and its descendants, China has considerable difficulties monitoring and implementing policies at the local level.\textsuperscript{274} Since the late 1980s, a popular saying in localities has been, “They [the center] have policies, and we [localities] have countermeasures (tamen you zhengce, women you duice 他们有政策，我们有对策).”\textsuperscript{275} Media, books, and blogs frequently use the phrase “yi shou zhe tian,” (一手遮天) literally “blocking the sky with one hand,” to describe the local power of County Party Secretaries, who wield the power to prevent upward information transmission while forging local reality. Counties are often perceived as “independent kingdoms,” as they are microcosms of the national level, with similarly minimal levels of direct oversight.

But blocking out the sky with one hand goes beyond corruption: the sky not only can represent inspection bodies and hierarchical superiors, but also local bureaucracies, Party Committees, society, and media. With weaker Party Committees at the county level, County Party Secretaries are masters of their domain, monopolizing important local

\textsuperscript{273} McCubbins and Schwartz (1984) discuss the preference of democratic politicians for using a “fire alarm” approach to local monitoring of bureaucratic agents that depends on popular oversight. Shirk (1992) rightfully notes that communist/authoritarian regimes are disinclined to empower non-state actors to oversee the state, leading to a reliance on “police patrol” type mechanisms.

\textsuperscript{274} Fragmented authoritarianism combines three approaches to the study of Chinese politics: elite-oriented rational actor approach in which top leaders are rational and wield control; a cellular approach focusing on decentralized power and ability to block upward flows of information; and bureaucratic structure and politics. See Lieberthal and Lampton (1992, 8): “The fragmented authoritarianism model argues that authority below the very peak of the Chinese political system is fragmented and disjointed. The fragmentation is structurally based and has been enhanced by reform policies regarding procedures. The fragmentation, moreover, grew increasingly pronounced under the reforms beginning in the late 1970s…” For an updated version of fragmented authoritarianism that includes a greater role for non-state actors in policy formulation and implementation, see Mertha (2008).

\textsuperscript{275} Another saying is “superior control doesn’t reach, same-level cadres won’t control, subordinates don’t dare control, and the masses can’t control” (上级管不到、同级不好管、下级不敢管、群众管不了).
economic and security decision-making. Such local control over jurisdictions is not a new phenomenon; for hundreds of years, county magistrates constituted the lowest official level of government, with high degrees of control over everything within their jurisdictions.²⁷⁶ Mao Zedong once said that Party Secretaries should be good “squadron leaders,” adding that this was just a metaphor (bifāng 比方), and they should not behave as if they were actually in the military – but County Party Secretaries today take the advice literally, behaving with strict authoritarian control (Zhao and Zheng 2006). In terms of control over local economies, the idea of County Party Secretaries as Chairmen of the Board, identified by Oi (1999), was frequently repeated in local interviews.

As discussed briefly in Chapter Two, countervailing institutional reforms and trends have attempted to increase tiao-tiao vertical bureaucratic control and lessen the County Party Secretary monopoly on power. The Party Secretary of Shandong’s Qufu county-level city, Zhang Shuping (张术平), argues that management mechanisms have weakened as many bureaus have implemented stricter tiao-tiao management, so the county is left with little actual strength (县里没多少实权) even though responsibilities keep increasing (责任却越来越大) (Dong, Zhang and Zhang 2005). That argument echoes Andrew Mertha’s discussion of “centralized management” (chuizhi guanli 垂直管理), whereby “leadership relations” (lingdao guanxi 领导关系) for offices within bureaucracies at the county and prefecture level were switched to vertical functional

²⁷⁶ “Clerks and runners worked under direct supervision of Qing dynasty county magistrates – functioned as ‘talons and teeth’ (weiguan zhi zhaoya 为官之爪牙) of the local magistrate. But they were regarded with open contempt by citizens and upper level officials as having no morals or integrity” (Reed 2000).
administrative superiors (tiao) from horizontal local governments (kuai), particularly since the late 1990s. As a consequence, in the fields of administrative regulation, financial regulation, and commodities management, sub-provincial governments “lose direct control over these bureaucracies and find it more difficult to manipulate provincial-level directives” (Mertha 2005). Similarly, decisions in the 1990s moved bank lending decisions within branches up the hierarchy, requiring sign-off from upper-levels. Strengthening tiao-tiao arrangements at the expense of kuai control over local cadres is complemented by ever-expanding county governments; expanding administrations may increase the power of the state vis-à-vis the citizenry, but likely decreases the power of the County Party Secretary vis-à-vis the administration.277 In addition to reforms to the institutional/administrative system, activist local media and non-state actors, the sources of informal bottom-up supervision that Nathan (2003) refers to as “input institutions,” have begun to constrain the “anything goes” environment in which local governments and County Party Secretaries operate. Local governments now feel obliged to publicize decision-making and keep up-to-date websites informing local society of their activities, with activist media proactively seeking out corruption and illegal behavior of local

277 County governments are the most overstaffed of all administrative levels, with over half of all “overflow” party and government employees at the county level. According to official regulations, the number of county government agencies should be 24-26 for large counties (1 million plus), 22-24 for medium counties (0.5-1 million) and ~20 for small counties (less than 0.5 million), but in reality nearly all exceed this, with most having 40-50 agencies, and some as many as 80. Of the half-million overflow party and government employees in the early 1990s, 60 percent were at the county level (Zhong 2003). Township governments also swelled in 1990s, doubling from 1.36 million employees in the late 1980s to 3.5 million in the mid-1990s (Bai 1995).
officials. Many of these “activist media” are simply local citizens with internet access who have become part of the “human flesh search engine” (renrou sousuo 人肉搜索).\textsuperscript{278}

Yet despite these trends constraining the power of local leadership, evidence from the ground shows that while in some ways de jure power has diminished, local leaders’ de facto power is largely undiminished, with County Party Secretaries still wielding almost complete control over local decision-making.\textsuperscript{279} Part of the explanation is that countervailing institutional trends have taken place: for instance, township and village mergers helped to centralize power at the county level, making oversight and control easier, and decreasing the nodes of administrative interface.\textsuperscript{280} More importantly, though, institutional reform has not clarified the tiao-kuai matrix muddle that endows local leaders with both formal and informal power. In an authoritarian regime, local cadres are accountable only to their superiors, and the countervailing reforms have not reduced the major source of local County Party Secretary power: a monopoly on political appointments. In personnel matters, the yibashou still has “one word worth the Nine Cauldrons” (yiyan jiuding 一言九鼎), a symbol of uncontested imperial power.\textsuperscript{281}

County Party Secretaries retain veto power (yipiao foujuequan 一票否决权) on all local appointments: as one County Party Secretary bluntly states, “If I don’t agree, then you

\textsuperscript{278} Minzner (2009) highlights this increase in bottom-up supervision. Wang, et al. (2010) provide a comprehensive study of the “human flesh search engine” and its online-offline interactions.

\textsuperscript{279} This differentiates them from urban district (shixiaqu 市辖区) leaders, who have much less independence and economic control.

\textsuperscript{280} Between 1989 and 1999, number of townships fell from 55,800 to 44,500 (D. Yang 2004, 47). Coastal provinces, particularly Jiangsu, Shandong, and Zhejiang, led the way.

\textsuperscript{281} This is seen as a major reason for the numerous buying and selling of office (maiguan maiguan 买官卖官) cases (Sheng 2011).
can’t become an official” (Sheng 2011). A Southern Weekend interview with the former national Organization Department head (Zhang Quanjing) makes this control “problem” clear. When asked why “Party manages cadres” (dangguan ganbu 党管干部) has turned into “yibashou” manages cadres (yibashou guan ganbu 一把手管干部), Zhang admits that “right now there are indeed many places with the ‘one person has the final say problem’ (geren shuo le suan de wenti 个人说了算的问题); this is unnatural (buzhengchang 不正常) and must be corrected” (Zhao and Zheng 2006).

Despite institutionalization of the formal system, the informal personnel system still concentrates power in the hand of the yibashou. This goes against regulations, but following formalized full Party Committee sessions, the yibashou frequently adds “guidance” (yindao 引导) to make final decisions, thereby “fixing the tone with one hammer blow” (yichui dingyin 一锤定音) (Sheng 2011). One former County Party Secretary in Henan notes that, “When I make a decision, 99.99 percent of the time no one will object; when I object, no one dares endorse anyone else” (Sheng 2011). Mertha (2005) acknowledges that on the ground, many cadres admit that local governments maintain the upper hand – “in fact the transformation is only half complete.” A former Party Secretary of Mengcheng County lays it out clearly:

“Too much power is vested in the “first-in-command” (yibashou). If I’m the county Party Secretary, and I recommend someone for a post, will that carry the same weight as another county leader? I’m the Party Secretary, so all candidates who’ve been recommended or who are seeking posts will come knocking.

282 Similarly, Q. Zhou (2004) finds that the Party Secretary has complete control over the local personnel system in an unnamed northwest county.
Whatever I say, the Party Organization Bureau will obey. Procedures are there in name only. Lines of authority that are there on paper don’t exist. These problems are systemic” (G. Chen 2006) (cited in Smith 2009).  

Informal control over the personnel system undermines efforts to strengthen tiao-tiao management at the expense of kuai-tiao control, giving rise to “three one” (sanyi 三一) cadres: appointments require one word (yongren yiyantang 用人一言堂); spending money requires one pen (huaqian yizhibi 花钱一支笔), and decisions require one sheet of paper (juece yizhangzhi 决策一张纸). In other words, control over appointments also gives yibashou control over all aspects of local decision-making.

Such concentration of power in one individual can result in pathological behavior, both intentional (corruption) and inadvertent (irrational bureaucratic decisions). Lack of effective monitoring undermines the control of a central/provincial principal over local agents and enables corrupt behavior. As the former Mingguang City Magistrate highlighted after getting arrested for corruption: “Unrestrained power (quanli meiyou zhiyue 权利没有制约) necessarily results in corruption” (K. Zhang 1997).

Additionally, the lack of horizontal accountability to other agencies at the county level (as opposed to downward accountability to local constituents or upward accountability to

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284 In a survey of 11,586 party members in Sichuan in 1999, one-third said local party bosses monopolized decision-making (Pei 2006). Landry (2008), in a survey of 245 local officials at deputy bureau chief level or higher conducted in four counties in Jiangsu, asked about 11 institutions/individuals at county, municipal, and provincial level, and how important they were for promotions, finding that county-level institutions are most important, followed by municipal, followed by provincial. The Party Secretary himself is the most important individual or institution by far, followed by the county organization department and then the County Party Committee.


286 This Mayor also said: “I thought receiving a little ‘thanks payment’ (ganxie fei 感谢费) for helping enterprises solve their problems was no big deal.”
higher level government) undermines the rationality of local institutions. Horizontal accountability “depends on the existence of state agencies that are legally empowered – and factually willing and able – to take actions ranging from routine oversight to criminal sanctions or impeachment in relation to possibly unlawful actions or omissions by other agents or agencies of the state” (O’Donnell 1998). Such horizontal accountability is violated by both corruption and by encroachment (when “one state agency trespasses upon the lawful authority of another”). In this sense, China’s all-powerful local leaders obstruct the effective apolitical operations of local bureaucracies, undermining the rationality of local institutions.

Concentration of power in one individual also results in highly variant economic outcomes. Sah and Stiglitz (1986) argue that group decision-making has a “diversification of opinions” effect, whereby more group involvement in decisions results in less extreme outcomes. Sah and Stiglitz (1991) show that outcome variability should decrease when the number of executives consulted on decisions increases. With the lack of constraints in collective leadership at the county level, along with broad latitude to implement locally-relevant development plans, more variant and unequal growth outcomes should result. This helps to explain both the large degree of county-level inequality and the large growth residual identified in Chapter Three. Similarly, the CEO literature highlights that in firms with CEOs who are personally responsible for important

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287 The control over so many fields leads to a very busy, high pressure job, described by many County Party Secretaries as a “pressure cooker” (yali guo 压力锅): “On the surface we look happy and satisfied, but actually many of us have high blood pressure, and if you look closely we have bags around our eyes from working over 10 hours a day and not sleeping,” according to Zhang Shuping (张术平), the Party Secretary of Shandong’s Qufu county-level city (Dong, Zhang and Zhang 2005). In other words, taking these officials at their word, even assuming publicly-minded, responsible, and capable County Party Secretaries, control over so many fields may be impractical.
decisions, “the risk arising from judgment errors is not well diversified”; there is a higher likelihood for “either very good or very bad decisions” as compared with a firm in which multiple executives take part in the decision-making process (Adams, Almeida and Ferreira 2005).  

China has developed norms that help to mitigate this volatility. One convention that mitigates the economic volatility is the replacement of County Party Secretaries by concurrent county magistrates. According to one official:

> “Even if we assume that the yibashou imposed his own policies during the previous five years, we still have to admit that the ‘second in command’ signed off on these ideas and helped implement them, so when he takes over he is unlikely to switch trajectories too drastically. On top of this, the decision to replace the County Party Secretary with the County Magistrate implies that the provincial Organization Department is ‘satisfied’ (manyi 满意) with the county’s development, so changing paths would not be prudent from an individual perspective (Interview JS281).

In addition, central, provincial, and prefectural policy guidance can help unify and rationalize county decisions; despite implementation bias, localities nevertheless remain at least partially responsive to upper-level policies. Nevertheless, it is clear that variance due to personalized decision-making remains large.

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288 They find that stock return variability increases with CEO power to influence decisions: “…firm performance increases with the degree of CEO influence, because decisions with extreme consequences are more likely to be taken when the CEO is more powerful.”

289 The converse side of this is that when the Magistrate does not replace the County Party Secretary, this often implies that the province wants a change, so economic volatility should be higher than normal. An example of this is Lianshui County. Li Yuanchao is originally from Lianshui County, and when he was Jiangsu Province Party Secretary he selected an “extremely qualified” person to become the Lianshui County Party Secretary and change the local development path (Interview JS284). In these cases, we should expect even higher variance.
5.2 Systematic effects on growth outcomes

Given the high degree of personalized leader control in China, leaders should have systematic personal effects on growth, assuming that their ability and incentives differ. The past two chapters have shown that policies and institutions help determine growth, highlighting a potential path for County Party Secretary impact on economic outcomes, but leaders may still just be cogs in institutional systems.\textsuperscript{290} How different would local economic outcomes be in the counterfactual case of switching leaders, similar to the quote at the beginning of this chapter? Greenstein (1969) has developed the important idea of action dispensability and actor dispensability: action dispensability looks at the “circumstances under which the actions of single individuals are likely to have a greater or lesser effect on the course of events,” whereas actor dispensability is whether we explain a given action in terms of an actor’s personal characteristics.

Greenstein (1969, 41) describes the distinction more illustratively: “The first is, as it were, the question of under what circumstances nations are likely to be saved (or lost) by the juxtaposition of the little Dutch boy’s finger and the dyke; the second is addressed to whether we must take account of the psychology of the little boy.” In his conception of the term, personal and environmental characteristics will determine the likelihood of personal impact.\textsuperscript{291}

\textsuperscript{290} Or I could get philosophical and argue that they are just cogs in historically determined fate: “The higher a man stands on the social ladder, the more people he is connected with and the more power he has over others, the more evident is the predestination and inevitability of his every action…History, that is, the unconscious, general, swarm-life of mankind, uses every moment of the life of rulers as a tool for its own purposes” (Tolstoy, \textit{War and Peace}).

\textsuperscript{291} Greenstein argues that the likelihood of personal impact increases with the degree to which the environment permits restructuring, varies with the actor’s location in the environment, and varies with the personal strengths of the actor; in other words, personal and environmental characteristics.
Identifying systematic leadership effects on growth is difficult, but this section provides quantitative evidence that in a system that empowers the economic decision-making of local leaders, differences in leader capabilities and incentives manifest in systematically different growth outcomes. Although case studies can demonstrate individual leader decisions that influence economic outcomes, it is more difficult to argue that leader tenures generally have significant effects on economic outcomes. There are two general problems in identifying leader effects: leadership transitions are endogenous to local economic outcomes, and it is difficult to distinguish leadership effects from locational and temporal effects. In both democracies and autocracies, leadership transitions are highly endogenous to local growth; underlying economic conditions can drive leadership removal and appointment. Economic failure can lead to leader reassignment, and indeed, in the China case the underlying generalized assumption is one of endogeneity: leaders with good economic outcomes will be rapidly promoted, while those with poor economic outcomes will be demoted or removed. If growth is in fact exogenous to leader effects, but high (low) achievers are rewarded (punished) through promotions (demotions), a quantitative analysis would nevertheless falsely identify leadership effects on growth (a Type I error).

In addition, leader effects are difficult to differentiate from geographic and temporal effects. When looking at growth in a given year in a given locality or country, some part of the variation will be determined by cross-sample temporal trends: a short-

\[ \text{Evidence in the US shows that incumbents are more likely to win reelection during booms than recessions. See Fair (1978) and Wolfers (2002). Londregan and Poole (1990) find that high growth rates make coups less likely.} \]
term economic boom or bust, for instance, as in the case of the Asian Financial Crisis and its negative effects on Chinese local growth in the late 1990s. These temporal effects influence all observations within the sample. Additionally, every local economy has its own “fixed effects” – institutions, cultural differences, geography, legacies – that are unique to the specific area and help predict annual variation. If we have several countries/localities and several years, we can identify temporal fixed effects and locality-specific fixed effects, but identifying constant leadership fixed effects across time is impossible, as they will be inseparable from the other fixed effects.

One way to overcome the endogeneity problem is to look for a source of exogenous variation in leadership transitions/successions. Cross-nationally, Jones and Olken (2005) provide the most compelling case. Using natural deaths of leaders while in office as an exogenous source of leadership transition (i.e., eliminating violent deaths and therefore looking only at leaders who ostensibly die from causes unrelated to local economic outcomes), they find robust evidence that leaders matter for growth outcomes, and also that the leader personal effects are strongest in autocratic settings with fewer constraints on a leader’s power. In China, county leaders tend to be relatively young and relatively healthy; poor health and death unfortunately (fortunately!) do not result in a sufficient number of career terminations to utilize a similar identification strategy. The CEO literature provides another approach, looking at CEOs who head multiple companies, which allows separation of time, company, and personal effects. This is a

293 At the provincial level in China, Xu, Wang, and Shu (2007) use a similar approach. They construct a data set consisting of governors who serve in at least two provinces, and then explore the effect of governor transfer, finding that approximately 1 percentage of economic growth is attributable to incumbent governors.
similar approach to that employed by Denizer, Kaufmann, and Kraay (2013) in estimating the personal effects of Task Team Leaders in determining World Bank project outcomes. Following leaders across multiple positions in multiple counties removes endogeneity concerns: leaders with successful or unsuccessful outcomes may still be transferred, but if this effect is persistent across multiple different jobs, this implies that the leader is influencing the local outcome rather than benefiting or suffering from “luck” that is exogenous to his personal effect.

Here, following from the CEO literature, in particular Bertrand and Schoar (2003), I analyze the impact of county leaders by parsing out the contributions of time, county, and personal fixed effects. In any given year, county-level growth ($Y_{it}$) is a function of county-independent year fixed effects ($\varphi_t$), time-independent county fixed effects ($\gamma_i$), personal effects of individual county leaders ($\lambda_{CPS}$), a vector of time-varying county-level control variables ($X_{it}$), and unobserved error ($\epsilon_{it}$):

$$Y_{it} = \beta X_{it} + \gamma_i + \varphi_t (\lambda_{CPS}) + \epsilon_{it} \quad (5.1)$$

Running Equation 5.1 with and without leader fixed effects ($\lambda_{CPS}$) and analyzing the difference in the R-squared enables an estimation of the amount of growth variance explained by county leaders. An F test on the joint significance of the personal fixed effects provides further evidence of systematic leadership effects. A general problem with this approach in the leadership literature is that most leaders serve in only one
location, which makes the leader and county fixed effects perfectly co-linear. In this data, however, 20 counties in Jiangsu and 23 counties in Anhui have leaders who serve in multiple counties, enabling a separation of the county and personal effects for this connected subset.  

The process specified in Equation 5.1 enables an identification of leader personal effects on growth. The general idea is to highlight the role of leader personal effects across a sample of counties connected by leader transitions. In Table 5.1 below, for the combined dataset as well as each province individually, results are shown for two regressions, one that includes year and county fixed effects, and another that also adds personal fixed effects. All regressions include log per capita income and population as additional controls. By comparing the adjusted R-squared from the regressions with and without personal fixed effects, we can see the increase in variance explained by the leadership personal effect. In all cases and across provinces, the effects are very large, significantly larger than corresponding figures in the CEO literature. Leaders have a large effect in both provinces, explaining an additional 19.2 percent of GDP growth variation, 32.6 percent of capital growth variation, and 24.2 percent of TFP growth variation. In other words, leader effects explain nearly one-fifth of variance in GDP growth, one-third of variance in capital growth, and one-quarter of variance in total factor productivity growth. The F-test results for joint significance of the leadership personal effects enable an identification of leader personal effects on growth. The general idea is to highlight the role of leader personal effects across a sample of counties connected by leader transitions. In Table 5.1 below, for the combined dataset as well as each province individually, results are shown for two regressions, one that includes year and county fixed effects, and another that also adds personal fixed effects. All regressions include log per capita income and population as additional controls. By comparing the adjusted R-squared from the regressions with and without personal fixed effects, we can see the increase in variance explained by the leadership personal effect. In all cases and across provinces, the effects are very large, significantly larger than corresponding figures in the CEO literature. Leaders have a large effect in both provinces, explaining an additional 19.2 percent of GDP growth variation, 32.6 percent of capital growth variation, and 24.2 percent of TFP growth variation. In other words, leader effects explain nearly one-fifth of variance in GDP growth, one-third of variance in capital growth, and one-quarter of variance in total factor productivity growth. The F-test results for joint significance of the leadership personal effects.

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294 See Yao and Zhang (2012) for a similar analysis at the prefecture level in China. They include both Governors and Party Secretaries, but if these leaders have different economic roles/impacts, this inappropriately conflates two separate leader fixed effects.  
295 Bertrand and Schoar (2003) find that manager fixed effects result in over 4 percent increases in adjusted R-squared’s for a range of policy and outcome decisions. Here, there is a 69 percent increase in adjusted R-squared for the baseline (connected sample and combined provinces).
effects are also presented (with p-values and degrees of freedom in parentheses); all are significant with 99 percent confidence. In Anhui, county leaders explain 15.7 percent of total county growth variation; in Jiangsu, they explain 16.9 percent.  

Table 5.1. Growth contributions of county leader personal effects (connected sample)

<table>
<thead>
<tr>
<th></th>
<th>Numbe of obs.</th>
<th>Adjusted R2</th>
<th>F Statistic (p value)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Excluding leader effects</td>
<td>Including leader effects</td>
</tr>
<tr>
<td><strong>GDP Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined</td>
<td>708</td>
<td>0.277</td>
<td>0.469</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>340</td>
<td>0.341</td>
<td>0.510</td>
</tr>
<tr>
<td>Anhui</td>
<td>368</td>
<td>0.446</td>
<td>0.603</td>
</tr>
<tr>
<td><strong>Capital growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined</td>
<td>708</td>
<td>0.354</td>
<td>0.680</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>340</td>
<td>0.622</td>
<td>0.756</td>
</tr>
<tr>
<td>Anhui</td>
<td>368</td>
<td>0.250</td>
<td>0.658</td>
</tr>
<tr>
<td><strong>TFP growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined</td>
<td>708</td>
<td>0.165</td>
<td>0.407</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>340</td>
<td>0.273</td>
<td>0.452</td>
</tr>
<tr>
<td>Anhui</td>
<td>368</td>
<td>0.365</td>
<td>0.562</td>
</tr>
</tbody>
</table>

a. F statistic for joint significance of the county Party Secretary fixed effects. P-values are presented in parentheses.

A similar but more intuitive approach to looking at leader effects on growth involves analyzing the relationship between the growth outcomes that leaders are associated with in successive counties. In other words, do leaders achieve similar outcomes when they serve in multiple counties? The simple univariate regression results

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296 General time trends in Anhui have more impact on individual counties – for instance, during the growth slowdown of the late 1990s, Anhui counties slowed down almost universally. This implies a greater role for provincial policies in influencing county outcomes, a process that is explained in Chapter Seven.
in Table 5.2, represented visually in Figure 5.1, look at all county leaders in the national biographical sample who serve in multiple counties, demonstrating that a positive and significant correlation exists for both average growth in successive counties and the average growth difference from the provincial average in successive counties. This latter specification partially deals with temporal effects that otherwise cannot be controlled for; in other words, if a leader switches counties in a year in which an entire province experiences a growth shock, this latter specification will look at the leader’s effect relative to other counties rather than past performance. This exercise provides additional evidence that County Party Secretaries have personal impacts on county growth outcomes.

<table>
<thead>
<tr>
<th>Table 5.2. Correlation between growth outcomes in successive county posts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>First post average GDP growth</td>
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<tr>
<td></td>
</tr>
<tr>
<td>First post average GDP growth (provincial difference)</td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>R-squared</td>
</tr>
<tr>
<td>Observations</td>
</tr>
</tbody>
</table>

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Note: Average GDP growth refers to the average real GDP growth over a leader’s tenure in one county. Average GDP growth (provincial difference) refers to the annual difference of county GDP growth from the average growth of all counties in a given province-year, averaged over the leader’s tenure in one county.
Figure 5.1. Relationship between growth outcomes in successive posts

Correlation between growth outcomes in successive county posts

Source: China Data Online; biographical database; author’s calculations

5.3 Leadership characteristics to influence growth outcomes: the four Cs

What are the channels for these large and significant leadership effects on growth, investment, and productivity? Leaders can have both direct and indirect effects on the local economy. Looking at the national level, Brady and Spence (2010) find four common issues that economically successful leaders must confront: “(1) creating national unity, (2) building good, solid institutions, (3) choosing innovative and localized policies, and (4) creating political consensus for long-run policy implementation.” At the county level, national unity and political consensus for long-run policy implementation are less
important, so the takeaway from Brady and Spence is that economically successful leaders must choose pro-growth local policies and build good institutions. In the China-specific context, Zweig (1997, 5-7) separates local leadership effects in China into upward hierarchical bargaining (“lobbying for open status or restructuring the community’s relationship to upper level governments”) and internal initiatives (“altering the political and economic climate within their community”). Choosing good policies and building strong institutions are part of this latter category. This section looks at these local leadership effects, focusing on the leader characteristics (i.e., the “actor dispensability” in Greenstein’s telling) that create these outcomes. In other words, what leader characteristics predict the ability to successfully bargain upwards, build good local institutions, and choose successful economic policies?

Through an analysis of leadership effects in the six case counties, four personal leadership characteristics stand out as helping to determine local economic outcomes. These “characteristics” are not necessarily innate, but rather are reflections of ability, circumstance, and emphasis. First, leaders have personal connections, or guanxi, in both the private and public sectors. Connections to provincial or prefecture leaders can help leaders obtain preferential policies and fiscal transfers through effective upward bargaining, while connections to firm CEOs can help attract direct investment. Second, leaders differ in their creativity and capacity for innovation, particularly with regard to economic development tactics and strategies. In a highly competitive investment environment, these ideas predominantly relate to how to brand a county to distinguish it from other counties and how to improve the local investment environment through institutional reforms. Rarely are these innovative ideas new economic contributions,
although economic policy choices do fall under this category. Third, leaders differ in their willingness to act. There is often talk of “bold vision” when discussing successful leaders: vision (i.e., the creativity just discussed) is a necessary but not sufficient condition; courage is essential, particularly in an authoritarian regime embedded in a culture that has generated such sayings as “the lead bird gets shot down” (qiang dachu touniao 枪打出头鸟); it is often easier to react than to act, but in a highly competitive environment, the contrast can have important implications. Courage is key in both formulating and implementing local reforms, especially institutional reforms that could be deemed “innovative,” as well as for challenging local vested interests. Finally, leaders differ in their degree of control over the local bureaucracy and local cadres. While the beginning of this chapter focused on the outsized power of County Party Secretaries, the de facto level of control that cadres wield varies greatly on both societal and individual characteristics, and leaders have different approaches to how much control they exert through carrots, sticks, and oversight; this is often a result of choice as much as ability.297 These four categories, the “four Cs,” are summarized and explained in Table 5.3 below.298

297 Any framework necessitates an oversimplification. These four leadership characteristics – connections, creativity, courage, and control – clearly overlap and even complement each other.
298 These four Cs should not be confused with the “four Cs of communication” (clear, concise, complete, correct), although I strongly hope that this dissertation abides by these latter Cs.
Table 5.3. Leader characteristics influencing local economic outcomes

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Description</th>
<th>Manifestations</th>
</tr>
</thead>
</table>
| Connections   | Ability to use personal or organizational connections to bureaucratic superiors, Party and government leaders, and outside business leaders | • Transfers/subsidies, preferential policies, public investment from upper government  
• Local private investment by outside capital |
| Creativity    | Developing new ideas/policies, demonstrating either business acumen or organizational acumen. | • Policies for enhanced county visibility and reputation  
• New cadre management institutions |
| Courage       | Willingness to challenge vested interests and society, act without upper-level sign-off, and risk potentially “destabilizing” policies | • Controversial policy choices  
• Sticking to policies despite local opposition |
| Control       | Degree of compliance of bureaucratic subordinates (and local societal interests) | • Successful policy implementation  
• Fulfillment of identified targets  
• Prevention of government failure |

The subsections that follow highlight leadership roles across these personal characteristics using evidence from interviews in the six case counties, but it is worth highlighting first an archetype of leader economic impact across all four characteristics: Qiu He (仇和). Before drawing national attention as Party Secretary of Suqian

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299 For in-depth accounts of Qiu He, see Bao and Xu (2009), Fewsmith (2006), Fewsmith (2013), and Kuhn (2010).
(prefecture-level) City, Qiu He served in the late 1990s for over four years as Party Secretary of Shuyang County in northern Jiangsu (in the same prefecture as Sihong County, one of the case counties). Qiu He had it all: connections to the top; new ideas; courageous reforms and managerial decisions, and complete control over the local government/party hierarchy as well as local society. These characteristics and their consequences brought Qiu national attention, both positive and negative, and brought Shuyang enhanced levels of investment and growth.

Qiu’s connections are evidenced by his appointment: he was young and favored and was sent to Shuyang by provincial leaders explicitly to create change and turn around a lagging county. He had studied abroad at the University of Maryland just prior to his promotion as part of a “first senior managerial talents economic research class in Jiangsu Province.” Such study abroad is a rarity for county leaders, particularly those in poor counties and particularly as early as the 1990s. In addition, he was sent to Shuyang as a “concurrently promoted” (gaopei 高配) cadre, meaning that in addition to his appointment as Shuyang County Party Secretary, he also was appointed to the Suqian City Party Committee. This concurrent position on the prefecture-level Party Committee gave Qiu direct access to his superiors and a direct voice in fiscal and policy decisions related to Shuyang’s development.\(^{300}\) One finance bureau official from a neighboring county (who had held the position since Qiu’s time in Shuyang), recalled that Qiu’s guanxi was excellent, noting in particular that Qiu was able to get much more financial

\(^{300}\) Chapter Six explores the economic consequences of this phenomenon in more depth.
assistance, particularly in the form of special purpose transfers from upper-level
governments (Interview JS112).

Upon entering office, Qiu initiated innovative policies that required considerable
courage. Many of the most effective of these policies related to reforms to cadre
management, which gave Qiu significant personal control. He had a particular focus on
corruption/crime and government transparency. Under Qiu’s guidance, all departments
had to openly publish “promises” (chenguojie 承诺) to their constituents. At the village
level, Qiu initiated “three reforms, four controls” (sangai sizhi 三改四制), the most
important of which were “public selection control” (gongkai xuanze zhi 公开选拔制) and
“two vote control” (liangpiao zhi 两票制) which required that village officials were first
approved by villagers before being voted on by the Party Committee (Bao and Xu 2009,
33). Under Qiu, the number of village-level cadres was cut by 45 percent, with over
5000 officials “retired” (xiagang 下岗), saving the county 5 million RMB. These
reforms were part of Qiu’s stated goal to move from an “executive order system” to a
“service system” (you xingzheng mingling xing xiang fuwu xing zhuanhua 由行政命令型
向服务型转化). Fewsmith (2013, 62) describes Qiu as a political reformer: “When Qiu
He was still in Shuyang county, one of the cadres whom he had just appointed was found
to be involved in corrupt activities. So thereafter, when an appointment was about to be
made, Qiu He began notifying people through circulars, radio and television broadcasts,
and newspapers. People had ten days to report any problems. Depending on the severity
of the problem, the candidate could either be called in for a talk or be passed over completely.\textsuperscript{301}

In addition to the implementation of new formal institutions, Qiu ensured enhanced bureaucratic/administrative control through informal reward and punishment mechanisms (\textit{jiangcheng zhidu} 奖惩办法).\textsuperscript{302} Soon after entering office, Qiu’s “strike hard” campaign focused on rooting out corruption in the police department as well as corruption left over from the previous administration. Additional control measures required significant micromanagement: after making bureaus publish promises, he personally would travel to random locations and place calls to the police to see if they could actually make it to him within five minutes (Bao and Xu 2009, 29). He also made it a point to personally travel unannounced to township offices to see if cadres were playing cards. Qiu was “the personal sword of Damocles hanging over officials’ heads.” More broadly, Qiu was a micromanager of all aspects of Shuyang’s development, and this extended to even the most basic local involvement, including the “famous” examples of chasing down a woman who illegally crossed the street and asking a restaurateur if anyone ever “ate and ran” (\textit{chi bawang can} 吃霸王餐) and then making sure they found the person who had.

\hrule

\textsuperscript{301} Qiu was also known for his institutional reforms at the prefecture level after his promotion from Shuyang, when he became the first official to introduce the cadre “public showing” (\textit{gongshi}) system that publicizes the names of cadres who are about to be promoted so that anyone with knowledge can report their corruption or other problems (Fewsmith 2013).

\textsuperscript{302} The punishments focused considerable attention on one-child policy enforcement, with extreme results: in the first year of the campaign, there were 73,000 family-planning surgeries (\textit{jihua shengyu shoushu} 计划生育手术), accounting for 56 percent of the total in all of Suqian.
With considerable local control and new institutions, Qiu was able to implement several bold and innovative local economic decisions. When he arrived, local finances were in terrible shape, with nearly 100 million RMB in budget deficits and wage arrears. Qiu decided to unilaterally withhold 10 percent of the wages of all public employees, and also required one-third of cadres leave their posts and temporarily go into business. Part of Qiu’s creative “new” approach was correct use of media, and more broadly his ability to create a cult of personality around himself that enhanced the county reputation as a place where “things got done.” Qiu created an image of himself as willing to personally sacrifice for the county’s development, setting himself up as a cadre to be emulated. This involved taking the lead in cadre-led “Saturday cleanups” and being the first cadre out in the morning shoveling snow after snowstorms. On his second day in office, Qiu spearheaded a clean-up campaign depending on 5000 cadres working overtime, with himself at the lead (and cameras in tow, of course).

Qiu’s policy initiatives, particularly his authoritarian approach to ensuring local compliance and reining in government behavior, required significant courage in the face of growing national controversy. Strict implementation of new policies led to (correct) perceptions of Qiu as an extreme authoritarian leader, particularly due to his approach to the one-child policy, razing ancestral graves on arable land, and prohibiting people from playing mahjongg on the street. Fewsmith (2013, 52) argues that Qiu’s approach to reform was a “top-down approach, one focused very specifically on economic development rather than on new institutional arrangements that might regularize state-society relations.” This is true, but Qiu’s approach to economic development, while not regularizing state-society relations, relied on Qiu’s control of local cadres, a form of
institutionalization. In February 2004, the widely-read Southern Weekend (nanfang zhounmo 南方周末) published a long piece on Qiu, describing an autocratic leader who produced economic growth at all costs (and also implemented institutional and even democratic innovations despite his own authoritarianism). Qiu’s controversial behavior also resulted in the national Focus Interview (jiaodian fangtan 焦点访谈) television program reporting negatively on him three separate times.

Qiu was a controversial Party Secretary (and became even more controversial as Party Secretary of Suqian City), but his innovative policy approaches and institutional reforms, capacity for upward bargaining, and control over the local bureaucracy enabled Shuyang County to thrive economically under him, particularly as a result of increased investment. Qiu took up the helm at the beginning of 1997. In 1996, the year before Qiu arrived, fixed asset investment (FAI) reached 157 million RMB, or 5.3 percent of GDP. In 1998, Qiu’s first full year in office, FAI had jumped to 1.32 billion RMB, 26.8 percent of GDP. In other words, in Qiu He’s first full year in office, fixed asset investment was over eight times greater (in nominal terms) than in the year before his arrival. Upper level authorities were more inclined to give Shuyang funds, and mobile capital was also more likely to locate to Shuyang, both as a result of Shuyang’s enhanced visibility as well as a result of perceived control of local cadres and prevention of the government failures mentioned above. Indicatively, in the two years after Qiu left office (2001-2002), fixed asset investment actually shrank by 13 percent. Clearly, Qiu’s arrival sparked an investment boom, and this boom enabled higher GDP growth. In taking full advantage of his connections, courage, creativity, and control over all aspects of Shuyang’s development, Qiu was an indispensable economic actor, and his successes even won over
(some of) the local population: one local who previously petitioned against Qiu’s policies said that he had stopped filing petitions; “It seems that at that time, I was backward. I couldn’t see as far as Qiu He” (quoted in Fewsmith 2013).

5.3.1 Connections: It’s who you know (关系，关系，关系)

Connections, or guanxi, provide direct paths to growth for local leaders. There are many different types of personal connections, and these different types of connections produce different outcomes. Connections to bureaucratic superiors can boost transfer payments, public investment, and preferential policies. Connections to outside investors can entice them to invest in the local county, boosting private investment. Connections to “top” leaders can do all of these things, as top leaders themselves have ample bureaucratic and private firm connections. The informality of the economic system allows county leaders with personal connections to top provincial or national or even prefecture-level leaders to be more successful at attracting investments and preferential policies. There is a role for both formal (institutional) and informal connections. Most connections are informal: previous work, shared hometowns, graduation from the same university, experience in the same organization (e.g., non-CCP parties, CCYL, etc.). Formal connections consist of current institutional ties, as with Qiu He’s “concurrent promotion” to the city Party Committee, discussed above. The high volume of central and provincial lobbying by county units hints at the importance of personal connections.

303 In the previous literature, connections have received considerable attention. See Friedman, Pickowicz, and Selden (2005) on Raoyang County. Also Zweig (1997).
to superiors within the Party-state apparatus. These units bargain for preferential policies as well as greater on-budget investment and transfers.

However, preferential policies have been diminishing in number over the past decade (Heilmann 2008), and a more important aspect of upward bargaining now consists of bargaining for fiscal transfers. Bargaining upward for budget is an expected part of the system, and it is a part that has become more important following the tax-sharing system reforms in 1993-94 and the subsequent rise in importance of intergovernmental transfers. This is not merely an artifact of China’s authoritarian hierarchical system; as Wildavsky (1964) explains in an analysis of the United States budgetary process, officers and executives reviewing budget decisions expect bureaus to aggressively argue for larger budgets – any lack of lobbying effort would make the determination of budgets more difficult, as it would reduce the information on which the determination is made. China’s fiscal system has come to rely more and more on transfers, and in particular on special purpose transfers. Subnational governments in 2009 had local (“own”) budgetary revenue accounting for 53.8 percent of total revenue, with VAT, consumption tax, and

304 Peng (2006) describes the “craze” (fēng 風) of lobbying for money and appointments. Zou (2011) describes the proliferation of local government lobbying offices in Beijing despite the banning of such offices. According to Zweig (2002), this lobbying for concessions is a result of the segmented nature of policy experimentation that prevents collective action by local governments. Heilmann (2008) argues that the “atomistic character” of this lobbying bolsters the political authority of the center.

305 According to Guo (2009), local cadres “visiting ministries to lobby for money [for projects] has become a reasonable activity that [their superiors] tacitly approve of and even solemnly stipulate in official documents with red headings as an important criterion in examining the capability and talent of local cadres.” For the importance of bargaining within the Chinese political system more broadly, see Lampton (1987).

306 As Wildavsky (1968) writes, “If the agencies suddenly reversed roles and sold themselves short, the entire pattern of mutual expectations would be upset, leaving the participants without an anchor in a sea of complexity. For if agencies refuse to be advocates, congressmen would not only have to choose among the margins of the best programs placed before them, they would also have to discover what these good programs might be.”
income tax rebates (specified by sharing rules) accounting for an additional 7.2 percent. General purpose transfers accounted for 6.7 percent, and special purpose transfers accounted for 32.4 percent (Huang and Chen 2012). The vast majority of special purpose transfers are earmarked transfers.\textsuperscript{307} The malleable and non-rules-based determination of volume and destination in the allocation of special purpose transfers adds an important role for personal relationships, as has been documented in China and elsewhere.\textsuperscript{308} An interview with a finance section chief (kezhang 科长) in a Jiangsu county confirmed this:

“Of the two major types of transfers [special purpose, \textit{zhuanxiang} 专项, and general purpose, \textit{yibanxing} 一般性] special transfers are both much larger and also much more subject to connections (\textit{guanxi} 关系). The other important transfer, “fiscal system settlement” (\textit{tizhi jiesuan} 体制结算), has no \textit{guanxi} element, as it’s predetermined. Basically, the process for special transfers is as follows. A bureau will draft a request for funds and submit it to the finance bureau, which will look it over and decide whether to change it and whether to pass it on. The finance bureau and the requesting bureau will then jointly send their request to the province. Here, the provincial finance ministry is paramount. While special transfers are supposed to have spending ratios determined between province and county or city and county, in reality most transfers are non-matched. When the county applies it will specify ‘empty’ matching (\textit{kong peitao} ‘空’ 配套), meaning that it has no money of its own to contribute. In this system, the personal relationships of the county leadership (\textit{lingdaoren} 领导人) and the finance bureau chief are paramount. The vast majority of all requested special transfers are rejected by the province, so having an inside track makes success much more likely” (Interview JS112).

\textsuperscript{307} Special purpose transfers come in two types: revenue replacement (fiscal capacity balancing transfers to compensate for lost revenues, e.g. wage adjustment, agricultural tax adjustment, tax-for-fee reform) and earmarked transfers.

\textsuperscript{308} Huang and Chen (2012) construct a “Central Committee Leadership” index based on strength of politburo and Central Committee representation of provincial leaders, and find that this index significantly and positively explains central fiscal grants to provinces. Boex and Martinez-Vazquez (2005) document that allocation of intergovernmental transfers depends on both normative and political considerations. In the public choice literature, see Alperovich (1984) and Grossman (1994).
This section chief then mentioned that the current county *guanxi* of both the finance bureau chief and the Party Secretary were very good, explaining recent high volumes of special purpose transfers.

Connections to top leadership can spur growth through many channels: direct investments from firms, higher levels of transfers and investments, and also the indirect effect of empowering local leaders and giving them more local control.\(^{309}\) During the Wang Daohan era in Shanghai in the 1980s, Mingguang (then still Jiashan County) remained particularly strong – Wang Daohan was a native “Mingguang ren” and he did not want Shanghai’s money going to Jiangsu, but rather to Anhui (Interview AH104).\(^{310}\) Such a leader connection is obviously exogenous to the county leader’s personal connections, and based simply on his appointment as a local leader while Wang was in office. Similarly, Li Yuanchao is originally from Lianshui County, and when he was Provincial Party Secretary he selected an “extremely qualified person” to become the Lianshui Party Secretary, thus changing the local growth path (Interview JS284).

Although no other counties in the sample have high level hometown heroes, several County Party Secretaries were able more proactively to generate personal connections with provincial leaders, or at least were able to give provincial leaders “skin in the game” of local development. Connections do not always have to do with

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\(^{309}\) China’s one-level-down administrative management system means that the administrative level just above is most important; however, many public investment and fiscal transfer decisions are made two levels up (i.e., province to county), or directly from the central government to county governments. Additionally, top leaders can pressure lower leaders even within the “one-level-down” framework.  

\(^{310}\) While many Mingguang interviewees referred to the positive effects on Mingguang of Wang’s term as Shanghai Mayor, the fact that this took place over two decades before prevented anyone from recalling specific investments that Wang initiated. Nevertheless, this connection is still bearing fruit. Wang’s son came to Mingguang in 2005 and initiated the building of a Wang Daohan Library (汪道涵藏书楼).
hometown or previous work or formal institutional ties – they can also be developed and nurtured. For instance, Jiang Guoxing, a cadre in prosperous Southern Jiangsu, personally received a call from Jiangsu Provincial Party Secretary Li Yuanchao telling him to go north to become Suining County Party Secretary. Jiangsu has a saying: “better to go ten feet south than one inch north” (*ningyuan xiangnan yizhang, buyuan xiangbei yicun* 宁愿向南一丈, 不愿向北一寸), and as Jiang notes, “No southern cadre wants to come north, but if you’re told to, you do.” Jiang responded quickly. As he says, “on April 6 Li Yuanchao gave me a call. I got to Xuzhou that afternoon, and at 9am on the 7th I was in Suining – at noon, without notice, Li himself came to Suining” (F. Wang 2006). In arriving personally on the same day as Jiang, Li provided support to Jiang, giving him more credibility and making him appear more powerful to locals, which helped with his policy implementation capacity.

Or take the case of Dianhu Village (垫湖村) in Sihong County. A large modern memorial hall and museum has been built in the center of the village to commemorate the village’s role as China’s first to initiate the household responsibility system (this controversial distinction is discussed below as a successful case of innovative county branding), and in 2012 Jiangsu Party Secretary Luo Zhijun visited as part of his “develop Subei” initiative. A year later, framed posters of Luo from the initial visit were scattered throughout the village. When Luo came, there was no sense that the county or County Party Secretary had a previous relationship to him – but after his visit, he developed a connection and stake in the future prospects, continuing to check in to see how the village development was proceeding. This level of investment made the village more attractive.
for other investors (Interview JS203; Interview JS117; Interview JS220; Interview JS191).

Personal connections to firms and their CEOs can also be very important for helping to attract outside investment. The institutionalized “law of avoidance” (*diqus huibi* 地区回避) means that all County Party Secretaries hail from outside the county they lead; while this may make them less knowledgeable about local conditions, it also expands their *guanxi* base. A particularly strong case of this external *guanxi* comes from “Sunan cadres going North” (*sunan ganbu xiangbei* 苏南干部向北) and bringing with them connections to firms with large investments in the south. As Suining County Party Secretary Jiang notes, “people follow people” (*ren gengze ren zou* 人跟着人走):

“I spent seven years in Jurong [in Southern Jiangsu] and learned how things work…if an official isn’t there to help, an enterprise won’t succeed, in China’s current development period this is tough to change. So I tell firms that I’ll grant whatever’s asked (*youqiu biying* 有求必应), if you have a problem, make a call and we’ll figure it out. This concept of service has been deeply ingrained locally…Right now, Sunan has problems with electricity use, finding employees, using land, and other issues, so a lot of Sunan enterprises have a strong desire to come north. Just now, a Taiwan bicycle manufacturer came called “Yasese” (*雅瑟瑟*), they produce here and sell abroad. When I was in Jurong, Yasese built a bicycle factory, and now they want to make their second investment here in Suining. There’s another example, Bingyu Beer (*冰语啤酒*), with an investment of 195 million US dollars. They came to Jurong in 2003 to talk with me – when I left Jurong, the CEO didn’t want to stay, and now he’s started a factory here in Suining. This is to say that the reputation of a place’s leader is very important. If you’re known for efficiency, service and productivity and good service, then one becomes ten and ten becomes 100 and then everyone will come, manifesting in an investment promotion network (*zhaoshang wang* 招商网)” (F. Wang 2006).
5.3.2 Creativity: Thought leadership (领导人的思想)

One Deputy County Magistrate of Xuyi County, when asked the difference between Jiangsu and Anhui counties, replied immediately and succinctly: “leadership thinking” (lingdaoren de sìxiàng 领导人的思想) (Interview JS294). Such leader “ideas” and “thinking” were highlighted in many interviews as the key to local development. While grandiose assessments of local thought leadership may be self-serving, innovative leadership can nevertheless have significant effects on county development. Creativity manifests in both direct policy/economic decisions as well as in ways to attract investment and achieve pro-growth governance, and over time these latter categories have become much more important. Effective policies including free land, tax incentives for migrant returnees, urban zoning, etc., are often applied broadly across entire regions, sometimes at the initiative of the province or prefecture, as discussed in Chapter Three, which highlighted the similarities in cross-county and cross-province development zone policies for investment attraction. In an environment in which localities do not actually control most laws and regulations and in which competition has led to policy and regulatory equalization through races to the bottom, localities must find ways to differentiate their counties from others. In the past, counties had a larger role in determining the speed of restructuring and local reform, as discussed in Chapter Three, but as growth priorities have switched to investment attraction, there has in turn been less variation in specific local economic policies. According to one local Party Secretary: “reform is basically done, now it’s just opening [i.e., to outside investment].” Indeed, because of the dependence on attracting mobile capital, the two most important “innovation” categories in which County Party Secretaries can make economic
contributions are enhancing county visibility and reputation for investment, often through attempts at county branding and through innovations in cadre management and control.\textsuperscript{311}

County Party Secretaries use county strategic development plans to highlight their innovative thinking: these plans are a means of visibility, meant as indicators of county leader vision as much as reflections of specific policy ideas. Every county government has an annual work conference discussing the previous year’s achievements and the goals for the subsequent year. When the leadership determines that a new growth direction is required, this is often the stage for unveiling such a change, and policy innovations can be identified through these reports. Certain “strategic plans” gain traction, but the quality of economic ideas in these plans is less original or insightful than the plans’ ability to “brand” the county. For instance, Xuyi County Party Secretary Zhao’s 16-character development plan described at the beginning of the chapter was grammatically more innovative than it was economically innovative: the focus, which many interviewees noted lasted for several administrations over the course of a decade, was on industry, urbanization, tourism, and creating a good investment environment. Zhao’s early switch to investment rather than restructuring is perhaps noteworthy, but more noteworthy is how un-noteworthy this strategic direction really is. The key was instead the rhetoric (a catchy 16-character phrase), and supporting policies for branding and governance reform, as discussed below.

\textsuperscript{311} Implementation of policy can be more or less pro-growth, but new policy ideas are less important at the county level: for instance, in deciding to restructure firms, the possibilities are largely known.
Similarly, in Sihong, the “three concentrations” (sange jizhong 三个集中) plan developed by County Party Secretary Xu De (徐德) to solve the “three rural” (sannong三农) problems, has received considerable attention, but has more to do with Xu’s ability to get this concept printed in media than originality of the concept. The three concentrations relate to land, people, and industry. In describing the plan, County Party Secretary Xu uses technical economic language, arguing that land is a “capital resource,” but concentrated land is a “high quality resource” (youzhi ziyuan 优质资源), and noting that “only by increasing scale can you lower costs and improve economic efficiency.” When the prefecture-level Party Secretary visited Sihong in August 2012, Xu focused on the successes of his “three concentrations” policy, explaining how the policy was helping to create a middle-class “xiaokang” society (Pan 2012). In Suining, County Party Secretary Han Zhenmei (韩振美) explains how Suining improved its fiscal situation by actively developing scale agricultural industry (guimo nongye 规模农业) and supporting private industry, particularly by emphasizing the “2455” plan to generate 20,000 private/individual units, 4000 cooperative units, 5000 units paying at least 3000 RMB in annual taxes, and 500 units paying over 30,000 RMB in taxes (Z. Han 1995).

312 See, for example, C. Xu (2013). This is perhaps too cynical: beyond the rhetoric, some of the accompanying policies are indeed somewhat innovative. A first step is concentrating housing construction and building these areas with low prices. Low income households get particular assistance moving in – for instance, in one village houses smaller than 60 square meters were sold below cost, which allowed 32 low-income households to move in. Once the people live in a concentrated area it is easier to concentrate land, which can then attract capital for large agriculture and agricultural processing. After selling off the land, the government still has to help provide insurance, technology, and capital. As one standing committee member says: “Transferring land doesn’t mean the government can stand aside and do nothing.”

313 These “creative” undertakings not only help to attract outside investment, but also attract political attention towards the County Party Secretary; the two are not mutually exclusive, and may indeed be mutually supportive.
Compared to the Jiangsu counties, strategic plans from the three Anhui counties have been less innovative, even in rhetoric, with the partial exception of Wuhe in more recent years. An excuse made in these counties is that counties are constrained in policy decisions by the provincial government. “The Mingguang leaders aren’t at fault for poor growth. They’re very constrained. The biggest problem in Mingguang is that Anhui itself takes no initiative, but rather simply implements government policies” (Interview AH104). But even in an environment where policies are determined by upper-level governments, there can be a strong role for creativity in innovative implementation. Indeed, the most successful leadership initiatives in Jiangsu have less to do with policy than with proactive county branding, and evidence from the three Jiangsu counties shows that County Party Secretaries can be highly able marketers.

When preferential policies are similar across locales and counties have similar conditions, an effective means of attracting investment may just be getting the county’s name into the public sphere. This branding can serve the purpose of both investment attraction as well as personal political motivations. Among the Jiangsu case counties, several “innovative” branding initiatives were initiated with direct personal involvement and commitment of County Party Secretaries: the annual Crawfish Festival in Xuyi and the “Sui character” (suizi 睢字) advertisements in Suining were the most effective. Sihong’s “first county” and “crab” branding efforts have been innovative but somewhat

314 This interviewee explained how investment promotion work started late in Anhui: officially in 2001 in every county throughout the province. In 2004 the center allowed every county to have a province-level development zone, which were then developed over the next few years – but again there was no local decision or initiative, and there was also no major competition for investment.
less effective.\textsuperscript{315} The strategic rhetoric described above is also very much part of county branding efforts.

In the late 1990s, Xuyi was looking for a way to distinguish itself. At the time Zhao Peng transferred to Xuyi County Party Secretary, the economy was almost entirely privatized, and the government was not sure how to develop further. Zhao decided to build up the local crawfish industry, searching for a “festival economy” (\textit{jieqing jingji} 节庆经济) commercial opportunity. As he said: “Qingdao had a beer festival, Weifang had a kite festival, Luoyang had a peony festival, so why can’t Xuyi create a crawfish festival?” (Shangguan 2010). Zhao’s idea was that such a festival would give Xuyi national recognition and serve as an opportunity to attract (and wine and dine) local investors. Indeed, the raison d’être of the festival was explicitly to attract investment. According to the Party Secretary succeeding Zhao, Wang Youfu, attracting investment was identified as the solution to a “contradiction” of needing to speed up industrialization despite weak economic foundations, and the county put forth the concept of “small lobster [crawfish], big strategy” (\textit{xiaolongxia, dazhanlue} 小龙虾，大战略) in order to boost the local reputation given that “attracting investment difficulties are reflected in Xuyi’s lack of reputation” (Y. Wang 2005, 85).

Since initiation of the Crawfish Festival in 2000, the crawfish industry has grown to become an integral part of Xuyi’s economy, with a brand value exceeding 4.13 billion

\textsuperscript{315} Popular wisdom credits Xiaogang Village (小岗村) in Fengyang County (凤阳县) in Anhui as the grassroots initiator of the household responsibility system, but Sihong has tried to give credit to Dianhu Village instead as the “first agricultural reform village” (\textit{nongcun gaige diyicun} 农村改革第一村). The village now has a large, modern museum/memorial full of supporting documentation, news articles, and 1970s/1980s agricultural equipment.
RMB, 200,000 people employed in crawfish-related businesses, and annual market output value of 2 billion RMB. The festival serves as an opportunity to attract investment as an image ambassador for both domestic and foreign investment. In 2000 only 11 percent of investment came from attracting outside investment, whereas in 2003, 98 percent did (Y. Wang 2005, 100). Crawfish now serve as a major generator of Xuyi’s tourism industry: in the year before the festival was established, “Xuyi was not known to many outsiders,” attracting fewer than 80,000 tourists; by 2002 this number had already grown ten-fold to 800,000, and by 2009 nearly 3 million people visited Xuyi and tourism revenue topped 1.7 billion RMB. “During the 2009 Crawfish Festival, Xuyi brought in 86 projects, totaling 7.53 billion RMB, 135 million USD and 100 million Hong Kong dollars, against the background of international economic recession.” According to former Party Secretary Wang, the festival helped Xuyi rank number one in Huaian for three years running in its “comprehensive economic evaluation” (Y. Wang 2005, 80). Local festival documents state that the crawfish business has created over 20 billionaires, 200 millionaires, 2000 “100,000aires,” and 20,000 rich households.

While Xuyi’s geographic position and natural conditions make crawfish breeding possible, branding was a more important factor in this rapid development. Indeed, multiple interviewees admitted (often sheepishly) that most “Xuyi” crawfish were actually imports from Sichuan, where the quality was better and the fish more

316 As Xuyi’s crawfish promotional documents claim: “Attracting foreign investment is one of the best ways to speed up development in some of the least developed areas.” An investor locals are particularly fond of highlighting is Greg Williams, former mayor and current councilor of Bendigo, Australia, who invested 180 million RMB in the Sino-Australian Manjianghong Crawfish Industrial Park. As Zhang Lianzhenm, chairwoman of the Jiangsu Provincial People’s Consultative Conference noted, “It’s amazing for a retired foreign mayor to farm crawfish in Xuyi.”
plentiful:317 “Since at least 2007, most ‘local’ crawfish come from Anhui and Chongqing. They ran out here as the price rose from a few mao [0.1 RMB] to 60 RMB per jin [0.5 kilograms]. Even at the start [of the festival in 2000] there was nothing special about Xuyi crawfish – they were never as good as those in Sihong or Anhui – the key was Zhao’s creativeness and Wang’s courage” (Interview JS145). More recent Party Secretaries have continued to promote Zhao’s initial idea. In 2006, Party Secretary Cai Duncheng introduced the Xuyi crawfish to Stockholm, Sweden, which has held crawfish festivals for centuries and now holds an additional crawfish event annually at the same time as Xuyi. Cai also promoted the festival in Beijing, holding a festival at Peking University and becoming the first Chinese County Party Secretary to give a speech at the university. Apparently, he also arranged to have a festival flag placed on Mt. Everest, although it’s unclear how many intrepid climbers this stunt has enticed to Xuyi.

Figure 5.2. The streets of Xuyi are paved with crawfish

317 Shangguan (2010) discusses the collapse of local crawfish breeding by the late 2000s.
North of Xuyi, in Suining, Jiangsu, local leaders also tried to attract the notice of potential investors.\footnote{The county leadership has also attempted to brand the county as “the realm of children’s drawings” (\textit{ertonghua zhi xiang} 儿童画之乡), a designation supported by the Ministry of Culture, and local children’s drawings have been given as gifts by the Ministry of Foreign Affairs and stored at the United Nations.} Despite a 4000 year history and an important role during the Three Kingdoms period (Zhang Liang is said to have encountered Cui Guang on the ancient Yi Bridge in Suining), outside recognition of the county was very low. In 2008, County Party Secretary Wang Tianqi led a government investment tour to Beijing, and was upset when none of the potential investors knew how to pronounce the first character of the county name, “睢” (Sui). In his words: “In the process of seeking investment, we ran into a lot of embarrassment (\textit{henduo ganga} 很多尴尬) as many people didn’t know Suining (\textit{buzhidao suining} 不知道睢宁). Some had never heard of the county, others just didn’t recognize the character. While seeking investment, some read ‘huai,’ others read ‘wei’; we heard everything (\textit{du shenme douyou} 读什么的都有). This was a really awkward situation, so we decided to use an advertisement to introduce our city” (Zhang and Lan 2009). The “advertisement” consisted of four separate full page ads to “raise the local reputation” (\textit{tigao defang zhimingdu} 提高地方知名度). All four ads had a similar format. The first day had the “睢” character printed in a huge font, with a question below: “Do you recognize this character?” The second day had the same character, adding a huge exclamation point and exclaiming, “the people (\textit{laobaixing}) here will tell you, it’s easy to be a commoner, hard to be an official!” (\textit{zuo baixing yi, zuo guan nan} 做
百姓易，做官难。319 The third day (shown below) had the same character and exclamation point and adding, “This city has seized the smile gene” (zhangwo zhe weixiao de jiyin 掌握着微笑的基因). The final day included the full county name printed across the top and “Sui” written in pinyin above the 睢 character, helping readers pronounce the county name. Party Secretary Wang intentionally placed the ads in Beijing newspapers during the annual National People’s Congress and Chinese People’s Political Consultative Conference, figuring that the “two sessions” representatives include many famous businessmen and business owners, and that it is also the time of year with the most media attention. All four ads included the cell phone number of Party Secretary Wang and the County Magistrate. Wang notes: “My cell phone received lots of messages. There were also people who wanted to deeply discuss cooperating with us. This made me very happy.” According to local interviews, the “Sui” advertisement was very successful at attracting attention and thus investment (Interview JS115), and indeed investment in 2009 and 2010 grew rapidly in Suining, and Suining was one of Jiangsu’s fastest growing counties during Wang’s years in office.

319 This preceded the more modern internet joke that “When the officials’ bottoms are stable, society is unstable. When the officials’ bottoms are unstable, then society is stable (官员稳腚了，社会就不稳定了；官员不稳腚了，社会就稳定了).”
In addition to county branding efforts spearheaded by local leaders, innovative institutional reforms have also had strong pro-growth effects through their effect on governance and through ensuring “good” behavior from subordinates. Informal control mechanisms are discussed below under the “control” section, but leader-initiated institutional reforms are one of the most effective and creative areas for leader impact. For instance, as discussed above, Qiu He’s “open government” transparency efforts were designed to win back trust in government and were a creative solution to an anti-growth challenge as well as an effective way to control cadres who ignored his diktats.

Institutional reform requires not only an idea, but the courage and ability (control) to
implement the idea, so this discussion carries over into the next two leadership characteristics.

Innovative institutional reform is frequently the brainchild of local leadership, not just in the case counties but in China’s development more broadly. Leaders play a key role in initiating local government reforms, as described in Shizhong with Zhang Jinming, a Party Secretary who “played a key role in initiating and sustaining momentum for ORS [open recommendation and selection]…She was enthusiastic about reforming the traditional cadre system and persisted over the objections of some members of the party standing committee (Saich and Yang 2003, 205)”320 Similarly, Fewsmith (2009) describes how one of China’s most innovative and bold local institutional experiments, participatory budgeting, was adopted in Xinhe Township in 2005 in large part because “the Party secretary was open-minded…neither this nor the reform adopted in Zeguo was forced upon the townships by higher-level authorities.” Foster (2006) similarly shows that the “service commitment system” in Yantai resulted from the influential role of enterprising local leaders. The China Local Governance Innovation Awards established jointly by the China Center for Comparative Politics and Economics, the Center of Comparative Studies on Political Parties of the Central Party School, and the Center of China Government Innovations at Peking University, provide additional evidence of the role of local leaders in initiating pro-growth governance reforms. Officials who have won awards “proudly state that the primary feature of their projects is ‘originality, not a

320 He and Lang (2000) confirm this in their analysis of the Buyun election, describing the key role of the Party Secretary who had an analytical and open mind as well as a pioneering spirit. See also X. Yang (2001).
mere imitation of others or the simple implementation of instructions from above’” (X. Yang 2013). Credit is given to local leadership, with over half of award winners saying that the innovation idea was “first suggested by some knowledgeable leaders.” Most recipients of the reward have approached governance innovation from a utilitarian pro-growth perspective, with a focus on pro-growth institutions, and citizens seem to agree that this is the correct angle.321

In the case counties, the clearest example of innovative institutional reform comes from Suining and the government transparency and control initiatives described in the previous chapter. These reforms started in Suining under Wang Tianqi.322 In September 2008, Wang attended cadre training in Beijing and presented his “only when cadres have it rough will the people be okay” theory, which in his telling attracted the attention of higher authorities. After that, Suining was selected as one of three trial counties for reform, but as Wang says, “really, the reforms had already started.” In other words, these institutional reforms were made at the initiative of Wang, and he wanted to be given credit.323 Perceptions of individual creativity are important to local leaders: Wang says that while he greatly admires Qiu He, “I’m my own man…I never researched Qiu’s

321 For more on leaders and local government innovation awards, see Chen and Huang (2010); W. Wang (2005), and Z. He (2007).
322 The experiment in local government transparency began in Suining, Hebei’s Cheng’an County, and Wuhou District in Chengdu (Sichuan). An overview of the trial “opinions” (yijian 意见) can be found in Che (2010).
323 Actually, many of the institutional innovations were made under Jiang Guoxing, Wang’s predecessor. From D. Yang (2004, 35): “In certain cases, well-connected officials promoted pioneering reforms in the hope of gaining greater political visibility. For example, Liaoning’s Haicheng (where Li Tieying, a state councilor and then the minister of the State Commission for Restructuring the Economic System, started his political career) promulgated a twenty-article program for comprehensive economic system reforms in mid-1995. The program centered on reforming government ownership of enterprises through asset sales. It resulted in the abolition of various industrial bureaus and a significant reduction of direct government involvement in the economy.”
‘administrative style’ (shizheng fengge 施政风格) or administrative measures (shizheng cuoshi 施政措施). Everything I do is done based on my own personality and my own determinations. It’s not only him [Qiu He], I’ve never deliberately imitated anyone else” (keyi mofangguo renhe ren 刻意模仿过任何人) (Bian 2009).

The Anhui case counties have been largely lacking in brand/reputation building and formal institutional reforms. Wuhe has tried weakly to promote its aquatic products, but none have developed into brand names. Mingguang had a famous liquor brand, but its national renown has diminished; if you ask most people in the region what they know of Mingguang, it’s a culture of corruption. Si only made national news over the furor caused when a temple was razed (see Chapter Seven).

5.3.3 Control: What I say goes (个人说了算)

Innovations in cadre management tie in closely to the capacity of local Party Secretaries to ensure subordinate compliance. Economically successful County Party Secretaries ensure this compliance in order to implement policies and prevent anti-growth government failures. Good governance requires responsiveness and accountability, and implementing cadre management reforms requires high degrees of control over the local bureaucracy. County Party Secretaries are personally responsible for the behavior of local bureaucracies. As the former head of the national Organization Department notes, “In many localities, the quality of work and the ‘democratic mood’ (minzhu fengqi 民主

324 These products include Tuo Lake Crabs (沱湖螃蟹), Wuhe Mandarin Fish (五河桂鱼), and Wuhe Whitebait (五河银鱼).
风气) depend entirely on the work style (zuofeng 作风) of the first party secretary” (Zhao and Zheng 2006). But beyond setting a personal example, local leaders differ greatly in their personal involvement and oversight, and particularly in their use of rewards and punishments through the local cadre responsibility system.

County Party Secretaries themselves recognize the importance of good governance, administrative efficiency, and corruption prevention in generating a pro-growth investment environment. According to Wuhe County Party Secretary Hu Qiwang, “Investment promotion is the most important and most direct force for county economic development…Therefore we put forth a plan to grasp administrative effectiveness (zhua xingzheng xiaoneng 抓行政效能), raise government service efficiency (tigao zhengfu de fuwu xiaoliü 提高政府的服务效率), and use administrative efficacy to attract bigger and bigger companies to Wuhe.” He continues, “Before coming to Wuhe, Huafang Group (中国华芳集团) had already visited many places, some of which had more preferential policies. But after many comparisons, Huafang chose Wuhe. The company representative, in describing why they settled on Wuhe, from his heart (cong neixin li 从内心里) said that administrative efficacy is more important than preferential policies.”

More succinctly, Sihong County Party Secretary Xu De

325 Hu acknowledges that achieving a goal of administrative efficacy is not simple: “Of course, raising administrative efficacy can’t be achieved simply with a few campaigns (yundong 运动) or documents. We need to continue to strive to make raising administrative efficacy a conscious idea (zijue de linian 自觉的理念) and let it soak into our blood and genes (jintou zai women de xueye he jiyin li 浸透在我们的血液和基因里)” (Hu 2012).
emphasizes that “assistance (bangban 帮办) is service, assistance brings investment” (Sihong News Agency 2013).

Yet despite acknowledging the importance of local service and bureaucratic efficiency, leader control over local bureaucracies varies widely, both within and across regions. Burns and Wang (2010) note that despite laws, “efforts to impose tighter discipline and control on civil servants have been relatively ineffective.” In the discussion of corruption in the previous chapter, the focus was on cultures of corruption resulting from leadership corruption, but corruption also occurs against the will of the local leadership, and in this case is a sign of County Party Secretary lack of control. Especially in localities with histories of corruption and entrenched bureaucracies, local leaders may have little control, either by choice or necessity. In one Anhui county, several officials in economic bureaus bemoaned local corruption, arguing that the county simply could not be controlled. “They [the provincial authorities] will send in a new yibashou, but he has no way to control subordinates, so everything remains corrupt” (Interview AH247). The local bureaucracy was simply too powerful and too corrupt to change. Such local corruption makes leaders less courageous and less willing to innovate, as discussed in the next section.

Cadre institutional innovation is one means of ensuring against such behavior, but many control mechanisms have more to do with willingness to exert control through existing means, and in particular the use of the personnel management system and target

326 Some of these control mechanisms include surveillance, e.g., the “supervisor responsibility system” (shouzhang fuzezhi 首长负责制), and systems of reporting on the fulfillment of targets.
responsibility system (mubiao zeren zhi 目标责任制) through enforced mechanisms for monitoring, rewards, and punishments. Qiu He, as described above, used not only “open government” reforms to ensure compliance and good behavior, but also micromanagement and appointment of trustworthy cadres. One Anhui cadre saw the establishment and enforcement of targets for subordinates as the most important role played by local leaders: “In terms of the major Party Secretary role, basically he just accepts upper level guidance but can then tweak targets (mubiao 目标) for subordinates in order to tweak directions” (Interview AH104). With ever more bureaucrats to control, often with their own tiao reporting lines, problems of asymmetric information naturally ensue, with increasing difficulties in monitoring and local implementation. Managing cadres through targets deals with incentives of subordinates and lets them handle means: as former U.S. President Eisenhower said, “Leadership is the art of getting someone else to do something you want done because he wants to do it.”

In several of the case counties, individual leaders have had strong approaches to personnel management. As described above, Qiu He enforced control through random testing and calling of subordinates. In Xuyi, similar Party Secretary hands-on involvement has become the norm. Under Party Secretary Zhao at the turn of the millennium, economic targets began to be seriously enforced, and under the current Party Secretary, target achievement has become even more strictly enforced. Every year, the government report will report not only last year’s achievements, but also next year’s targets. This is a very formal process. The targets are generated by asking each bureau to research potential targets, starting in November. Once set, the goals then become part of performance evaluation; if goals are not reached, then each cadre and bureau needs to
explain why (Interview JS281). In the finance bureau, Xuyi is apparently much stricter than surrounding counties about hitting revenue targets within each bureau and section. When targets are missed, salaries are immediately docked, and “even worse,” (gengbuhaode 更不好的) cadres lose face when they have to go up in front of everybody and explain why they failed: “when you walk up to the podium, they play extremely unpleasant (feichang buhaoting 非常不好听) music” (Interview JS112). In Xuyi, even for non-economic functional bureaus, the leaders have to hit six annual economic targets, of which investment attraction is by far the most important, accounting for 70-80 percent of the total score with an annual requirement of 28 million RMB per bureau. Leaders who do not hit this target have no chance of promotion (Interview JS192). 327

This seems at first glance like an institutional effect rather than an example of leadership personal control and initiative, but a comparative look at one of the Anhui case counties demonstrates the leadership role. A bureau chief of a directly economics-related bureau specifically referred to the contrast with Xuyi, noting that unlike in Xuyi, not hitting investment targets in his county was irrelevant and “no one cared.” In Xuyi, the County Party Secretary had control – if a bureau missed its target, then that bureau chief was demoted, no questions asked. “In Jiangsu they see growth as more important. This is particularly clear in hitting investment promotion targets. I and others have targets, but

327 Former Xuyi County Party Secretary Wang describes his former emphasis on investment attraction, taking credit for 19 township Party Secretaries and 41 department heads personally going on investment attraction trips for over one month each between November 2002 and June 2003, altogether attracting over 62 projects worth 5 million RMB or more, and signing 1.25 billion RMB in contracts (Y. Wang 2005). Whiting (2004) looks at county promotions of township officials in the Shanghai suburbs and identifies a focus on positive (remuneration) incentives based on highly quantitative performance evaluations, with the greatest focus on industrial output and profits: bonuses for industrial output and profits accounted for 85 percent of a leader’s income.
it doesn’t matter if we don’t hit them” (Interview AH178). Another Anhui county official complained that in Jiangsu counties, the Party Secretary will randomly call land lines to make sure that subordinates are dutifully at work, whereas in his county, “it’s expected that people won’t go to work!” (Interview AH247). This Anhui county highlights a common cadre problem that Deng highlighted in the 1980s (and was still highlighted in the 18th Party Congress Third Plenum Communique in Fall 2013): “cadres can’t fall, they can only rise.” Such an incentive structure fails to prevent shirking and misbehavior.

Not all informal control mechanisms stem from control through the target responsibility system. Under Wang Tianqi, Suining did its best to establish a “government of integrity” (chengxin de zhengfu 诚信的政府) and improve the government’s “workstyle” (gongzuozuofeng 工作作风) to make Suining a good place to invest. In 2008, Wang initiated the “changes to two styles” (liangfengzhuanbian 两风转变): cadre style (guanfeng 官风) and people’s style (minfeng 民风). The key for “official style” is integrity (chengxin 诚信), steadfastness (tashi 踏实), and service-mindedness (fuwuxing 服务性). Accompanying this highly abstract rhetoric, Wang was known for directly punishing cadres for misbehavior. Most famously, he strictly implemented the

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328 Chinese leaders have apparently read too much Ovid: “A ruler should be slow to punish and swift to reward.” Burns and Wang (2010) speculate that “peer evaluations” (minzhipingyi 民主评议) have undermined the use of punishments to control subordinate behavior: “Because supervisors must go through peer evaluation in preparation for promotion, their subordinates become stakeholders. As a result, supervisors avoided using punishments for fear that their subordinates would renege during the peer evaluation.” But punishments in Jiangsu seem serious, albeit based more on fines and loss of face rather than strict demotions.
“alcohol-free lunch” (zhongwu jinjiu 中午禁酒) rule in 2008. Many local cadres thought this policy was just a rhetorical flair, but Wang proved them otherwise. In one extreme case, a township Party Secretary went to Anhui for lunch to discuss an investment project and had a beer. When this was found out, he was fired, even though he had been in Anhui and following their customs (Interview JS290).

The control mechanisms described here have strong pro-growth implications along the lines discussed in the previous chapter: they help to prevent corruption and excessive fee collection while at the same time incentivizing lower-level cadres to behave in ways dictated by the county leadership. Given that county leadership frequently emphasizes growth, this results in more efforts to attract investment.329

5.3.4 Courage: Act first, discuss later (不论先于)

Innovative ideas and approaches to institutional management and reform require courage and a willingness to act. Many of the most prominent local reforms in China have had negative consequences for important interest groups and segments of the population, particularly in the short-term: restructuring firms challenges vested interests,

329 In discussing control over local society, it is also important to confront the literature on charismatic leadership and leading by example. Gardner (1965, 12): “Leaders have a significant role in creating the state of mind that is the society…they can conceive and articulate goals that lift people out of their petty preoccupations, carry them above the conflicts that tear a society apart, and unite them in the pursuit of objectives worthy of their best efforts.” When Chinese local leaders make the news, more often than not it is as a result of corruption and immoral leadership, not exemplary moral behavior or a Confucian/Platonic ideal of demonstrating the right to lead through virtue. Yet this dissertation attempts to overlook the natural cynicism surrounding local leaders. Despite upward accountability, it is clear that successful leaders are often those who can gain societal support for innovative or disruptive policy shifts. This often has as much to do with courage as control: for instance, in the Qiu He case, there were initially lots of petitions but then society came on board. Wang Youfu in Xuyi had a similar experience.
urban development requires demolitions, and cadre institutional reform opens government up to criticism and attack. While there are signs of increasing central support for local institutional innovations, this support likely only extends to post facto successful innovations. But in China’s competitive and rapidly changing environment, passivity loses out to proactivity. Lam (1999) finds that courage predicted the entrepreneurialism of County Party Secretaries in Nanhai and Panyu and thus largely determined their divergent economic outcomes: “The importance of leadership in the early years of the reform era can hardly be exaggerated, because what was required when uncertainties abound was the courage to take political risks by stepping into uncharted territories. The county party secretary was therefore in a crucial position to determine the locality’s approach to reform and development.” Saich and Yang (2003, 205) concur: “Leadership is also important in promoting or resisting change. In many localities, an insightful and strong-willed individual leader can play a crucial role in initiating and implementing reform.” As discussed above, Qiu He’s controversial innovations and control mechanisms brought him national attention: this attention had the potential to backfire.

330 In 2002, the 16th National Congress of the CCP articulated “innovation” as a value and promoted the concept to an ideological level, concluding that “innovation is the soul that enables a nation to make progress, the inexhaustible power for a nation to be prosperous, and the source for a party to sustain its vitality.” According to X. Yang (2013) since the 16th National Congress, “governance innovation has been received favorably by governments at different levels, as well as by all sectors in society.” Additionally, the 11th Five Year Plan set governance innovation as a reform goal. Premier Wen Jiabao said in 2006: “The main task in the reform of the administrative system is to promote self-enhancement of the government and governance innovation. This is also the main content of reform of the economic as well as the political system.”

331 This issue of proactivity versus passivity resurfaces in Chapter Six when attempting to explain regional and provincial variance in promotion incentives.

332 In the early 1980s, Nanhai had a much more entrepreneurial leader; this was reflected in an order of magnitude greater rural loans and much more rapid rural industrialization than Panyu.
Jiangsu has produced many courageous leaders who pursue economic growth and development without regard for local opinion. Wang Youfu served as County Party Secretary in Xuyi from December 2000 through June 2006, a period that can be seen as Xuyi’s “Golden Era” economically. Wang was known for his boldness and direct style, with his trademark phrase being “bulun xiangan” (不论先干), or “act first without discussion.” Following his tenure, he even penned a book with this title, describing his leadership style. Naturally, this style created enemies and detractors as well as supporters. Wang introduced the phrase as a current manifestation of Deng’s “crossing the river by feeling for stones,” arguing that the key to development is acting: “When confronting a changing situation and changing development needs, you can’t blindly rack your brains (ming si ku xiang 冥思苦想) from the initial vantage point... or waste lots of time deciding what to do. Instead, you need a ‘keen sense of smell’ (lingmin de xiujue 灵敏的嗅觉) to act quickly and seize opportunities... this starts right now with me (cong wo zuoqi, cong xianzai zuoqi 从我做起，从现在做起)” (Y. Wang 2005). A key example of Wang’s courageous approach came when the Crawfish Festival was challenged in the early 2000s as an excessive waste. The controversy was aired on national television on July 28, 2004, on the popular show Focal Point (jiaodian fangtan 焦点访谈), with the title “Who Pays the Crawfish Festival Bill?” (shei wei longxiajie maidan 谁为龙虾节买单), and Wang was seen as losing crucial provincial support (Weng 2006). But even though the festival had not been Wang’s idea, he committed to preserving and expanding it, and refused to back down (Y. Wang 2005; Interview JS284). The consequent reputational and economic benefit of the festival was discussed above.
More generally, many economic decisions require courage, which actually serves to reduce the appeal of holding economic office. According to former Suining County Party Secretary Jiang Guoxing, “There’s a saying in Suining official circles: past generations committed sins, this generation manages industry. Every cadre wants to be politics and law or discipline inspection leader because they like managing people (guanren 管人) and have no interest in managing industry: with industry if you fail you’re criticized, and if you get too close to enterprises you’re implicated and questioned. This is a problem of official culture” (F. Wang 2006). Courage in the county economic environment of the past decade manifests largely in reforms that challenge local vested interests and force institutional change, but in the 1990s and early 2000s decisions on economic restructuring were put in the hands of local leaders. Privatization has occurred at varying speeds and times across provinces, and provincial aggregates mask significant variation in sub-provincial privatization reforms – these reforms depended on local conditions and leader decisions. Xuyi’s Wang discusses some of these tough decisions (Y. Wang 2005, 87): Xuyi in the second half of 2001 forced the closure of over 100 quarries and attapulgite factories, resulting in an immediate loss of over 10 million RMB, nearly five percent of total revenue (220 million RMB). This decision later proved successful: after consolidation and reopening, the mining and attapulgite industries

333 Ho, Bowles, and Dong (2003) study TVE privatizations in three counties in Shandong and Jiangsu, finding that “within each province the timing and mechanisms of reform varied across localities, as reflected in our three case studies. Wujin county in Jiangsu started its reforms in 1993 while reform started in 1996 in Penglai county in Shandong and in 1997 in Yanzhou county, Shandong.” They acknowledge that “the homogeneity of the privatization process within, and even across, the three counties indicates that central policies handed down from above were important in shaping, and forcing, the privatisation process,” but highlight the different reform outcomes and speeds based on local decisions and conditions (a key concern of local cadres was that collective enterprises were being asset stripped).
became much more profitable. Compare these restructuring decisions with the corrupt approaches of Zhang Songjian (Mingguang) and Xu Shexin (Wuhe) described in the previous chapter.

The pro-growth aspects of local leader courage may have negative social consequences, as is apparent when looking at urban development and related land expropriations and housing demolitions. As discussed in more depth in Chapter Seven, land expropriation is one of the greatest local threats to social stability, yet urban development requires land expropriation as well as housing demolition. Individual leaders have had transformative impacts (for better or worse) on local urban development. Jiang Guoxing in Suining came into office with a new requirement: “Urban areas are windows into a region, embodying a place’s external image and the local investment environment. Suining has to rapidly build a premium city (jingpin chengshi 精品城市) in order to boldly make the leap from a county-level small city to a medium-sized city” (H. He 2006). During Jiang’s time in office, Suining was transformed, with no small degree of discontent due to expropriations and demolitions; the new urban development made the investment efforts of Jiang’s successor, Wang Tianqi, much more effective (Interview JS115). In Xuyi, County Party Secretary Cai Duncheng was widely perceived as having a good sense of urban development and little constraint on his willingness to tear down old neighborhoods and develop new farmland.

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334 It also takes courage to reject certain investments. In Xuyi in the first half of 2002, a chemical industry project worth over 80 million RMB applied to invest, but was rejected because it was a polluting company. In the second half of 2002, a leather project worth over 100 million RMB was also rejected. Despite the negative impact to short-term industrialization and revenue, these decisions helped achieve tourism development goals and longer-term industrialization goals (Y. Wang 2005, 113).
In contrast, the current Party Secretary is recognized as having a good industrial sense but much less courage and more restraint when it comes to urban development (Interview JS133; Interview JS145). In Si County in Anhui, Jiangsu officials who accompanied me were openly distraught by the state of downtown, with crowded streets and small old buildings: “Where are all the tall buildings?” In the east of the city, the streets widen and new government buildings spring up everywhere, but this new government district is far from downtown, and the undeveloped downtown is perceived by locals (probably not the ones whose houses would be demolished) as a sign of the lack of courage of local leaders.

This Anhui lack of courage is acknowledged by scholars of Anhui’s county development. In Bengbu, at Anhui Caijing University’s County-level Economics Research Center (县域经济研究所), several scholars emphasized that the lack of courage in local leaders is debilitating, and that Anhui has tended to produce more corruption, with the two connected. In discussing the “law of avoidance” with a local official in Anhui, he noted that most cadres would rather keep a low profile: “Outside cadres who come to [XX] County don’t dare be corrupt; but they also don’t dare to do anything” (Interview AH164).

5.4 Conclusions

Throughout the administrative hierarchy, first party secretaries are given extreme power. This power translates into an ability to affect local economic outcomes. Although the high degree of local control and influence held by County Party Secretaries can be seen as problematic, making localities operate as difficult-to-control “independent
“kingdoms,” the flip side of the coin is that hierarchical control of localities is actually enabled by this single node of control: if superiors can ensure compliance of County Party Secretaries, then they can largely ensure compliance of counties. In the words of the former national head of the Organization Department, “The ‘yibashou’ power is too great...if you correctly select and manage the ‘yibashou’ this alone will solve most problems (Zhao and Zheng 2006).335

County Party Secretaries vary widely in their personal characteristics and pro-growth orientation. Some are more inclined and more capable, producing better growth paths. But what determines the capability and developmental approach and commitment of County Party Secretaries? Why do the cadres in the Jiangsu case counties appear to outmatch their Anhui counterparts across all four pro-growth personal characteristics? How much do leader agency and initiative matter, and how much are leaders dependent on patronage for economic outcomes? The relationship between creativity, control, and courage is clear, and all involve local leadership initiative: bold leaders are more likely to attempt innovative policies and more likely to attempt to control their subordinates; creative leaders can develop ideas to ensure better control; leaders with control are more likely to successfully implement their ideas. Connections do not fit as neatly into this overlapping framework, and it is thus important to distinguish between connections and the other three Cs. The next chapter looks at the promotion incentives given to county leaders, and also argues that growth is based more on personal initiative than connections.

335 The former head says that when he took office in 1993, the goal was to successfully manage two “30s”: 30 provincial party secretaries and 30 provincial governors. The same logic applies to the county level.
6 PATHS TO PROMOTION: ECONOMIC GROWTH AND

MERITOCRACY

“[In China] competent leaders are selected based on merit and popular support through a vigorous process of screening, opinion surveys, internal evaluations and various small-scale elections. The Communist Party of China may arguably be one of the world’s most meritocratic institutions...China’s dramatic rise over the past three decades is inseparable from this meritocratic system.” – Weiwei Zhang (2012)

Wang Tianqi served as Suining County Party Secretary for four years from 2008-2011.336 Of all the County Party Secretaries serving in the six case counties since 1994, Wang achieved the best economic outcomes, with the county growing nearly 12 percentage points above the provincial average over the four years of his tenure. Wang also significantly deepened cadre reforms initiated under his predecessor Jiang Guoxing, as described in the previous chapter. He garnered a reputation for not only attracting industry and initiating rapid urban development, but also for controlling local cadres with a tight leash (the tautness of this leash was not always appreciated by interviewees). Wang was extremely career-minded, and his institutional innovation and economic success did not leave him fully satisfied, so to further his potential for promotion, Wang hired a local fengshui master to provide a suggestion as to how to boost both local growth and his own promotion prospects. The county government had already built a dragon-shaped walkway overpass in front of the county government headquarters, and the

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336 This paragraph is based on Interview JS230 and Interview JS115.
fengshui master said that this dragon needed a mountain. So, for an estimated 10 million RMB, Wang built a rock garden “mountain” directly behind the county government headquarters. Whether it was the economic success of the fengshui compliance or his successful institutional reforms and economic outcomes, in December 2011 Wang was sent to Suzhou City to serve on the Party Committee and head the Discipline Inspection Committee, and in May 2013 he became Mayor of Suqian City.

There is much to learn from this simple story about the opaque and mysterious workings of County Party Secretary promotion decisions. Despite common perceptions that economic success somehow “matters,” conflicting perceptions about the importance of patron ties and luck abound. Describing the conditions for promotion, one official referred to a six character idiom meaning “being in the right place at the right time with the right people” (tianshi dili renhe 天时地利人和). The phrase was initially used by Mencius (孟子) and Sun Tzu (孙子) to indicate the prime conditions to go to war, but this official’s interpretation was that to get promoted you need to be in the right place at the right time and know the right people; ability and achievements can position you well, but you also need a little bit of luck and personal connections (Interview JS254). 337

This chapter argues that personnel management systems effectively transmit upper-level priorities. Having shown in Chapter Five that County Party Secretaries systematically influence local growth outcomes, this chapter shows that County Party Secretaries are promoted based on local performance, although the criteria on which

337 This is the same conclusion that Lampton (1986) finds in his study of six elite “paths to power” in an earlier generation.
promotions are based differ between Jiangsu and Anhui and between counties in coastal and central provinces in general. Additionally, analysis below demonstrates that leadership initiative is more important for determining local economic outcomes than patron ties, which implies that the personnel management system is itself partially responsible for growth outcomes.\(^{338}\) In the case of Jiangsu, where officials are promoted based on growth outcomes, this implies the existence of a “tournament promotion hypothesis” by which political incentives to promote economic growth help explain overall high growth levels. In other words, in Jiangsu, promotion incentives help produce growth, an effect that fails to be felt in slow-growing Anhui.\(^{339}\)

6.1 **Institutional development of personnel management and evaluations**

In a democratic system, downward accountability to the people defines how politicians act (which makes sense, as “politics” comes from the Greek *politikos*, “of, for, or relating to citizens”); the challenge in authoritarian regimes is to shape local political behavior with recourse only to mechanisms of upward accountability. In a system that maximizes the horizontal (*kuai*) power of local Party Secretaries, control of these highly empowered local leaders by distant upper-level superiors becomes exceedingly

\(^{338}\) If leaders had a systematic influence, but growth resulted only from political connections (for instance in the form of greater fiscal transfers and/or preferential policies), then it is unclear whether aggregate provincial growth would be affected. For instance, there may be a fixed amount of total investment to distribute, so connection-based growth would imply redistribution rather than incremental growth. But local leaders have a systematic influence on local economic outcomes, so the perceived growth that higher levels base promotions on is not exogenous to leader ability and effort; a promotion regime that emphasizes growth thus has an impact on local conditions.

\(^{339}\) In the most recent years, Anhui has begun to grow quite rapidly, although this growth has been concentrated in Hefei and surrounding counties – most counties in the province, including the case counties, continue to grow quite slowly.
problematic. With problems of information transmission, micromanagement of cadres above the county level is impossible (e.g., in the ways described at the sub-county level in the last chapter), so the methods and criteria for selection of these leaders determines the incentives and constraints that shape their behavior. This is a classic principal-agent problem that authoritarian regimes, China not excluded, have long struggled with. The basis of control and monitoring by upper-level principals shape the behavior of local agents, and depending on the goals such a system hopes to achieve, basing promotion decisions on patron-client ties or cadre achievement/ability may both be rational, with the former system capable of achieving political loyalty and the latter system more capable of mobilization towards specific goals.

With the world’s largest political party and largest government bureaucracy set in an authoritarian polity, China faces particular difficulties in designing and implementing a rational personnel management system. China’s cadre management system rationalizes and formalizes a massive hierarchical organization, setting out criteria for advancement for millions of Party and government positions. The system enables Party control on the basis of one-level-down management throughout administrative ranks, establishing multi-level upward accountability that enables the Party to maintain control over both the Party and state hierarchies. Such management of cadres helps to solve the principal-agent problems inherent in a hierarchical system built around delegation. Indeed, the “Party management of cadres” (dangguan ganbu 党管干部) is a fundamental principle of the CCP. According to a former head of the national-level Organizational Department, Zhang Quanjing, “If the Party did not manage cadres, how would the Party stay in
charge? ... Giving up control would be tantamount to giving up leadership” (Zhao and Zheng 2006).

The evolution of cadre management in China highlights a system that has become increasingly institutionalized. This institutionalization has been most notable not in the methods of control, but in the methods of monitoring and evaluation. A formal cadre evaluation system was established as early as 1979, but the original system remained highly informal, dependent on broad guidelines set by the central government.340 Since the mid-1980s the personnel management system has become much more institutionalized, particularly following a reform towards one-level down appointments that decentralized hierarchical control in 1983-1984. These reforms reduced the number of cadres directly appointed by the Center by upwards of 6000 people, and, consequently, the Center has attempted to regulate the promotion decisions that it no longer directly controls through formal rules and monitoring of officials’ performance (Y. Huang 1995, 828). Beginning in 1986, the Organization Department required that at year-end bureau-level and above officials must be given a performance summary (gongzuo zongjie 工作总结) and an opinion poll must be conducted.341 In 1988 this was extended to sub-bureau local levels.342 A 1995 Organization Department “Notice” provided details on performance evaluation implementation in local areas, defining a framework with

340 See the Department of Organization’s 1979 “Circular on suggestions on implementing a system of cadre evaluation” (关于实行干部考核制度的意见的通知) in 1979.
341 See the Department of Organization’s 1986 “Circular on strengthening bureau-level cadre management at central Party and state institutions” (关于加强中共国家机关司局级干部管理工作的通知).
342 Organization Department document No 7, issued in 1988, set annual guidelines for evaluation of Party Secretaries and government executives at the county level, emphasizing that evaluations should serve as a basis for rewards, penalties, promotions, and demotions (Department of Organization 1989).
specific targets (and sub-targets), indicators, and measurement methods. The “Regulation on Selection and Appointment of Party and Government Leading Cadres,” first issued by the Central Committee in 1995 for trials and then updated and released in July 2002, was an attempt to “regularize party involvement in elite management, including procedures with regard to appointment, transfer and demotion of cadres at county level and above” (Bo 2004). The Regulation included a four-step guideline for nominations (recommendation, screening, deliberation, and decision), outlined expected qualifications (at least five years’ work experience, with two at the grass roots, at least two years at deputy positions; three years as chief before promotion to deputy at next level; at least a technical education; three months of training at party schools; healthy), and attempted to establish a system of avoidance. As late as January 2014, new regulations for local promotions and evaluations were still being introduced at the national level.

All cadres and units are now evaluated, and many studies have analyzed in depth the quantitative contents that comprise these evaluations. National guidelines lay out broad general criteria. The 1988 Organization Document No. 7 set a format for

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344 This included a rule that if a county secretary is elected in his home county, he must be transferred elsewhere after his first term. In June 1999, the Organization Department released a document concerning “The Regulation of Cadre Exchange,” which argued that: “1. County and municipal top leaders should not be selected from the same region; 2. Someone who heads a county or city for more than 10 years should be transferred to another area” (C. Li 2004). Nationwide, the rotation/exchange system involved 96 percent of County Party Secretaries and 97 percent of County Magistrates from 1995 to 2001 (Zhang and Shan 2001).

quantitative evaluation with reliance on “social, economic, and cultural” targets; economic targets focused on industrial, fiscal, and agricultural conditions (Whiting 2004). Similarly, the 1995 Organization Department “Notice” highlighted “Party building, social development and spiritual civilization construction, and economic development” (Chan and Gao 2008). More recently, the 2006 “Scientific Outlook on Development’s Pilot Methods for the Comprehensive Evaluation of Local Party and State Leading Groups and Cadres” lists additional statistical data to evaluate cadre performance, including local per capita GDP and GDP growth, fiscal revenue (and growth), urban and rural incomes, resource consumption, production safety, education outcomes, urban employment, social security, urban and rural “cultural life,” family planning outcomes, arable land conservation, environmental protection, and science and technology innovation (Li, Ahluwalia and Qiang 2013). In all of these documents, regional variation is allowed and indeed expected in determining specific targets, making the generalizability of individual cases of promotion criteria questionable. For instance, the 1995 Organization Department “Notice” “builds in a degree of flexibility that allows localities to make some variations in the national guidelines to fit concrete local situations. Localities can assign weights and scores for each item and can establish a growth index for each indicator that again fits with the local context” (Chan and Gao 2008).

A system based on yardstick competition leads to high levels of competition as well as assumptions that evaluations help drive local behavior. Year-end evaluations explicitly note whether counties have hit their assigned targets and how they rank related
to other counties.\textsuperscript{346} Specific offices are dedicated to assuring that targets are hit, with a director assigned to “take care of rankings” (fuze paiming 负责排名), and hitting targets becomes very stressful. As one county Investment Promotion Bureau Chief notes, at the end of the year he can’t sleep from his stress-related headache: “I stay up late every night wondering how I can get investors to locate here” (Y. Han 2011). However, there are reasons to expect that the sheer number of targets in different fields makes promotions based on uniform comparable criteria nearly impossible. According to one County Party Secretary (Lu Qi 鲁琦): “It’s impossible not to evaluate. But it’s extremely difficult to evaluate scientifically. The provincial and prefectural evaluations of us are too rigid (yidaoqie 一刀切)” (Y. Han 2011). Several studies have highlighted the problems of contradictory goals.\textsuperscript{347} Given these difficulties, there is a perception that despite a plethora of targets, some targets are granted more importance in the \textit{de facto} determination of promotions than indicated solely by their evaluation scores: in particular, avoiding veto targets and concentrating on GDP growth. Indeed, GDP emphasis or even GDP “worship” (chongbai 崇拜) is often taken as a given in political economy analysis of China, as discussed in Chapter Two.

However, there is no guarantee that hitting \textit{any} target ensures promotion; informal decision-making may dominate personnel evaluations. Indeed, the last chapter highlighted differing levels of attention to economic targets at the sub-county level as

\textsuperscript{346} According to one Party Secretary, good achievements alone are not enough; the important factor is whether other counties in the prefecture do better: “Regarding evaluations, sometimes the most difficult thing isn’t fulfilling responsibilities, but rather winning a high ranking (zhengqu hao de paiming 争取好的排名)” (Y. Han 2011).

\textsuperscript{347} See discussion in Chapter Two. Also Chan and Gao (2008), Whiting (2000).
well as informal personnel decisions made by the County Party Secretary outside of the formal selection system. Failing to hit targets may result in being overlooked for promotion, but there is still a commonly perceived sense that patron ties form the underlying basis for promotions rather than meritocracy. This school stems from Walder, Pye, and others, emphasizing the political patronage networks required for advancement. Perceptions on the ground are often supportive of this view. For instance, of 1230 officials interviewed in Anhui in 1998, 59 percent thought that demoted officials “lacked patrons above” (and 41 percent thought they did not “entertain or give gifts”) (Anhui Provincial Organization Department 1998). This contradicts another commonly held perception, one of meritocracy, and particularly meritocracy based on local GDP growth: “in China’s Confucian tradition of meritocracy, a state should always strive for what’s called ‘shangshangce,’ or ‘the best of the best’ option by choosing leaders of the highest caliber” (W. Zhang 2012). The “tournament promotion model” (jinsheng jinbiao sai 晋升锦标赛) school believes that the cadre management system is not only meritocratic, but also leads to growth through its emphasis on GDP growth (as well as potentially negative side effects, including environmental degradation and corruption).

348 This debate and the relevant literature were described in depth in Chapter 2 and will not be repeated here.
349 At the local level, Pei (2006) provides additional examples of such cadre perceptions: Two-thirds of officials trained at one municipal party school revealed that their promotion depended solely on the patronage of superiors, while only 5 percent thought their individual efforts could advance their careers; of 1150 officials in Harbin in 1997, 52 percent thought “personal connections determine cadre appointments”; and of 13,821 party members in Sichuan in 1997, 40 percent complained that the system of selected cadres “lacks democracy and popular support.”
350 Indeed, there is intense competition for government employment: in 2013, according to China's State Administration of Civil Service, more than 1.38 million people applied for 20,000 vacancies in central authorities, implying an acceptance rate of less than 1.5 percent (Y. Yang 2013).
Most likely, both meritocracy and patronage have some explanatory power. According to conversations with public administration experts in Jiangsu, three factors influence county leader promotion: county conditions (particularly economic growth); leader personal characteristics; and leader guanxi (Interview JS114; Interview JS279). Each of these factors is necessary, but the relative weights can differ. For instance, a highly successful leader might get promoted without a strong patron tie, while a leader with mediocre outcomes might get promoted if he has a powerful patron. This is similar to perceptions on the ground that patronage and ability both matter. Nor is this a new phenomenon, although emphases may have evolved: in his 1943 “How to Be a Good Leader,” Zhou Enlai wrote that “Both political qualifications and work competence are indispensable criteria for selecting cadres, but political trustworthiness takes precedence” (E. Zhou 1981). The relative importance of these dual promotion tracks determines whether China’s system is meritocratic, promoting qualified cadres up through the ranks, or a corrupt system of political patronage, promoting well-connected (or well-paying) cadres with minimal personal accomplishments. If patronage dominates, central control is weak and irrational/corrupt local behavior becomes more likely. In such a system, cadres would be more likely to benefit themselves at the sake of the public.\(^\text{351}\)

The body of evidence presented here suggests that despite institutionalization, the promotion system remains informal and subject to personal influence. This is especially true in looking specifically at County Party Secretary promotions. Although performance

\(^{351}\) For instance, Burns and Wang (2010) argue that “corruption opportunities have encouraged a perverse incentive alignment that allowed networks of superiors and subordinates to pursue their own private goals at the expense of the public.”
evaluation management has become more rigorous, and scholars have increasingly located specific targets and goals through documentary analysis, the relevance of these documents at the county leadership level is unclear. As with other cadres, County Party Secretaries are evaluated based on the performance of their unit (the county) as well as their personal characteristics. All counties have targets they are meant to hit, and both provinces and prefectures produce annual rankings of counties across a variety of statistics. But the final decision on County Party Secretary promotions comes from the provincial Organization Department (OD), and the criteria these OD use to evaluate cadres are largely a black box. Evaluations provide a basis upon which decisions can be made, but the OD is fully capable of advancing leaders based on other criteria. This suggests utility in analyzing actual promotions and cadre career paths rather than focusing only on documentary evidence. The following section describes career paths of County Party Secretaries in Jiangsu and Anhui, focusing on broad descriptive statistics as well as specific outcomes from the case counties.

6.2 Leadership tenure, career paths, and elite mobility

County Party Secretaries are highly upwardly mobile. China’s current General Secretary, Xi Jinping, served as Deputy County Party Secretary and County Party Secretary of Zhengding County, Hebei Province, from 1982 to 1985, before rising to much higher positions in Fujian Province. Bo (2009) has documented that of 31

352 Concerns of an acute hierarchical pyramid with few promotion options are not apparent at the level of the County Party Secretary. See discussion in Chapter Two; Burns and Wang (2010).
Provincial Party Secretaries serving in March 2007, 12 had served as a county-level leader; of 31 provincial governors, 17 had served as a county-level leader. Of course, China has over 2000 county-level units, so most local cadres cannot expect to become General Secretary. However, although many cadres retire and are transferred, there is an unspoken rule (qian guize 潜规则) in cadre management that if a cadre does not commit a major mistake he cannot be dismissed (Guo 2009). The worst a County Party Secretary can expect is “semi” retirement into a relatively powerless position in local People’s Congresses or People’s Political Consultative Conferences.

Data on County Party Secretaries in Jiangsu and Anhui over 1994-2010 provide a starting point for understanding leader biographies and career paths. These data include 276 county-leader combinations in Jiangsu and 333 in Anhui (note that several leaders serve in multiple counties, a phenomenon that enabled identification of systematic leader effects in Chapter Five). Leaders have similar age profiles in both provinces: in Jiangsu, County Party Secretaries are 44.0 years old on average when they take office; in Anhui they are 45.6 years old; in both provinces, over 80 percent of cadres are hired in their 40s. The age distribution is shown in Figure 6.1 below. Additionally, the “law of avoidance” (i.e., serving outside of one’s hometown) has become more strictly enforced, as institutionalization would suggest; in 1994, 41 percent of Jiangsu County Party Secretaries and 24 percent of Anhui County Party Secretaries led the county in which they were born, but by 2010, this share had dropped to 4 percent in Jiangsu and 0 percent

353 The Provincial Party Secretaries included Wang Lequan, Zhang Dejiang, Qian Yunlu of Heilongjiang, Xi Jinping of Shanghai, Zhao Hongzhu of Zhejiang, Guo Jinlong of Anhui, Meng Jianzhu of Jiangxi, Li Jianguo of Shandong, Shi Zongyuan of Guizhou, Zhang Qingli of Tibet, Chen Jianguo of Ningxia, and Qiang Wei of Qinghai.
in Anhui. Similarly, while there is no law against serving within the prefecture-level administration in which one is born, the share of County Party Secretaries leading counties within prefectures in which they were born has dropped significantly.

Figure 6.1. County Party Secretary age distribution upon office entry

Data on leader tenure length show that institutionalization of the personnel management system has not resulted in formalization of five year terms, as implied in Guo (2009); in Jiangsu, cadres serve on average 3.67 years before transitioning, while in Anhui they serve 3.20. The majority of County Party Secretaries in both provinces leave after two or three years, with an additional one-third leaving after four or five years. On average, 24.6 percent of Jiangsu County Party Secretaries and 29.4 percent of Anhui County Party Secretaries are replaced each year. The distribution of tenure length and
frequency across time is shown in Figure 6.2 below. This is very much in line with local perceptions: “successful” County Party Secretaries try to get promoted to the city or provincial level within a year or two of taking office, because they see their future career options decreasing with each additional year spent at the county level (Interview JS254).  

**Figure 6.2. County Party Secretary tenure length (left) and transition frequency (right)**

![Graph showing tenure length and transition frequency](image)

*Source: Biographical database; author’s calculations.*

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Note that this phenomenon makes it difficult, if not impossible, to identify “political budget cycles” based on expected promotion dates, as Guo (2009) does. These tenure length averages are significantly below the advised five year term.
At the end of their county terms, Party Secretaries can move to another county, the prefecture/city, or the province, with no objective hierarchy among these paths (see Figure 6.3). Most County Party Secretaries move to the city government within the same prefecture administrative area (54 percent in Jiangsu and 58 percent in Anhui). An additional 9 percent in Jiangsu and 6 percent in Anhui transferred to other prefecture governments, while 8 percent in Jiangsu and 11 percent in Anhui transferred to become Party Secretaries of other counties. In both provinces, 7 percent of County Party Secretaries transferred to province-level departments; and 20 percent (Jiangsu) and 15 percent (Anhui) either officially retired or transferred to local People’s Congresses and People’s Political Consultative Conferences, which can be considered either retirement or demotion. In both provinces, only two cadres moved out of officialdom and into business.355

Both provinces exhibit high variation in promotion outcomes. As discussed in more depth below, promotions can take many forms, and differentiating between de facto and de jure transfers/promotions is difficult. Promotion identification is based not only on official rank, but also the specific job; some equally-ranked locations (rich county-level cities) and bureaus (e.g., finance, organization) are “more equal” than others. For instance, while a transfer to another county may seem like a horizontal transfer, it might be a promotion if the leader transfers to a more prosperous county or county-level city.

355 Very few leaders leave the Party-state system, although it is known to happen. For instance, Xia Yisong (夏一松) left Lixin, Anhui, after serving for barely half a year. He was known for uncovering corruption cases and reporting attempted bribers, and apparently organized criminal organizations (heishenhui 黑社会) and corrupt officials threatened him until he resigned from government and entered business (C. Li 2001, Ch. 7). While many are ousted for corruption later in their careers very few are kicked out while still in office; the general pattern is to move to a low-power position while the investigation goes on.
Additionally, while officials in China very rarely leave officialdom, many County Party Secretaries are transferred into relatively powerless positions (usually prefecture-level People’s Congresses and People’s Political Consultative Congresses), and it is not always clear when a “demotion” of this sort is a form of retirement and when it is actually a demotion.\textsuperscript{356} Nevertheless, it is still possible to identify promotions. Based on local interviews, a clear indicator of promotion at the prefecture level (where most cadres go) is selection to the prefecture-level Party Committee, a selection that usually is matched with leadership of an important prefecture-level state or Party body: propaganda, organization, discipline inspection, or finance. These are “major promotions.” Horizontal transfers consist of those cadres who move to other counties or county-level districts and cities. “Minor promotions” consist of other moves to the prefecture level; note that these “minor” promotions are frequently at the same level as the county position and often have less power; they are seen as horizontal transfers and even demotions at times.

\textsuperscript{356} Li and Zhou (2005) note this problem at the provincial level: “Typically, provincial leaders do not retire in the full sense immediately after leaving office unless there are exceptional circumstances, such as poor health. Before retiring officially, they are often assigned, as a transition, to an honorary yet virtually powerless position…Whatever gloss may be put on it, the loss of power is what marks the end of an official’s political career.” Because of the “subtle difference” between retirement and demotion, Li and Zhou group them together, as I do here.
Some County Party Secretaries do very well, progressing beyond prefecture-level Party Committee membership and confirming the high degree of upward mobility. In Jiangsu, 23 County Party Secretaries have become prefecture-level City Mayors or Party Secretaries or bureau heads at the provincial level; in Anhui, 17 have. A handful were even more successful, becoming provincial deputy governors or even governors: Jiang Dingzhi (蒋定之) was Yangzhong county-level city Party Secretary in the mid-1990s before heading the Jiangsu Provincial Organization Department and then serving as Wuxi

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357 All six party secretaries of Kunshan County-Level City (Jiangsu) were part of this elite subset.
Party Secretary, Vice Chairman of the China Banking Regulatory Commission in Beijing, and eventually Hainan governor. Mao Weiming (毛伟明) headed Wujin (Jiangsu) in the early 2000s; after leading the Changzhou Politics and Law Committee, he became Taizhou Mayor, Jiangsu Province Development and Reform Commission head, and then Deputy Governor. Qiu He, discussed at length in the last chapter, became Deputy Governor of Jiangsu. In Anhui, Hua Jianhui (Wuhe) and Ni Fake (倪发科, Nanling) both became Deputy Governors.

6.2.1 Case counties: Who gets promoted?

Promotion rules cannot be determined based on a small sample, but the career paths of the County Party Secretaries from the sample counties are nevertheless of interest. Table 6.1 shows the basic career paths of all County Party Secretaries in the sample. There is a wide range of career trajectories and outcomes, with several cadres becoming prefecture-level Party Secretaries while others were pushed into low-power positions equivalent to early retirement (none were old enough to actually retire, and none left officialdom). Over the course of 1994-2011, each of the counties had either five or six County Party Secretaries, with slightly longer average tenures than the Jiangsu and Anhui samples as a whole: 3.8 years in the three Jiangsu counties and 3.5 years in the three Anhui counties.

Leaders in Xuyi County in Jiangsu have had the most successful career outcomes, with four out of five promoted to the prefecture-level Party Committee (i.e., the “major promotion” noted above). The least successful and most recent County Party Secretary, Cai Duncheng (蔡敦成), was also promoted, but only to Huaian City Vice Mayor. Along
with promotion to the prefecture-level Party Committee, Xin Lizhong (1995-1997) also became the Huaiyin Propaganda Minister, and Wang Youfu (2001-2005) became the Politics and Law Committee Secretary. Zhao Peng (赵鹏), whose innovative economic successes while in office from 1998-2000 were described in the previous chapter, became director of the Yancheng Organization Department before quickly being promoted to Yancheng Mayor and then Yancheng Party Secretary, an extremely successful career path. While Zhao was relatively young upon entering office (43 years old), his background had all been local, having served in the Huaiyin prefecture Organization Department and then as Xuyi Mayor. In other words, he was not a cadre who had been groomed for quick promotion, implying that his successes gained attention. Growth during his time in office was over 9 percent above the provincial county average, an impressive outcome for a northern Jiangsu county that early in the sample (Subei counties tended to improve their growth outcomes in more recent years relative to the south).

In Jiangsu’s Sihong County, just to the north of Xuyi, Party Secretaries have had somewhat less career success. The two County Party Secretaries serving in the mid- to late-1990s, Li Jiye (李继业) and Cai Yushui (蔡玉水), both transferred to powerless semi-retirement positions despite having just turned 50 (the Suqian Prefecture People's Congress and the Suqian Prefecture Government Office, respectively). The three County Party Secretaries in the 2000s have all been promoted, but only Xie Hui (叶辉) had a “major promotion,” becoming Suqian City Propaganda Minister and a Party Committee member. Qin Zhengbao (秦正宝) and Feng Yan (冯岩) became prefecture-level vice mayors. In terms of economic outcomes, none of the Sihong County Party Secretaries
had outstanding or terrible experiences; growth generally hovered around the provincial average.

In Suining, the Party Secretaries serving in the 1990s and early 2000s only transferred to low-power positions in Xuzhou (People’s Congress, Labor Bureau, Agriculture Bureau). These County Party Secretaries reigned at a time of low growth, when Suining was known more for its petition (xinfang 信访) output than its industrial output (see discussion in Chapter Seven). The two more recent Party Secretaries have had much more successful career paths. Jiang Guoxing’s county branding may have been noticed and appreciated: he was helicoptered to the provincial level and became Jiangsu Province Press and Publication Deputy Director. Growth under Jiang was actually lower than the provincial average, although his urban development and reputational initiatives are seen as setting the stage for growth under his successor.\(^{358}\) His successor, Wang Tianqi, was very successful: apparently his fengshui worked, or perhaps it was the reputation Suining gained from his institutional transparency initiatives, or maybe it was the fact that growth under him was over 11 percent above the provincial average – the highest of any leader in the case counties: he was promoted to wealthy Suzhou City to head the Party Committee for Discipline Inspection.

In the Anhui case counties, the criteria for promotion appear different. Of the County Party Secretaries in Mingguang, two were convicted of corruption, cutting their careers short. The most successful, Song Weiping (宋卫平), served from 1996-1998.

\(^{358}\) His promotion to a high level non-kuai leadership position shows that he may have been rewarded without given further economic responsibility.
Growth was slightly above the provincial average, but Song was more known for rooting out the corruption that had become endemic during the Xue Xianzao administration that preceded him. Song had a background designed for the role, having spent the entire 1970s and 1980s working his way up the military hierarchy in the Beijing Military District. Song was promoted to Chuzhou Prefecture Party Committee, Vice Mayor, then Mayor, Anhui Transportation Minister, and Fuyang Prefecture Party Secretary. Song’s successor, Chen Bingbing, was seen as a groomed young cadre. He came in at only 37 years old and had significant economic success, but his subsequent promotion in 2002 was only to Vice Mayor. The corruption and terrible economic outcomes (growth 11 percent under the provincial average) under Zhang Songjian were discussed previously.

Wuhe has been the most successful Anhui sample county in terms of leader career paths. Hua Jianhui (花建慧), the only female Party Secretary in the six county sample, became Deputy Governor of Anhui in 2010, having served as Bengbu Mayor and then Huaibei Prefecture Party Secretary after leaving Wuhe. During her time in office, Hua gained a reputation for wielding an iron fist and turning towards urban development. Looking at economic outcomes, her reforms were successful – the county grew over eight percentage points above the provincial average – but her local economic success was seen as secondary to her strict control over the local bureaucracy (Interview AH135; Interview AH184; Interview AH206). Zhu Yong (朱勇), Hua’s successor from 1999-2001, became Huangshan Prefecture Deputy Party Secretary and then Anhui Province Petitions and Letters Bureau Chief. His transfer to the provincial Petitions office is

359 Much later, in 2012, he became the Anqing Politics and Law Committee Secretary.
highly indicative; growth was below the provincial county average during his time in office, but he gained a reputation for calming things down. However, the two leaders succeeding Hua and Zhu failed to follow in their predecessors’ footsteps; despite opposite economic outcomes (4 percent below and above the provincial average, respectively), both Zhang Guiyi (张桂义) and Xu Shexin (徐社新) were demoted/retired.

Finally, Si County has had no successful Party Secretaries. The two most successful became prefecture-level Vice Mayors (of Suzhou and Bozhou). These were the two Party Secretaries who had the worst relative economic outcomes (averaging 4.8 and 3.9 percent below the provincial county average). The most successful economically, Gao Degang (高德刚), held office in 2000 and 2001, when growth was 6.3 percent above the provincial county average; he was transferred to Suzhou Prefecture Vice Secretary (副秘书长), a major demotion.

The career paths in the two provinces are interesting to compare. In Jiangsu, out of 16 County Party Secretary promotions/demotions, three were demoted/retired, six transferred or had a “minor” promotion, and seven had a major promotion. The Anhui counties were slightly less successful: out of 13 career movements, five County Party Secretaries were demoted/retired, five transferred or had minor promotions, and only three had major promotions. Looking at the three Jiangsu counties, the County Party Secretaries who were seen as initiating successful local reforms or achieving high economic growth were promoted; those with negative outcomes or little impact were transferred to low-power positions. In Anhui, Hua Jianhui follows this pattern, but the other successful cadres had slow growth, and the four other County Party Secretaries who presided over counties with growth more than two percentage points above the provincial
county average did not have successful careers (including three who presided over
growth five percentage points or more higher than the provincial county average, a
considerable achievement). Consider only the most successful career-wise (those who
reached Prefecture Mayor or Party Secretary, or Provincial Minister level): in Jiangsu,
Zhao Peng (Xuyi) and Jiang Guoxing (Suining) were known for innovative reforms, and
Zhao Peng had the most successful growth in the entire sample with the exception of
Suining’s Wang Tianqi (who was also very successful in being promoted to Suzhou
City). In Anhui, Song Weiping (Mingguang), Hua Jianhui (Wuhe), and Zhu Yong
(Wuhe) have the honor. Song Weiping was known for controlling corruption, and Zhu
Yong developed a reputation for handling societal dissatisfaction during a time of high
rural discontent. Hua Jianhui achieved high economic growth, but her local reputation
centers around her iron fist rather than her golden touch.
<table>
<thead>
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<th>Name</th>
<th>Years in office</th>
<th>Age upon entry</th>
<th>Previous position(s)</th>
<th>Subsequent position(s)</th>
<th>Average annual GDP deviation</th>
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6.3 Does economic growth predict promotions?

Despite institutionalization of the personnel management system and analysis of individual specific performance contracts, very little is known about the de facto promotion criteria for county leaders. The brief look at promotions within the case counties highlights economic success as a predictor of promotion in Jiangsu, but not in Anhui. This implies that promotion criteria may differ across provinces, as would be expected given central guidance promoting regional variation in evaluated targets. To explore the relationship between promotions and economic growth, we can use the following equation:

\[
Promoted_{it} = \alpha_{1} \cdot Y_{it} + \delta PC_{it} + \gamma_{i} + \phi_{t} + \epsilon_{it}
\]  

Equation 6.1 controls for a vector of leader personal characteristics \((PC_{it})\), including gender, age, education level, and term length, as well as county and year fixed effects; a positive \(\alpha_{1}\) in a logit regression with promotion as a binary dependent variable indicates that higher economic growth increases the odds for promotion. Several definitions of economic growth and leader promotion can be employed, as can a varying set of controls.

Some additional background on county leadership career paths and identifying promotions is useful. As discussed above, promotions can be difficult to differentiate from horizontal transfers; subjectivity is often required to determine which bureau-
leading position is a promotion and which is a demotion. A way around these coding difficulties is to only code clear promotions; for example, to look only at Party Secretaries who become prefecture-level Party Secretaries or Mayors or the equivalent rank at the provincial level, or to mark as promotions only transfer to prefecture-level Party Committees and equivalent roles at the provincial level. Because of the coding complexity, a simple binary probit regression utilizing broad coding rules makes more sense here, enabling a differentiation between successful and unsuccessful leaders. This differs from many analyses (Guo 2007, Li and Zhou 2005, Su, et al. 2012, Choi 2012) that use multinomial logit/probit regressions, differentiating between promotions, horizontal transfers, retirement, and demotions. Generating broad coding rules at the county level has both advantages and disadvantages as compared to the more rigorous coding at the provincial level. On the one hand, the data clearly mis-code certain promotions; for instance, when a Party Secretary concurrently serves as a prefecture-level Party Committee member and remains on the Party Committee at the end of his county term, this is actually a transfer. On the other hand, highlighting only clear promotions removes a degree of subjectivity.

In the regressions in the following section, promotion is defined in two separate ways, both binary dummy variables. “Promotion Baseline” takes the value one when the Party Secretary is promoted to a position at least equivalent to the prefecture-level Party Committee (in most cases, this position is the Party Committee itself, but in a few cases Party Secretaries are promoted directly to equivalent or higher positions at the provincial level). The second definition, “Promotion All Star,” takes value one only for leaders who move on to positions equivalent or equal to prefecture-level mayor. The relative
frequencies of these promotion types is shown in Table 6.2. While over one-third of leaders are promoted by the baseline definition, fewer than 10 percent become “All Stars.” It is important to note the high similarity in promotion distribution between the two provinces. If potential outcomes differed in frequency, this would imply different roles and potential for the County Party Secretary position, which would complicate comparisons across the counties.

<table>
<thead>
<tr>
<th>Promotion Definition</th>
<th>Anhui</th>
<th>Jiangsu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline Promotion</td>
<td>103/266 (38.7%)</td>
<td>89/246 (36.2%)</td>
</tr>
<tr>
<td>“All Star” Promotion</td>
<td>17/266 (6.4%)</td>
<td>23/246 (9.3%)</td>
</tr>
</tbody>
</table>

Table 6.3 and Table 6.4 present the marginal effects from a probit regression (Equation 6.1) on the Jiangsu and Anhui county samples, using both definitions of promotion. Table 6.3 uses annual observations and annual per capita GDP growth as the key right-hand side variable, including year fixed effects to control for growth trends across time. Alternatively, Table 6.4 instead uses only one observation per promoted/transferred Party Secretary (i.e., excluding those still in office at the end of the sample) and calculates average growth deviations from the provincial average over the leader’s tenure. In the former regressions, by using annual observations the

\[ Y_{DiffPS} = \sum_{t_0}^{t_0+NPS} (Y_{it} - \bar{Y}_t) / NPS, \]

where \( Y_{DiffPS} \) is the average growth deviation for County Party Secretary \( PS \) in county \( i \); \( t_0 \) is the year the CPS takes office; \( NPS \) is the County Party Secretary tenure length, \( \bar{Y}_t \) is GDP growth in year \( t \) in county \( i \), and \( \bar{Y}_t \) is the average growth across counties within the
regressions over-sample leaders with longer tenures. Because the two provinces have different cadre management systems, there is no reason to expect similar coefficients, and separate regressions are run to enable a comparison of provincial results (columns 2, 3, 5, and 6 in both tables). However, in order to evaluate and compare the different growth effects on promotion across the two provinces, columns 1 and 4 in both tables report results for a joint regression that includes an interaction term between a dummy variable for Jiangsu province and the relevant growth metric; this coefficient looks at the different growth effect in the two provinces.

In Jiangsu, across all specifications and controlling for personal characteristics, higher growth predicts higher promotion probability. All promotion coefficients are significant at 1 percent. In Anhui, the coefficients are insignificant and negative, implying a weak effect of lower growth predicting higher promotion probability. The growth effect is significantly different between the two provinces (column 1 and 4). Excluding the personal characteristic controls increases the observations but does not significantly alter the coefficients on growth (results not shown). The marginal effects show a range of magnitudes. In the average growth deviation baseline, one percentage point additional average growth translates into a 2.8 percent greater chance of promotion; in other words, growing 10 percentage points above average would lead to a nearly 30

Note also that these probit regressions exclude county fixed effects. Too many counties perfectly predict the dependent variable (i.e., all County Party Secretaries within a county are either promoted or not promoted), and this perfect collinearity leads to nearly half of the observations being dropped (more for “all star” promotions). As a robustness check, I have confirmed that the magnitude and significance of the key independent variable remains the same when including county fixed effects (the magnitude increases in Jiangsu), but the results are not reported here.
Table 6.3. Growth and promotion probit regression results

<table>
<thead>
<tr>
<th>Promotion type:</th>
<th>Combined</th>
<th>Jiangsu</th>
<th>Anhui</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>Combined</th>
<th>Jiangsu</th>
<th>Anhui</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jiangsu * annual growth (interaction)</td>
<td>0.00860***</td>
<td>(2.65)</td>
<td>0.0042***</td>
<td>(3.07)</td>
<td>0.000207</td>
<td>0.0113***</td>
<td>-0.00114</td>
<td>-0.0000249</td>
<td>0.0061***</td>
<td>-0.00076</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual growth</td>
<td>0.000207</td>
<td>0.0113***</td>
<td>-0.00114</td>
<td>(-0.52)</td>
<td>(-0.03)</td>
<td>(3.77)</td>
<td>(-0.78)</td>
<td>(0.11)</td>
<td>(3.66)</td>
<td>(-0.52)</td>
<td>(-0.03)</td>
<td>(3.77)</td>
</tr>
<tr>
<td>Female (d)</td>
<td>0.353***</td>
<td>0.126</td>
<td>0.120</td>
<td>0.0291</td>
<td>0.199</td>
<td>0.0291</td>
<td>0.199</td>
<td>(3.11)</td>
<td>(0.54)</td>
<td>(1.10)</td>
<td>(0.21)</td>
<td>(1.13)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.00882**</td>
<td>-0.0110*</td>
<td>-0.00598</td>
<td>-0.0120***</td>
<td>-0.0132***</td>
<td>-0.015**</td>
<td>-0.0120***</td>
<td>-0.0132***</td>
<td>-0.015**</td>
<td>(-1.99)</td>
<td>(-1.83)</td>
<td>(-0.88)</td>
</tr>
<tr>
<td>Term length</td>
<td>0.0124</td>
<td>0.0196</td>
<td>0.00469</td>
<td>-0.00408</td>
<td>-0.00403</td>
<td>-0.0061</td>
<td>-0.00408</td>
<td>-0.00403</td>
<td>-0.0061</td>
<td>(1.27)</td>
<td>(1.54)</td>
<td>(0.30)</td>
</tr>
<tr>
<td>Masters (d)</td>
<td>0.123***</td>
<td>0.176***</td>
<td>0.0556</td>
<td>0.0195</td>
<td>0.0314</td>
<td>0.0132</td>
<td>0.0195</td>
<td>0.0314</td>
<td>0.0132</td>
<td>(3.46)</td>
<td>(3.66)</td>
<td>(1.04)</td>
</tr>
<tr>
<td>Jiangsu dummy (d)</td>
<td>-0.133***</td>
<td>(-2.58)</td>
<td>0.00258</td>
<td>(0.11)</td>
<td>1101</td>
<td>586</td>
<td>507</td>
<td>1101</td>
<td>586</td>
<td>368</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Marginal effects are reported; t statistics in parentheses; (d) for discrete change of dummy variable from 0 to 1. Annual growth refers to annual observations of per capita real GDP growth. All regressions include year fixed effects.

* p < 0.10, ** p < 0.05, *** p < 0.01
<table>
<thead>
<tr>
<th>Promotion type:</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>Combined</td>
<td>Jiangsu</td>
<td>Anhui</td>
<td>Combined</td>
<td>Jiangsu</td>
<td>Anhui</td>
</tr>
<tr>
<td>Jiangsu*avg. growth dev. interaction</td>
<td>0.0321***</td>
<td>0.0321***</td>
<td>0.000051</td>
<td>0.0184***</td>
<td>0.000051</td>
<td>0.00125</td>
</tr>
<tr>
<td></td>
<td>(2.97)</td>
<td>(3.25)</td>
<td>(0.00)</td>
<td>(3.40)</td>
<td>(0.00)</td>
<td>(0.77)</td>
</tr>
<tr>
<td>Average growth deviation</td>
<td>0.0000838</td>
<td>0.0321***</td>
<td>0.000051</td>
<td>-0.00205</td>
<td>0.0187***</td>
<td>-0.0015</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(3.25)</td>
<td>(0.00)</td>
<td>(-0.85)</td>
<td>(3.47)</td>
<td>(-0.77)</td>
</tr>
<tr>
<td>Female (d)</td>
<td>0.348**</td>
<td>0.227</td>
<td>0.241</td>
<td>0.294</td>
<td>0.203</td>
<td>0.203</td>
</tr>
<tr>
<td></td>
<td>(2.11)</td>
<td>(0.82)</td>
<td>(1.12)</td>
<td>(0.83)</td>
<td>(0.83)</td>
<td>(0.83)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.0133*</td>
<td>-0.0207*</td>
<td>-0.00550</td>
<td>-0.0211***</td>
<td>-0.0213***</td>
<td>-0.020***</td>
</tr>
<tr>
<td></td>
<td>(-1.65)</td>
<td>(-1.82)</td>
<td>(-0.48)</td>
<td>(-5.15)</td>
<td>(-3.59)</td>
<td>(-3.58)</td>
</tr>
<tr>
<td>Term length</td>
<td>0.0279</td>
<td>0.0415</td>
<td>0.0119</td>
<td>0.0153</td>
<td>0.0172</td>
<td>0.0121</td>
</tr>
<tr>
<td></td>
<td>(1.41)</td>
<td>(1.57)</td>
<td>(0.39)</td>
<td>(1.61)</td>
<td>(1.30)</td>
<td>(0.86)</td>
</tr>
<tr>
<td>Masters (d)</td>
<td>0.126**</td>
<td>0.169**</td>
<td>0.0806</td>
<td>-0.00266</td>
<td>0.00664</td>
<td>-0.0119</td>
</tr>
<tr>
<td></td>
<td>(2.06)</td>
<td>(2.02)</td>
<td>(0.90)</td>
<td>(-0.10)</td>
<td>(0.16)</td>
<td>(-0.36)</td>
</tr>
<tr>
<td>Jiangsu dummy (d)</td>
<td>-0.0348</td>
<td>-0.0348</td>
<td>-0.00550</td>
<td>0.0405</td>
<td>0.0405</td>
<td>0.0405</td>
</tr>
<tr>
<td></td>
<td>(-0.57)</td>
<td>(1.33)</td>
<td>(0.00)</td>
<td>(1.33)</td>
<td>(1.33)</td>
<td>(1.33)</td>
</tr>
<tr>
<td>Observations</td>
<td>318</td>
<td>163</td>
<td>152</td>
<td>318</td>
<td>163</td>
<td>155</td>
</tr>
</tbody>
</table>

Marginal effects are reported; t statistics in parentheses; (d) for discrete change of dummy variable from 0 to 1. Average growth deviation is average annual difference between county GDP growth and average county GDP growth within a province over the tenure of a Party Secretary. * p < 0.10, ** p < 0.05, *** p < 0.01
percent greater chance of promotion, all else equal. In Anhui, personal characteristics also have their predicted sign: older cadres are significantly less likely to be promoted, and educated cadres (those with master’s degrees) are significantly more likely to be promoted. Gender and tenure length have no predicted effect.

Before discussing challenges to this analysis and the different results for Jiangsu and Anhui, it is useful to conduct a broader analysis to generalize beyond Jiangsu and Anhui by using nation-wide County Party Secretary tenure and transition data. Given data limitations, this broader analysis cannot control for biographical data beyond tenure length, and can only code promotions to prefecture-level mayors and Party Secretaries (and not equivalents at the provincial level or any other promotion). To generate a sufficient sample, it is necessary to look at cadres who eventually reach these positions, not necessarily cadres who are immediately promoted, which may overemphasize the importance of their county tenure. In the sample, 185 County Party Secretaries show up as future prefecture leaders.\textsuperscript{362} The regression results shown in Table 6.5 and Table 6.6 are identical to those presented above, but include only the relevant growth measure and tenure length as right hand side variables (as well as year dummies when using annual growth). Five identical probit regressions are run on different samples: a national sample, an eastern province sub-sample, and a central province sub-sample, as well as the Jiangsu and Anhui samples for comparative purposes.\textsuperscript{363} Columns 4 and 5 report the

\textsuperscript{362} Of these, 25 are Prefecture Party Secretaries and 160 are Mayors (although many of the Mayors subsequently become Party Secretaries). Most are not immediate transfers, but the position is high enough and the time period is short enough that any intermediate transfer also had to be a major promotion.

\textsuperscript{363} The national sample excludes provincial-level municipalities and special administrative zones, leaving 22 provinces. Data for Sichuan (1996-2001) and Jiangxi (1996-2001) are also missing. Eastern provinces include Fujian, Guangdong, Jiangsu, Shandong, and Zhejiang. Central provinces include Anhui, Henan, Hubei, Hunan, Jiangxi, and Shanxi. The vast majority of China’s population lives in eastern and central
results for Jiangsu and Anhui, which confirm the findings above: economic growth predicts promotions in Jiangsu, but not in Anhui. Columns 2 and 3 show that the relationship found in Jiangsu and Anhui holds for eastern and central provinces more generally. In eastern provinces, there is a significant positive relationship between growth and promotion, while there is a small and insignificant relationship in central provinces.

<table>
<thead>
<tr>
<th>Table 6.5. National, coastal, and central growth and promotions</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td><strong>Dependent variable = All-Star Promotion</strong></td>
</tr>
<tr>
<td>National</td>
</tr>
<tr>
<td>Per capita GDP growth</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Party Secretary tenure</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Year fixed effects</td>
</tr>
<tr>
<td>Observations</td>
</tr>
<tr>
<td>Marginal effects; t statistics in parentheses</td>
</tr>
<tr>
<td>*** p&lt;0.01, ** p&lt;0.05, * p&lt;0.1</td>
</tr>
</tbody>
</table>

provinces. Counties in these provinces are very similar in size and population, but differences in wealth and growth outcomes are stark. Western provinces, on the other hand, are much larger and less populous, often have large minority populations, and have very diverse natural resource endowments, all of which make comparison both less feasible and less interesting.
The growth and promotion regression results provide strong evidence for disparate cadre management criteria in Jiangsu and Anhui and in coastal and central provinces more broadly. The results for Jiangsu support the tournament promotion hypothesis, but the nonexistent effect in Anhui requires explanation. This is the focus of Chapter Seven, which provides evidence that an alternative cadre management system stressing stability explains the results better than a patronage-based model that disregards performance.

### 6.4 Patronage-based growth versus tournament promotions and meritocracy

An important question of causality arises: are Jiangsu cadres identified for their growth outcomes and therefore promoted, or are they pre-destined for greatness in the
sense that patron ties got them not only the County Party Secretary position but also the
growth they were associated with on the job? Although the predominant patronage
theory sees growth as exogenous to leader effects (e.g., Shih, et al. 2012), another view of
patron ties focuses on the positive economic effects of patronage (Interview JS197). The
analysis above shows that high-growth cadres in Jiangsu are promoted, but if patronage
itself leads to growth, then the underlying relationship is from patronage to promotion.
An additional concern is that “favored” cadres are sent to counties with high growth
potential. The descriptive evidence in the last chapter of County Party Secretary
personal economic roles provided evidence that leadership impact on local economies
can be felt through connections as well as individual initiative. Connections can be
developed and nurtured through skill, but connections to leaders higher up the hierarchy
can rightly be seen as patronage. If leaders promote growth primarily through upper-
level connections, this implies a patronage-based system, but if leaders promote growth
through the other three Cs, this is a meritocratic system. An ability-based meritocratic
system can raise overall growth and efficiency, but a patronage system is more likely to
redistribute potential growth from less favored to more favored localities.

This section shows that patron ties do not wholly determine local growth
outcomes, implying that a tournament promotion hypothesis holds for Jiangsu. Literature
has quantified the effect of state/Party connections on firm outcomes in China, but the

364 However, note that using lagged growth and county fixed effects as controls eliminates the possibility
that they are just sent to counties with high growth over the whole period – the key must be growth
potential. There is limited evidence for this reciprocal interaction between promotion and growth at the
city level. Lin (2007) finds that “leaders promoted faster will be more likely nominated as mayors of richer
cities. Then these cities might be able to keep such economic advantage when they are in office. Moreover,
the economic record within their term will be good reason for further promotion. Thus, the interaction
between political promotion and economic performance constructs more comprehensive causal relations.”
effect of local leadership connections on economic growth has not been systematically explored. Looking at a set of politically “favored” cadres to see whether they produce above-average growth outcomes can help explore this question. Although it is impossible to systematically uncover all patron-client ties and political connections given the informal nature of these ties, three sets of leaders seem to have clear connections. As evidenced by the Wang Daohan connection to Mingguang, geographic overlap with provincial leaders (Provincial Party Secretary and Provincial Governor), indicated by counties in which these leaders were born or worked, may give local leaders provincial guanxi. Additionally, two institutional norms shed light on the treatment of favored cadres: dujin (镀金) and gaopei (高配). Dujin, literally “to gilt,” refers to cadres sent down for quick experience at the grassroots level, which will ostensibly round out, or “gild,” their political careers. There is an explicit assumption made in local interviews as well as various media that young cadres will be “parachuted” into counties for brief dujin experiences before getting elevated to higher positions at the city or province level. These officials are young and only serve for one or two years (more than that and the gilt may become more than skin deep). Gaopei refers to “concurrent promotions,” whereby County Party Secretaries retain their local county leadership position while also joining the prefecture-level Party Committee in the city in which their county sits.

365 For government connections and firm performance, see Nee and Oppen (2006); McNally, Guo, and Hu (2007); Gu, Hung, and Tse (2008).
366 The term originally applied to students who studied abroad to enhance their social status.
367 Youth and promotion potential clearly go together. For instance, Li and Bachman (1989) look at promotion speeds in their study of China’s mayors, combining the city administrative level and mayoral age to identify slow, fast, and very fast cadres.
Ostensibly, leaders on the prefecture-level Party Committee have strong institutional connections at that level, as seen from the Qiu He example in Chapter Five.

For all three sets of politically/institutionally favored leaders, the analyses below find no evidence that connections significantly predict economic growth outcomes. This does not mean that connections do not matter. As the discussion in Chapter Five showed, at times connections can have clear positive effects on economic growth outcomes. Although part of the explanation for a non-existent growth effect may be that these three “favored” sets of cadres are not representative of real connections or patron ties, a more likely explanation is that while connections can matter, they do not always matter; in other words, most leader impact is felt through leader characteristics and initiative rather than through patron ties. This implies that the tournament promotion hypothesis holds in Jiangsu, and means that the lack of economic basis for promotion in Anhui may itself be responsible for lower levels of economic growth.

6.4.1 Workplace and hometown connections to provincial leaders

Connections to provincial leaders, as discussed in Chapter Five, have clear channels for increased investment and growth. But do counties with informal ties to provincial leaders typically perform better? Table 6.7 lists the hometown and work experience of all Anhui and Jiangsu Provincial Party Secretaries and Governors over 1994-2011, highlighting when these leaders had previously lived or worked in counties or
Because of the rule of avoidance and cadre rotation norms, many of the leaders have no prior living or work experience in the province they lead.\textsuperscript{368}

### Table 6.7. Hometown and within-province work experience of provincial leaders

<table>
<thead>
<tr>
<th>Party</th>
<th>Anhui</th>
<th>Jiangsu</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Years in office</td>
<td>Home County (City)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anhui Party</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lu Rongjing</td>
<td>1994 - 1998</td>
<td>Lujiang (Chaohu)</td>
</tr>
<tr>
<td>Hui Liangyu</td>
<td>1999</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Wang Taihua</td>
<td>2000 - 2004</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Guo Jinlong</td>
<td>2005 - 2007</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Wang Jinshan</td>
<td>2008 - 2009</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Zhang Baoshun</td>
<td>2010</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Governor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hui Liangyu</td>
<td>1994 - 1998</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Wang Taihua</td>
<td>1999</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Xu Zhonglin</td>
<td>2000 - 2002</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Wang Jinshan</td>
<td>2003 - 2007</td>
<td>\textit{NA}</td>
</tr>
<tr>
<td>Wang Sanyun</td>
<td>2008 - 2010</td>
<td>\textit{NA}</td>
</tr>
</tbody>
</table>

| Jiangsu Party  |                        |                          |                          |
| Li Yuanbao     | 2000 - 2007            | Lianshui (Huai'an)       | (Nanjing)                |
| Liang Baohua   | 2008 - 2010            | \textit{NA}              | Taicang (Suzhou)         |
| Governor       |                        |                          |                          |
| Zheng Silin    | 1994 - 1998            | Wu (Suzhou)              | \textit{NA}              |
| Ji Yunshi      | 1999 - 2002            | Haimen (Nantong)         | (Lianyungang); (Suzhou)  |
| Liang Baohua   | 2003 - 2007            | \textit{NA}              | Taicang (Suzhou)         |
| Luo Zhijun     | 2008 - 2010            | \textit{NA}              | (Nanjing)                |

Source: Baidu; China Vitae. Note: Counties are listed first; prefecture-level cities are listed in parentheses. \textit{“NA”} indicates leader born outside the province or had no county experience.

\textsuperscript{368} Note that none of the Anhui Party Secretaries are from Anhui.
Using this information on provincial leader backgrounds, we can see whether ties through biographical history predict growth outcomes by regressing GDP growth (or investment growth) on a dummy variable taking the value of one when the concurrent provincial leader has previously spent time in the same county/city, along with a set of control variables:

\[ Y_{it} = \alpha_1 \cdot ProvConnect_{it} + \beta X_{it} + \gamma_i + \varphi_t + \epsilon_{it} \] (6.2)

In the results reported in Table 6.8 below, all regressions include year fixed effects (\( \varphi_t \)) and county fixed effects (\( \gamma_i \)) as well as log GDP per capita and population as control variables (\( X_{it} \)). Results are reported for all potential dummy variables (\( ProvConnect_{it} \)): provincial Governor versus Party Secretary connection, shared county and/or city, and work history versus place of birth. Note that the Jiangsu results are more robust given the much larger sample size (219 county-year observations with a leader from the same county or city, versus only 48 for Anhui). Looking at the results, in none of the specifications does the leader connection predict greater growth or investment; indeed, many of the specifications indicate that growth is slower for these counties.\(^{369}\) Similarly, if we make growth in earmarked fiscal transfers or general fiscal transfers the dependent variable, variables which the provincial leader could directly control, the results still

\(^{369}\) Looking at dummy variables for place of birth or work history separately, the results are the same: insignificant or negative (results not shown).
remain either insignificant or negative (results not shown). In other words, ties to leaders seem to predict slower growth, if anything.\(^{370}\)

<table>
<thead>
<tr>
<th>Table 6.8. Growth effects of connections to provincial leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connection:</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>GDP growth</td>
</tr>
<tr>
<td>PPS/PG,</td>
</tr>
<tr>
<td>County &amp; City</td>
</tr>
<tr>
<td>“1”=267</td>
</tr>
<tr>
<td>PPS, County &amp; City</td>
</tr>
<tr>
<td>City</td>
</tr>
<tr>
<td>“1”=148</td>
</tr>
<tr>
<td>PG, County &amp; City</td>
</tr>
<tr>
<td>City</td>
</tr>
<tr>
<td>“1”=130</td>
</tr>
<tr>
<td>(2.197)</td>
</tr>
<tr>
<td>“1”=22</td>
</tr>
<tr>
<td>PPS, County</td>
</tr>
<tr>
<td>(2.253)</td>
</tr>
<tr>
<td>“1”=8</td>
</tr>
<tr>
<td>PG, County</td>
</tr>
<tr>
<td>(1.382)</td>
</tr>
<tr>
<td>“1”=14</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses. Number of dummy observations reported below standard errors (“1”=). *** p<0.01, ** p<0.05, * p<0.1

Note: All regressions include year and county fixed effects as well as log GDP per capita and population as control variables. PPS=Provincial Party Secretary; PG=Provincial governor; Home County is a dummy for county that is the birthplace of the PPS (PG); Home City is a dummy for all counties in the prefecture in which the concurrent PPS (PG) was born; Work County is a dummy for a county in which the concurrent PPS (PG) had previous work experience; Work City is a dummy for all the counties within a prefecture in which a PPS (PG) had previous work experience.

\(^{370}\) If this is true, it could imply that provincial leaders are worried about appearing to practice favoritism, and therefore take the other route.
This is a small sample, and it is easy to argue that the prefecture/city connections of provincial leaders would not benefit counties within these prefecture-level areas. Looking only at county connections yields too small a sample to give much power to the regression coefficients presented above. But a brief look at the specific “connected” counties supports the conclusions. In Jiangsu, four counties have direct connections to provincial leaders at some point during the sample period, and two had no County Party Secretaries appointed during the relevant time frame. In Lianshui County, the hometown of former Jiangsu Party Secretary Li Yuanchao, only one County Party Secretary was appointed while Li was in office: Li Weiping (李卫平) was appointed in March 2006. Li Weiping had an impressive background – he previously headed the Zhenjiang City Trade bureau (镇江市贸易局局长) and had been an urban district Party Secretary (镇江市润州区委书记) – and indeed he was perceived in the region as a “highly qualified” cadre who Li Yuanchao had sent to the county specifically in order to boost local growth (Interview JS169). To provide extra authority, Li Weiping held a concurrent (gaopei) position on the prefecture-level Party Committee throughout his entire local tenure. In other words, Li had an economic background, he was perceived as qualified, he had institutional connections on the prefecture-level Party Committee, and he was sent to the hometown of the Provincial Party Secretary to turn things around. Yet

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371 In Wu County, the home county of Zheng Silin, no County Party Secretary was appointed during Zheng’s time in office (1994-1998); Yu Funan (于福南) was already in office and stayed in office through 1998. Similarly in Haimen, the hometown of Ji Yunshi, no County Party Secretary was appointed while Ji was in office (1999-2002): Xu Yongbing (徐永兵) was already in office and stayed in office until 2006 (one of the longest serving cadres in the sample). While Xu was in office, Haimen’s GDP growth averaged 0.4 percent below the provincial average.
growth averaged 0.4 percent below the provincial average while Li was in office (worse than two out of three of his predecessors, so the county fixed effect cannot be blamed). The ability he was selected for did not manifest, and connections could not turn the county around. Nor was he was promoted very far, transferring to Zhenjiang City Vice Mayor in May 2012 – perhaps his lack of ability was found out. Similarly, Taicang County, in which Jiangsu Governor and Party Secretary Liang Baohua previously worked, had only one leader appointed during 2003-2010, when Liang served as both Governor and Party Secretary of Jiangsu. Pu Ronggao (浦荣皋) was appointed in March 2006. Under him, growth averaged 1.0 percentage points below the provincial average (worse than both of his predecessors, so again the county fixed effect cannot be blamed), and after five years in office he was promoted to a city vice mayor position in October 2010. These two cases support the quantitative analysis: both Li Weiping and Pu Ronggao should have been expected to boost local outcomes due to their implicit connections to the concurrent Provincial Party Secretary, but neither achieved relative success in either local economic outcomes or personal career outcomes.

6.4.2 Dujin and gaopei

Another way of attempting to quantify the role of connections is to look at “gilded” (dujin) cadres and the increasingly common phenomenon of “concurrent promotions” (gaopei 高配) in which County Party Secretaries serve concurrently as members of the prefecture-level Party Committee. There is not a strict definition for dujin cadres – the phenomenon is more along the lines of “you know it when you see it.” The key is that cadres are young and sent down for short tenures. In the analyses below
dujin cadres are defined as those in the bottom 10th percentile of the age distribution upon taking office (41 years old or younger in the sample) and having tenures of only one or two years. By this definition, 7.1 percent of Jiangsu County Party Secretaries are dujin, as are 8.4 percent of Anhui County Party Secretaries. Public administration and economics academics in Nanjing, Bengbu, and Beijing predominantly saw dujin in a cynical light, as patronage politics at its most blatant (Interview JS197, Interview BJ113, Interview AH293). In this telling, any future successful cadre needs grassroots experience, so they get “sent down” for a year or two early in their careers and simply try to avoid causing trouble. Interestingly, interviews in Anhui and Jiangsu demonstrated divergent conceptions of the role of the dujin process. According to a bureau director in Mingguang, officials are sent to dujin “just so they can say that they’ve had some local experience. These officials don’t care at all about growth. Really they just want to avoid mayhem (luan 乱) so they can transition smoothly to their next post” (Interview AH106). Conversely, in Xuyi, a bureau director believed that a reason for dujin was that “upper levels can really see your individual economic impact” in a situation in which you get to operate with full control (Interview JS281).

Gaopei is a more interesting institutional innovation that requires slightly more explanation. There is a disconnect between County Party Secretary five-year term limits and a reality of three-year median tenures. Leaders seek quick transfers and perceive that staying beyond three years is a sign of being passed over for promotion.\footnote{This perception was widely confirmed during fieldwork. See also: Lian and Wu (2011) and Chu (2012). According to Y. Wang (2005), this phenomenon results in only 1 percent of county cadres filling their official term length.} There are
clear negative consequences inherent in this system: if a County Party Secretary is effective, this effect is unlikely to have much impact in only two years; and if a leader is effective, superiors may want him to stay in office. To combat the negative effects resulting from the juxtaposition of short tenures and career expectations, many provinces have experimented with *gaopei*, whereby a County Party Secretary maintains his position but is concurrently elevated to a higher post, usually on the prefecture-level Party Committee. Over the full 17 year sample, 52 Party Secretaries in Jiangsu served concurrently as prefecture-level Party Committee members or vice mayors out of a total 286 Party Secretaries who served over this period. While *gaopei* has recently been given more attention and its frequency is increasing, it is not a new phenomenon. In 1996, only two Jiangsu County Party Secretaries concurrently served on prefecture-level Party Committees, yet by 2008, 14 County Party Secretaries did (nearly one-quarter of all County Party Secretaries in Jiangsu that year). On average, *gaopei* Party Secretaries served 1.9 years before being concurrently elevated, and 2.7 years after being elevated; however, note that 17 of the 52 *gaopei* leaders entered their Party Secretary terms already holding concurrent higher-level posts.

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373 Here and in the exercises below I define *gaopei* as concurrent posts as county Party Secretary and prefecture-level Party Committee and/or prefecture-level Vice Mayor. This misses leaders who hold other concurrent posts, most importantly prefecture vice mayor. In addition to the county-level leader database, the exercise depends on leader name lists for all prefecture party committees over 1994-2010, compiled from prefecture yearbooks. 

374 In 1994 only one county Party Secretary in Jiangsu concurrently served on prefecture Party Committees, yet by 2008, 17 did (nearly 30 percent of all Party Secretaries). It is worth noting that this does not necessarily reflect a growing power of county interests in prefecture decision making. Party Committees at the prefecture level have grown increasingly large in Jiangsu, from an average of just over four members (plus nearly four deputy party secretaries) in 1996 to over eight members (plus 2-3 deputy party secretaries) in 2010. Overall, including the Party Secretary and deputies, average Party Committee size has grown from under 9 in 1996 to nearly 12 in 2010. This dilution may partly offset the growing county voice.
To analyze *gaopei* effects a distinction should be made between those leaders who are promoted after three or more years in office and those who are promoted upon entry or are promoted after only one or two years. Given that their promotions preceded identifiable local growth outcomes, these latter cadres seem to have personal connections or some other path to promotion that is not contingent upon local performance. Below, the “core” *gaopei* sample corresponds to those leaders elevated after three or more years; the “rapid” sample are those elevated immediately or in one or two years. This “rapid” set of *gaopei* cadres who either enter office already on the prefecture-level Party Committee or who are concurrently promoted within one year of taking office clearly represent a different *gaopei* rationale that is not based on keeping them working locally based on performance outcomes. However, the rationale could be either patronage-based or meritocratic. In other words, these cadres may be seen as highly effective and thus sent to counties with the backing of the prefecture level, but they could also be groomed cadres.

In the case counties, perceptions were split on the actual rationale and effectiveness of *gaopei*: some saw the phenomenon as fulfilling its intended purpose by rewarding cadres who showed potential without making them leave their posts. Unlike *dujin*, others saw the “rapid” *gaopei* as a means of sending capable (and empowered) leaders to initiate change. This was particularly prominent in looking at Sunan (Jiangsu) cadres who were sent north. A comparison of growth under “core” *gaopei* leaders before and after their concurrent promotion allows us to examine whether the stated rationale of

---

375 To understand this, recall the official rationale for *gaopei*: namely, rewarding high-performing county leaders while enabling them to continue working at the local level.
gaopei is evidenced and also potentially to identify an economic “patronage” effect. Ostensibly, leader capacity should not be affected by the concurrent promotion, yet superordinate connections are clearly improved; moreover, the Party Secretary gains a voice in fiscal transfer and public investment decisions from the prefecture level, so if growth after gaopei is significantly higher than pre-gaopei growth, this implies a patronage effect. Below, I first regress growth on a gaopei dummy variable along with a set of controls, demonstrating that growth is higher under leaders who are eventually gaopei promoted. I then compare growth of gaopei cadres pre-gaopei and post-gaopei by comparing changes in average growth deviations from the provincial average:

\[ DiffY_i = \alpha \cdot Gaopei_i + \beta X_i + \gamma_i + \epsilon_i \]  (6.3)

Here, the differenced average growth deviation, \( DiffY_i \), is equal to the difference between successive leaders of the average annual growth rate deviation from the provincial average, or \( \sum_{t=1}^{n} (Y_{ijt} - \bar{Y}_{jt})/n \), where \( n \) is equal to the term length of the leader, \( Y_{ijt} \) is the annual per capita GDP growth rate in county \( i \) in province \( j \), and \( \bar{Y}_{jt} \) is the average county per capita GDP growth rate in province \( j \). For the subset of gaopei leaders, I treat their pre- and post-gaopei selves as two different leaders. Gaopei, takes value one for all gaopei leaders, and the coefficient \( \alpha \) therefore identifies whether transitions to concurrent upper-level posts result in different growth outcomes than general transitions between leaders.

Table 6.9 compares growth before and after concurrent promotion. Similar to the exercises above, the first column analyzes whether “core” gaopei leaders have higher
Table 6.9. "Core" gaopei growth effects in Jiangsu

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
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<tbody>
<tr>
<td></td>
<td>Annual P.C. GDP Growth</td>
<td>Post - Pre Gaopei Provincial Growth Differential</td>
</tr>
<tr>
<td>“Core” gaopei</td>
<td>3.10** (1.17)</td>
<td>1.29 (0.88)</td>
</tr>
<tr>
<td>Population</td>
<td>-0.21 (0.13)</td>
<td>-0.01 (0.01)</td>
</tr>
<tr>
<td>Log P.C. GDP</td>
<td>22.13*** (6.71)</td>
<td>-0.82 (0.70)</td>
</tr>
<tr>
<td>1yr lag DV</td>
<td>-0.13 (0.09)</td>
<td></td>
</tr>
<tr>
<td>2yr lag DV</td>
<td>-0.06 (0.04)</td>
<td></td>
</tr>
<tr>
<td>3yr lag DV</td>
<td>-0.07 (0.05)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-187.4** (71.57)</td>
<td>7.89 (7.07)</td>
</tr>
</tbody>
</table>

County fixed effects: Yes | No
Year fixed effects: Yes | No
Observations: 740 | 251
R-squared: 0.30 | 0.01

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

growth, demonstrating that their growth is above-expected, which supports the idea that gaopei cadres are recognized for their achievements, and also supports the general growth-promotion connection found for Jiangsu above. The results in column 2 look at whether the transition to concurrent promotion results in altered growth trajectories. The coefficient is positive but low in magnitude and insignificant, implying that pre- and post-gaopei leaders tend not to change systematically; the better superordinate guanxi and ability to target funds locally has no identifiable effect on growth. The results imply a
weak or nonexistent relationship between patronage and growth. Core gaopei leaders produce above-average growth, but concurrent promotion itself has no effect on growth; while gaopei officials generally have higher economic growth, they do not have significantly improved economic performances post-gaopei. In other words, gaopei seems to be following its intended rationale – rewarding successful cadres through promotions while allowing them to stay in office and have a continued positive economic effect.

Analysis of growth outcomes and promotion prospects for both “rapid” gaopei and dujin County Party Secretaries can help further distinguish between patronage and meritocracy growth effects. Are dujin and “rapid” gaopei cadres sent to high growth counties, do they achieve better growth results, and do they have better promotion prospects? In the analysis below, I define dujin cadres as those in the bottom 10th percentile of the age distribution upon taking office (41 years old or younger) and having tenures of only one or two years. “Rapid” gaopei County Party Secretaries are those who are already concurrently on the prefecture-level Party Committee when they enter office or rise within one year. To answer the three questions just posed, three equations are necessary, following from the basic approach of Equation 6.1 and Equation 6.2:

\[
P_{\text{Predecessor}}Y_{it} = \alpha_1 \cdot \text{Connection}_{it} + \beta X_{it} + \gamma_i + \varphi_t + \epsilon_{it} \quad (6.4)
\]

\[
Y_{it} = \alpha_1 \cdot \text{Connection}_{it} + \beta X_{it} + \gamma_i + \varphi_t + \epsilon_{it} \quad (6.5)
\]

\[
P_{\text{Promoted}}_{it} = \alpha_1 \cdot \text{Connection}_{it} + \delta PC_{it} + \gamma_i + \varphi_t + \epsilon_{it} \quad (6.6)
\]
Here, $Predecessor_{Y_{it}}$ refers to growth under the previous County Party Secretary;  
$Connection_{it}$ is a dummy variable indicating the leader connection and taking value one for dujin or “rapid” gaopei cadres, depending on the regression. All other variables are defined as before.

Table 6.10 below shows results from these six regressions (three equations for both dujin and “rapid” gaopei cadres), including year and county fixed effects as well as population and log per capita GDP controls. The regression results imply that in both Jiangsu and Anhui, dujin County Party Secretaries are significantly more likely to become “all star” cadres, although the effect is stronger in Jiangsu (columns 5 and 6). However, these dujin cadres do not have strong growth effects in either province (columns 3 and 4), and they do not get sent to counties with significantly different recent growth patterns (columns 1 and 2). In contrast, the “rapid” gaopei County Party Secretaries have significant growth relationships in Jiangsu: they are sent to counties that have experienced significantly worse growth in recent years (column 1), and during their tenures growth is significantly higher (column 3); they are then significantly more likely to have highly successful career paths (column 5). In Anhui, these “rapid” gaopei cadres are undistinguished: sent to average counties, achieving average growth, and not having significantly higher promotion prospects.
Table 6.10. Dujin and gaopei growth and promotion outcomes

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
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<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
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<tbody>
<tr>
<td></td>
<td>GDP growth under predecessor</td>
<td>GDP Growth</td>
<td>“All-star” promotion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jiangsu</td>
<td>Anhui</td>
<td>Jiangsu</td>
<td>Anhui</td>
<td>Jiangsu</td>
<td>Anhui</td>
</tr>
<tr>
<td>Dujin</td>
<td>1.426</td>
<td>-2.494</td>
<td>0.560</td>
<td>0.655</td>
<td>1.866***</td>
<td>0.958**</td>
</tr>
<tr>
<td></td>
<td>(1.496)</td>
<td>(1.899)</td>
<td>(1.258)</td>
<td>(1.770)</td>
<td>(0.486)</td>
<td>(0.481)</td>
</tr>
<tr>
<td>“Rapid” gaopei</td>
<td>-4.188***</td>
<td>0.260</td>
<td>4.178**</td>
<td>0.258</td>
<td>1.550***</td>
<td>0.0828</td>
</tr>
<tr>
<td></td>
<td>(1.379)</td>
<td>(1.418)</td>
<td>(1.598)</td>
<td>(1.310)</td>
<td>(0.376)</td>
<td>(1.068)</td>
</tr>
</tbody>
</table>

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Note: Growth regressions in columns 1, 2, 3, 4 are all fixed effects regressions including county and year fixed effects as well as per capita GDP and population controls, and robust standard errors. The promotion regressions in columns 5 and 6 use a logit model. Dujin CPS are those who serve for only 1 or 2 year terms and enter office at age 41 or lower (10th percentile). “Rapid” gaopei CPS are those who are already concurrently on the prefecture-level Party Committee when they enter office or rise within one year. “All star” promotion is defined as above in the text.

The dujin results suggest that certain young cadres are groomed for success, with their “sent down” experience much in line with local perceptions: they need local experience for their resumé for a few years, but the local outcomes are irrelevant. The Jiangsu interview perspective of an “economic ability testing ground” may have been too optimistic – the key may simply be not screwing up. These results argue against the patronage-to-growth hypothesis. There is a consensus that dujin cadres are favored, and the evidence on their future growth potential is clear. If growth stemmed from patron assistance, we would expect these cadres to have very high growth outcomes.

The rapid gaopei results tell a different story, one that highlights the Jiangsu provincial emphasis on economic growth. A subset of cadres is selected (either for
perceived ability or because of patron ties) and sent to poorly performing areas (e.g. Sunan cadres sent to Subei), where either due to their (correctly perceived) ability, or because of their connections, they boost local outcomes and are then rewarded with promotions. No doubt the “rapid” gaopei cadres have good connections that help growth, but as discussed in the previous chapter, these connections are not necessarily patron ties. Indeed, the key for many Sunan cadres who are sent north is having connections to specific industrial firms. In this telling, highly capable, well-connected cadres are sent to poor-performing areas with additional institutional strength behind them through their prefecture-level representation. This connection may give them more resources as well as more courage and local control. They achieve positive economic results and then move on to bigger and better positions. This is a strong argument supporting a provincial system of cadre management that emphasizes economic growth outcomes. Regardless of which interpretation is accepted – connections allow high growth for “rapid” gaopei or “rapid” gaopei are initially selected for high ability – the difference between Jiangsu and Anhui is interesting. If connections allow high growth, then we must assume that connections in Anhui focus on non-growth outcomes.

Combined with the empirically non-existent connection between provincial leader ties and growth, this section implies that while connections can have a positive impact on local outcomes, they do not systematically explain enhanced growth outcomes: the

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376 One possibility is that groomed leaders are sent to poor-performing counties to boost their growth. There’s also the possibility that leaders know when counties will suffer economically and send in qualified leaders to handle these periods, which would be seen as unobservable shocks to the county fixed effect that the regression would not identify.

377 With the dujin results in mind, the selection-on-ability hypothesis might make more sense.
relationship between leaders and growth has stronger roots in local initiative than in patron-based assistance. The results also imply that China, or at least Jiangsu, may have a dual-track system for promotions: a select elite are promoted regardless of performance, perhaps based on their patron ties, while the majority of less connected cadres appear to be promoted based on performance. We cannot ignore the role of patronage for elite promotions, but performance-based promotions appear to be the norm.

6.5 Conclusion

This chapter has provided evidence that County Party Secretaries in Jiangsu and coastal provinces more broadly are promoted based on economic growth outcomes during their tenures. This growth appears to result from some aspect of “ability” rather than from luck or patronage, which therefore supports a tournament promotion hypothesis that attributes a portion of high economic growth to the competition induced between local leaders. In Anhui and central provinces more broadly, County Party Secretaries who are promoted tend to have slightly lower economic growth during their tenures. Assuming a “norm” of performance-based promotions in Jiangsu, what does the lack of a significant relationship between economic outcomes and promotions in Anhui imply? One possibility is that patronage dominates, and that Anhui has a non-meritocratic system, but a more convincing argument is that County Party Secretaries in Anhui are promoted based on other criteria. To explain the negative correlation between economic outcomes and promotions, the non-meritocratic criteria or the meritocratic non-growth criteria should be negatively correlated with growth, which would imply that the previous regressions suffered from omitted variable bias. The hypothesis explored in the next chapter is that excessive stability maintenance is correlated with low growth.
7 GROWTH VERSUS STABILITY: A NEW POLITICAL ECONOMY OF UNEVEN DEVELOPMENT

“To be a County Party Secretary, you must grasp development with one hand and stability with the other (必须一手抓发展，一手抓稳定)” – Party Secretary Lu Qi (鲁琦), November 2011.

“Across the border [in Jiangsu], growth is ‘number one. ’ Here, growth is secondary to stability …Our leaders have no courage.” – County government official, Anhui (Interview AH138)

“The Mingguang leaders aren’t at fault for poor growth. They’re very constrained. The biggest problem in Mingguang is that Anhui itself takes no initiative, but rather simply implements government policies. In Jiangsu, the provincial government takes central policies and adjusts them. It does everything it can that won’t truly offend the upper levels” (Interview AH104).

In 2009 and 2010, Si County in Anhui and Sihong County in Jiangsu made (unwelcome) national news. In Si in 2009, the authorities demolished a nearly 1000 year old temple (shijiasi 释迦寺), despite local opposition as well as a complaint by the local culture bureau to the national culture bureau.378 According to one journalist’s investigation, in July 2007 the county leaders had directly pressured the land bureau to auction off 25 mu (4.1 acres) that included the temple area, which ended up selling for 11.5 million RMB. The culture bureau was not consulted, and when it found out in 2008 it raised objections, including to the culture bureau at the provincial and national level. In the end, however, the local bureau could not withstand local government pressure and

378 The following account is based on local discussions as well as (J. Li 2010) and (Xin'an Evening News 2010).
the temple was razed. A month after national news (Beijing’s Xinjing Bao 新京报) published an expose of the demolition, the local government changed positions and fined the developer 400,000 RMB for the illegal demolition while also making the developer pay for a new temple on the original site. The Magistrate at the time received internal Party discipline (dangnei jinggao chufen 党内警告处分) and promised that “from now on, we’ll strengthen our awareness of the rule of law and will establish a section-level (zhengkeji 正科级) cultural protection bureau.” But most of the blame was put on the County Party Secretary, whose career was basically ended: he was removed from office and demoted to a prefecture-level deputy secretary (mishu 秘书), a very large demotion (although also not a severe punishment).

In Sihong in 2010, the county authorities closed and demolished a forestry station (linye zhan 林业站) despite rallying and petitioning by its 68 employees and 30,000 netizen complaints. In October 2009, the county government had planned to demolish the station, which had been built in 1966. The forestry unit (danwei 单位) had become an “un-loved” (niangniang buteng, jiujiu buai 娘娘不疼，舅舅不爱) unit that the county government wanted to close. Following a closure plan that upset the employees, they sent a notice to upper authorities in February 2010 claiming that the closure was illegal. Jiangsu provincial authorities took notice, making the employees optimistic, but then they slowly lost hope as the county did not change its intended actions. On March 12, at a large county meeting, the employees were given a warning not to rally or obstruct the destruction. They did not fully cooperate. Within a week, 30,000 netizens had taken notice and news had spread provincially and nationally. The county still had no intention of changing its plans, and quickly followed through, to much local dismay.
Soon after this incident, Sihong’s pyramid informal finance problem became national news. This incident also happened in 2010-2011 under the same Party Secretary, Feng Yan (冯岩). The pyramid scheme reached 2 billion RMB, with thousands of locals involved. Moreover, government employees were themselves instigators and recipients of many of the loans; the illegal financing was happening with the direct support of local authorities. The situation eventually blew up, making national news, including the cover story of Money Weekly (理财周刊), but the Party leadership, rather than condemning the informal lending, instead continued to argue that the lending had had a positive influence on local growth. Perhaps because of this, penalties were not harsh: all 500 suspected ringleaders who were brought in were released. The Party Secretary at the time of both the informal lending bubble and the forestry station demolition, Feng Yan (冯岩), was not punished, nor were his promotion prospects negatively affected by the two incidents. In November 2011 he became Suqian City Vice Mayor, a moderate promotion.

The Si and Sihong cases hint at different approaches to potentially “destabilizing” incidents in Jiangsu and Anhui: in Si County, the Party Secretary involved in a major incident was removed from office and demoted, and the county issued an apology and was forced to make institutional changes. Conversely, in Sihong, the County Party Secretary overseeing two incidents that became national news was promoted, and he justified his actions simply by saying that they were pro-growth.

This comparison represents a larger phenomenon. The findings in the previous chapter suggest that Jiangsu, a wealthy coastal province, and Anhui, a poorer inland province, emphasize different criteria in their evaluations of County Party Secretaries. Despite publicized changes in emphasis away from growth “quantity” and towards growth “quality,” Jiangsu continues to promote its County Party Secretaries on the basis of economic success. Anhui, which needs all the growth it can get, instead seems to disregard or even penalize fast-growing counties. This chapter argues that this at-first-glance surprising anomaly is actually a direct consequence of differential implementation of the two primary central Party-state mandates: growth and stability. The center rewards Jiangsu (and other wealthy province) leaders who pursue and achieve economic growth, and rewards Anhui (and other poor/central province) leaders who maintain stability. While the central Party-state no doubt would rather have growth and stability in both regions, its risk averse strategy has been to continue to let some regions develop first. As a consequence of this incentive structure, local leaders and governments in Anhui and central regions have been less innovative institutionally, have had worse governance, have made less bold economic decisions, and have achieved worse economic outcomes. Summarizing this hypothesis, a cadre in Anhui succinctly explained why his county failed to grow while the neighboring county in Jiangsu was a model of success: “In Jiangsu, the economy is number one. In Anhui, the economy and stability are equal. That’s why we have no leaders with any courage (poli 魄力)” (Interview AH138). One Anhui county head of the local Economic and Information Technology Committee agreed that Anhui saw stability and growth as equal, while Jiangsu saw growth as more
important, noting that this played out particularly in hitting investment promotion targets – he and others were given targets, but actually hitting them was irrelevant.

This chapter continues in three parts. First, I provide additional evidence that Anhui and central provinces are more likely to emphasize stability in promotion decisions. No proxy for county stability publicly exists to enable a quantitative analysis similar to that in the last chapter, but anecdotal evidence from local news sources, county yearbooks, and field visits provide considerable support for an Anhui emphasis on stability that differs from the Jiangsu emphasis. An emphasis on maintaining stability really refers to an emphasis on avoiding instability – as most places achieve this outcome, there is less differentiation to base evaluations on, leading to a larger role for informal patron ties in promotion decisions. A look at the biographical histories of county leaders demonstrates that Anhui is significantly more likely to promote party leaders with organizational, public security and law, or propaganda backgrounds, while Jiangsu promotes significantly more cadres from the economic bureaucracy, further implying an Anhui government emphasis on stability over growth. Second, the chapter explores reasons for this focus on stability. Given the high levels of social discontent surrounding demolitions, land conversion, restructuring, and other actions associated with China’s growth model, rapidly reforming high growth counties have greater potential for instability; while residents of slow-growing counties may be generally unhappy with slow growth, such ennui may not spur them onto the street or the petitions office. Finally, the chapter explores the consequences of this stability focus in terms of economic outcomes, looking at approaches to governance and fiscal decisions and arguing that a stability priority has anti-growth consequences: leaders in Anhui and central provinces
fear institutional innovations that could constrain local bureaucracies and prevent
government failures, and their economic policies and fiscal decisions reflect a risk-averse
attitude that prioritizes preventing discontent rather than boosting local growth.

7.1 Regional variation in promotion criteria: Stability maintenance

There is both documentary and anecdotal evidence that poorer central regions emphasize stability more than their coastal counterparts. Stability maintenance (weiwen 维稳) has long been noted as an important criterion in cadre performance evaluations, particularly following the Tiananmen Square incident in 1989. Several studies have focused on “veto targets” (yipiao foujue 一票否决), i.e., those targets whose failure nullifies any and all other successes. Over time, five veto categories have been highlighted: clean Party building and anti-corruption (dangfeng lianzheng jianshe 党风廉政建设), petitions (xinfang 信访), family planning (jihua shengyu 计划生育), comprehensive control (zonghe zhili 综合治理), and production safety (anquan 生产安全). The biggest concern for many bureaucrats are petitions (xinfang 信访), frequently referred to as the “sword of Damocles” hanging over cadres’ heads (Y. Han 2011). The negative effect of petitions on promotion prospects has long been

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380 Following the Tiananmen Square incident, in 1991, the Ministry of Public Security lobbied to have social stability added to cadre evaluations; ever since, public security heads at the local level have been more likely to be the heads of the political-legal committee rather than courts or procuratorate head (Minzner 2013).
381 See, e.g., Heimer (2006).
382 For an overview of the petitions system, see Minzner (2006).
observed. Cao Guoying, a former head of the national Ministry of Civil Affairs Petition Office (民政部信访办公室), puts it plainly: “The central complaints bureau can assign points to major local cadres, based on the number of appeals from the locality, the number of cases it has resolved, and the outcome of the settlement. If too many points are deducted, the career of local officials may be affected” (Jiang 2002). At the local level, the apparent incentive structure leads to efforts to avoid petitions and obstruct petitioners rather than respond to the content of the complaints, largely because problems that are solved pre-petition do not enter into evaluations. This makes the work of the petition offices themselves relatively unimportant to local leaders: according to Cao, the former head of the national Civil Affairs Petition Office, “in the eyes of many leaders, petition bureaus are just decoration (信访部门只是一个摆设),” making effective work nearly impossible (Jiang 2002). At the same time, localities spend more and more to avoid petitions and intercept petitioners. Nevertheless, there has been increasing pressure from the top not to use repressive

384 Lieberthal (2004, 298) tells a story from Jilin Province in 1993, when a village party chief stopped a peasant and asked for “bicycle tax.” The peasant secretly wrote a letter to the County Party Secretary to complain, and the County Party Secretary then admonished the village chief for not intercepting letter before it was sent, “noting that they would all have been in trouble if the peasant had written to the provincial level.” The village chief then made an example of the peasant, having local police beat him to death in front of a meeting of the village.
385 Cao Guoying headed the Civil Affairs Petition Office from 1998-2000, and describes the difficulties he faced as, “Right now there are very few good people (haoren shaole 好人少了) working in petitions bureaus; they’ve all left” (Jiang 2002). His department had seven people to handle 10,000 annual petitions - this was more than most departments, which often only had one person. Most petitions were sent back down for the local government to handle, but many just sent the problems back up again. According to another high-level complaint bureau official: If local government ignores the decision of a petitions bureau, then the case is referred to the higher-level petitions bureau, and then progressively up the ladder (Y. Cai 2004).
386 A People’s Congress official from Sichuan estimates that it costs 10,000 RMB to take back a single petitioner who goes to Beijing, and X. Chen (2012) notes that one city in Hunan spent 100,000 RMB controlling a single petitioner in 2002.
authoritarian tactics. For instance, at the National People’s Congress in 1999, Zhu Rongji asserted that local governments “must solve contradictions at the initial stage, must not use simple and rude methods to escalate conflicts, and must not use ‘means of dictatorship’ to deal with people and the masses” (X. Chen 2012). In sum, as Ying Xing (应星) of the China University of Political Science and Law highlights, “The petitions system is full of contradiction. On one hand, the state consistently emphasizes the need to break bureaucratic obstruction of petitioners…but on the other hand, the state consistently requests that all problems be handled at the grass-roots levels and the need to decrease the volume of ‘level-skipping’ petitions (yueji 越级上访)…” (Jiangnan Times 2004).

This strong stability focus in evaluations of local governments seems to conflict with findings of pro-growth promotion incentives, but a potential explanation is that sub-provincial level case studies and documentary analysis have overlooked regional variation. Most studies in the local “promotion incentives” field focus explicitly on wealthier regions. The findings and research of Edin and Whiting have been extremely (and justifiably) influential, but these authors themselves admit that their findings of strong pro-growth local incentives for promotions cannot be generalized to less developed regions. Whiting (2004) looks at Shanghai suburbs, some of the wealthiest in all of China. Whiting (2000) compares townships in Zhejiang (Yueqing), Shanghai (Songjiang), and Jiangsu (Wuxi), all of which were within counties that ranked within the top five percent of counties in terms of tax revenue. Edin (1998) focuses on townships and counties in Jiangsu, Shandong, Beijing, and Zhejiang, admitting that, “This study
focuses on the economically successful areas in the eastern part of China and can thus not be generalized to the poorer areas in western and central China.”

Alternatively, studies in less developed regions have often highlighted the contradiction between economic and stability goals, and have focused on the need for stability and the prevalence of non-meritocratic promotion criteria. Gao (2009) in his case study of a western county (Zhouzhi County in Shaanxi) finds much less emphasis on economic indicators: in 2007, the county developed a total of 1143 indicators to measure whether local officials had fulfilled functional targets: of these, 292 (25.5 percent) related to public service provision; 257 (22.5 percent) to economic development; 197 (17.2 percent) to Party building; 193 (16.9 percent) to bureaucratic institution-building; 170 (14.9 percent) to stability; and 34 (3 percent) were unclassifiable. Above these functional targets, the county prioritized four common “veto” targets that had to be hit: population control, production safety, handling of public complaints, and maintaining social stability. In other words, less than a quarter of the technical targets were related to economic development, and “stability”-related criteria accounted for all veto targets. Additionally, local studies outside of the wealthy east often find a much larger role for patronage in county-level and sub-county-level promotions. Two-thirds of township officials in Anhui believed that promotions were based solely on connections (Zhong 2003).  

If avoidance of veto targets is the most important criterion for promotion, then yardstick competition becomes more difficult (as most cadres in any given year will

387 Additionally, one case study on the reasons for corruption in Fuyang City (Anhui) concludes that in economically backwards regions like Northern Anhui, the only promotion shortcut (shengqian jiejing 升迁捷径) is to bribe the locality’s yibashou who controls the cadre promotion market, or literally “black hat distribution power” (wushamao pifaquan 乌纱帽批发权) (X. Zhang 2007).
succeed on the binary scale), which in turn makes patronage politics more likely. In other words, added importance of patronage is an expected counterpart of a focus on maintaining stability: promotion-minded officials in stability-focused areas concentrate on not making mistakes rather than having positive achievement records, and the lack of outcome comparability increases the importance of non-formalized criteria.

Tied into and supporting this divergent regional promotion criteria hypothesis, the consequences of instability (mass incidents) for leaders in poorer provinces seem to be more negative than in richer provinces, as the comparison at the beginning of the chapter implied. Unfortunately, there are no systematic data on county-level mass incidents to enable rigorous comparison across regions. “Mass incidents” are also a problematic term – referring to a wide range of phenomena, many of which are ostensibly not destabilizing and some of which are actually pro-government. But Baidu searches for “mass incidents” at the county level turned up several cases. As the Si County example highlighted at the beginning of the chapter, mass incidents in poor provinces are bad news for local Party Secretaries. The “6.17” incident in Shishou (county-level city) in Hubei in 2009 was a large public protest and riot following the suspicious death of a young local chef. The death was officially deemed a suicide, but local crowds suspected

388 We would also expect to find different regional trends in government responses to protests and mass incidents, and there is indeed some evidence that responses are similar within regions but not across regions. The potential repertoire of state responses includes repression, concession, persuasion, and procrastination, and “available evidence, most of which is anecdotal, suggests that there exists little systematic variation in petitioning strategies and government responses among most inland provinces” (X. Chen 2012, 220). X. Chen (2012) therefore concludes that the findings for Hunan “are largely applicable to at least most inland provinces of China.” Lee (2007) compares China’s “rustbelt” versus “sunbelt” protests. Hurst (2009) looks at cross-regional variation in government responses to protests.

389 Although they are still “unauthorized” gatherings, and thus meet the definition. For a long discussion on the inconsistent definition of “mass incident,” see http://www.zonaeuropa.com/20061115_1.htm.
foul play and took to the streets to protest. Within a month of the incident, the local Party Secretary was removed from his post for weakly (*buli 不力*) handling the incident – he was not removed due to any indication of personal knowledge or involvement in the initial cause of the discontent (Xin 2009). Similarly, after tens of thousands of locals gathered to protest the Pubugou dam project in Hanyuan County, Sichuan, the local Party Secretary, Tan Zhengyu, was quickly dismissed (Mertha 2008). Local discontent largely centered on the authoritarian approach to relocation taken by Tan’s predecessor as Party Secretary, and Tan himself was not accused of any actual wrongdoing, nor was the Pubugou project that was being protested his idea or even a county-level project, but rather a provincial-level project with national backing.

In wealthier provinces, mass incidents do not seem to automatically spell doom for local Party Secretaries. Consider the “4.10” incident in Dongyang (county-level city) in Zhejiang in 2005. In response to county authorities opening the Zhuxi Chemical Industrial Park and relocating polluting factories there, thousands of residents from 10 villages encamped by the chemical park entrance, forcing the factory to shut. On April 10, the county authorities sent in 1500 local cadres and public security personnel. Conflict ensued, with over 100 police officers and 200 villagers injured. After drawing national attention and a Beijing investigation, the Dongyang authorities admitted to wrongdoing – the industrial park had been built on illegally requisitioned land – and closed 11 factories. After the incident, the County Party Secretary, Tang Yong (汤勇),

390 This was not the end of his career, but his promotion prospects were shattered – less than a year later he was appointed as Jingzhou City (荆州市) deputy secretary (*mishu秘书*).
was promoted to the prefecture-level Jinhua City Party Committee and Propaganda Minister (why he was seen as having a good sense of rhetoric or public presentation is entirely unclear).\footnote{391} Closer to the sample counties, Jiangning District (Nanjing) Party Secretary Wang Jianhua was very controversial, and in 2004 he was under investigation for illegal land conversions – but these problems did not hurt his career prospects: in August 2008 he was directly promoted to Lianyungang City Party Secretary, a multi-level promotion.

7.1.1 \textit{Regional differences in County Party Secretary career backgrounds}

The explicit focus on non-economic criteria for promotions in Anhui is also supported by an analysis of the career backgrounds of county leaders. Considerable evidence from political, psychological, and managerial disciplines highlight the experiential determinants of leader behavior.\footnote{392} According to “upper echelons theory,” backgrounds determine leader psychology which determines leader behavior and actions: “The central premise of upper echelons theory is that top executives view their situations - opportunities, threats, alternatives and likelihoods of various outcomes - through their own highly personalized lenses. These individualized construals of strategic situations

\footnote{391} Or consider the experience of Party Secretary Gao Yongyuan (高永远) in Wuchuan county-level city, Guangdong, in February 2006. In February 2006, a fight broke out between villagers from Dameichen and Xiaomeichen villages. Gao went to the scene but was completely ignored and required a police escort to get away. He was not punished for the incident, and in 2008 was promoted a level (to \textit{futingji 副厅级}) while keeping his current position.

\footnote{392} On the experiential and psychological determinants of U.S. Presidential behavior, see Barber (1972). Lasswell (1930) develops a broader framework of personality types of political actors based on their developmental experiences and Freudian psychology. According to Lasswell: “Political science without biography is a form of taxidermy”; hopefully this dissertation is not reading like a stuffed pigeon.
arise because of executives' experiences, values, personalities and other human factors. Thus, according to the theory, organizations become reflections of their top executives” (Hambrick and Mason 1984).\footnote{See also Finkelstein, Hambrick and Cannella (2009).} A similar vein of thought comes from bureaucratic politics, and particularly Allison and Zelikow (1999), summarized by “where you stand depends on where you sit”: organizations themselves influence how their members behave.

All of this suggests that the backgrounds of leaders are important for determining their behavior and policy emphases while in office, and this conclusion is no doubt recognized by the provincial Organization Department as it selects county leaders; in other words, the provincial authorities will select cadres who have backgrounds deemed relevant for the work they are expected to undertake. It is therefore interesting to compare biographical histories of County Party Secretaries in Jiangsu and Anhui using the biographical data compiled for the analyses in Chapter Six. Doing so, it is clear that in Jiangsu, cadres in economic bureaus are more likely to be promoted to county leadership positions, while Anhui is more likely to promote party leaders with administrative, security, or propaganda backgrounds.\footnote{These categories are broadly defined. Economic background here is defined to include work experience in economic, financial, planning, and industrial bureaus, as well as in SOEs. Administrative backgrounds include secretary (mishu 秘书), organization department, Communist Youth League, and politics and law (zhengfa 政法). Security includes petitions, civil affairs (minzheng 民政), public security, and military.} Overall, 47 percent of Anhui county Party Secretaries have an economics background while 62 percent of Jiangsu county Party Secretaries have an economics background; conversely, 72 percent in Anhui have an administrative, security, or propaganda background, compared to 56 percent in
Jiangsu. A more granular distribution of backgrounds is shown in Figure 7.1, which demonstrates that the aggregate does not reflect a bias in only one economic category; rather, Jiangsu cadres have more economic experience across categories. It is important to emphasize that all Party Secretaries in the sample have risen up through the system. Only a few have backgrounds in SOE work, and the remainder have all worked in Party-state organizations at the county, prefecture, or province level, or as township-level Party Secretaries. Anhui and Jiangsu both have similar and robust economic and non-economic government offices. In other words, the background discrepancies do not occur as an artifact of larger relative economic samples to choose from in Jiangsu.395

The lower incidence of economic backgrounds of Anhui cadres will likely manifest in less economic focus and less economic ability of local leaders, and their appointment implies less focus on economic growth more broadly by the provincial authorities; if a province desired more rapid economic growth, it would select cadres based on their performance on this metric, as we see in Jiangsu. Promoting non-economic officials implies a focus on non-economic criteria. Further, assuming that priorities are sent down the administrative hierarchy, then this divergent subprovincial approach to promotions implies that the national level CCP may emphasize different promotion criteria across different regions in its evaluations of province-level authorities.

395 Although the possibility remains that Jiangsu’s economic bureaucracies have relatively more power given the greater economic success in Jiangsu, and that this greater relative power translates into greater promotion potential. I cannot discount this alternative explanation, but the fact that Party Secretaries with economics background stayed steady and even declined in Jiangsu during Jiangsu’s most rapid period of economic growth (the 1990s), implies that the effect may not be great.
7.1.2 Stability versus growth in Anhui and Jiangsu provincial promotions

Studies of the determinants of promotion for provincial leaders have come to conflicting conclusions, with many identifying a role for economic growth in determining promotions and others implying that informal patron ties are themselves determinant (see discussions in Chapter Two and Chapter Six). A possible reason for the inconsistent results of these studies may be that provincial leaders are selected based on regionally-determined criteria; some provinces may be incentivized to focus on growth, while others may be incentivized to focus on stability. If this is the case, then the province is an unsuitable level of analysis for uncovering univariate promotion incentives (e.g., looking
only at the effect of economic growth on promotions). A useful analysis could
differentiate coastal and central provinces with interaction terms on two variables of
interest, one representing economic outcomes and one representing stability outcomes,
but to analyze this growth/stability tradeoff, we need a proxy for stability. The current
best practice for determining local stability seems to be from the volume of petitions,
legal cases, or protests. Petitions, or “visits and letters” (xinfang 信访), received at each
official administrative level in China and seen as an alternative to the legal system, can
serve as a measure of stability and discontent, and may indeed be the metric used by
authorities in evaluations of stability maintenance, as highlighted above. Given limited
petition data, I focus here only on Jiangsu and Anhui provincial leaders, analyzing the
promotions of four Anhui party secretaries (Hui Liangyu, Wang Taihua, Guo Jinlong,
and Wang Jinshan) and three Jiangsu party secretaries (Chen Huanyou, Hui Liangyu, and
Li Yuanchao). These seven Provincial Party Secretaries, as well as their tenures,
average petition and growth outcomes, and subsequent positions (promotions or
demotions) are shown in Table 7.1.

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396 See discussion in Minzner (2006). Petition data is sensitive but still more accessible than other data
from Provincial Security Bureaus that could proxy for “instability” or societal discontent (X. Chen 2010).
397 Petition data is not available at the county level, and only exists publicly for selected provinces in
selected years, covering only eight provinces in central and eastern China: in the east, Fujian, Guangdong,
Jiangsu, Shandong, and Zhejiang; and in the center Anhui, Henan, and Jiangxi. The data are collected from
annual editions of provincial almanacs from 1991-2011 (i.e., covering data from 1990-2010). The “sample
average” referred to in the comparisons references this full eight-province sample.
398 The promotion/demotion categorizations are somewhat subjective. For instance, Guo Jinlong’s lateral
move to Beijing Mayor could technically be seen as a demotion, but in reality seems to be a promotion that
groomed him for more power (in 2012 he became Beijing Party Secretary as well as a Politburo member).
Chen Huanyou’s move to Jiangsu Provincial People’s Congress Chairman was clearly a positional
demotion, but it could have come mostly as a result of his age (he turned 65 in the year of his promotion).
Most other codings are more objective.
Looking at the promotion results as well as the petition and growth outcomes provides an indication of different central emphases in the promotion of provincial leaders. This is a limited sample, so no rigorous results are possible, but the general trend is clear: in Anhui, better petition performance (identified by negative values, or below-average growth) leads to better promotion prospects, regardless of GDP growth, while in Jiangsu, better growth performance leads to better promotion prospects, regardless of petition growth. Figure 7.2 illustrates this result graphically. The upper left quadrant represents Party Secretaries whose terms coincided with below average per capita GDP growth and higher than average petition growth: in other words, they underperformed across both economic and stability dimensions. Both of these Party Secretaries, one from
Figure 7.2. Growth versus stability outcomes and provincial promotions

Petition growth difference (y axis) versus per capita GDP growth difference (x axis)

Notes: Petition growth and per capita GDP growth refer to difference between the average growth rate over leader tenure and the sample average.  
Source: Provincial almanacs; China Statistical Yearbook, various years; author’s calculations.

each province, were demoted. The Party Secretaries on the right side of the graph experienced above-average growth. In Jiangsu, these two cadres (Hui Liangyu and Li Yuanchao) were both promoted to the Politburo, even though petitions rose much faster than the sample average under Hui. However, the most successful Party Secretary in terms of average growth, Wang Jinshan in Anhui, was demoted, while the two Anhui Party Secretaries in the lower left quadrant representing below-average economic growth and better petition performance were both promoted. Hui Liangyu personally
demonstrates the provincial contrast: after a two-year term in Anhui he was promoted to Jiangsu for a three year term. In Anhui, his term coincided with lower-than-average growth but a huge decline in petitions. In Jiangsu, growth was above-expected, but petition volume increased significantly. In both cases, he was “rewarded” with promotion.

This apparent difference in provincial promotion criteria necessitates a rethinking of the importance of provincial leadership personalities in setting overall provincial development strategies, and it implies that provincial emphases transmitted to counties are actually determined by the national-level CCP. This challenges the idea that provincial incentives to counties are a rational response to conflicting goals set by the center (i.e., the idea that poor provinces may simply be less capable of producing growth, so their rational response is to focus on stability instead). Rather, it appears that the center itself varies promotion decisions across provinces. This has implications for how we perceive provincial leadership personalities. Many provincial leaders in advanced coastal provinces are identified as “reformers,” while provincial leaders in central and western provinces are often identified as being cautious in reform and focused on stability. For instance, Hu Chunhua, or “Little Hu” (i.e., younger protégé of Hu Jintao) was appointed as Guangdong Party Secretary in 2012 and now has developed the reputation of being a reformer, but his background in Inner Mongolia, Hubei, and Tibet showed instead a willingness to strictly quell instability: in response to concerns that Hu had overreacted to protests in Inner Mongolia, Hu told the Financial Times, “When we

399 Technically this is a horizontal transfer, but given Jiangsu’s vastly greater size, such a transfer is widely recognized as a promotion.
deal with mass incidents, there is no question we will take compulsory measures… We will be tough when we need to be tough, and we will be soft when we need to be soft.”

The implication is that provincial party secretaries are constrained by “institutional momentum” (Cohen 2012); in other words, the center has selected some provinces to grow and reform and other provinces to maintain stability, and selected leaders reflect these emphases.

7.2 Let some places get rich first

Regional variation in promotion criteria content and the selection of leaders without economics backgrounds support the conclusion that poorer central provinces emphasize stability while richer eastern provinces emphasize economic growth. How do we explain this result, which contradicts the “conventional wisdom” of “GDP worship” (chongbai 崇拜) across Chinese local governments? Part of a focus on stability over growth may be a “stages of development” problem, whereby the center has determined that poorer places may not have the capacity or leisure to focus on growth, with more pressing problems at hand. There is indeed an indication that as counties and provinces develop, the economic criteria for promotion become more important. In a sense, this

400 This conclusion follows Cohen (2012), who writes regarding Wang Yang and Hu Chunhua: “This trend should also give us some pause before rooting for Wang or Hu as reformers — neither of their records shows particularly bold action before traveling to Guangdong, so to some extent Wang's liberal policies in the southern province may simply reflect institutional momentum. In fact, besides his time in Tibet, Little Hu initiated a harsh crackdown at the first signs of protests in Inner Mongolia in the spring of 2011.” Wang Yang is seen as a major reformer who pioneered a “Guangdong model of development”; and indeed, he oversaw important reforms when heading both Chongqing and subsequently Anhui. But Wang rose up in Anhui (Tongling City and then the provincial government office), where the focus was entirely different.
follows from Barrington Moore’s hypothesis that as development increases, political decision making becomes based more on rational-technical criteria, an idea that Stewart, et al. (1972) found had validity across regions within the Soviet Union.\textsuperscript{401} For instance, there is an indication that in the mid-1990s Subei counties were focused on veto targets rather than economic growth. Jiang Guoxing, the former Suining County Party Secretary, recalls the difference between Subei and Sunan counties that he realized while still Party Secretary of Jurong county-level city in Southern Jiangsu, before transferring north to Suining:

“I remember at a “Three Represents study meeting” with all the province’s County Party Secretaries, Li Yuanchao asked, ‘As secretaries, what do you most want to accomplish, what are the most intractable issues, what problem do you most want to solve?’ One cadre’s response left the biggest impression: ‘put the one-child policy first.’ Right after he said it, everyone laughed out loud, but I also realized then that northern Jiangsu still had a county like Suining. Personally, I said to concentrate on investment attraction, which was well received and cadres asked me to speak longer” (F. Wang 2006).

But as this quote shows, while in some sense poor Subei counties had similar non-growth foci, leadership was incentivized to change this state of affairs. When Jiang arrived in Suining, “We therefore immediately implemented the ‘four firsts’: development is the first task, investment attraction is the first matter, industrialization is the first plan, government service is the first responsibility” (F. Wang 2006). Even in Southern Jiangsu, there may have been a shift in county development emphases over time. In a 1996 interview, a different former Party Secretary of Jurong (county-level) City

\textsuperscript{401} Stewart, et al. (1972, 1283) find that in the least developed oblasti, links with Politburo-Secretariat members explains over 14 percent of variance in mobility, while in developed oblasti industrial performance explains a larger share of mobility variation, leading to a conclusion that “when the post-Stalin era is analyzed as a whole, the most important variable in each region is essentially that predicted by applying Moore’s proposition to different levels of development within the Russian republic.”
discussed the importance of petition work, saying it was the first issue he focused on when in office: “grasping petitions means grasping stability, and grasping the entire situation; petition work isn’t the work of the petitions department, but rather the work of every leader” (Zhu and Wen 1996). Consequently, this Party Secretary made petitions the foundation (yiju 依据) of township and department yibashou evaluations.402 Further, the Anhui emphasis on stability has the potential to evolve into an emphasis on growth, and this may already have begun.403

This “stages of development” idea has been explicit in national development plans throughout the reform era: the CCP has a long history of “letting some places get rich first.” Within China’s economically decentralized organization, the center is still able to direct investment and preferential policies that allow certain regions to benefit at the expense of others. This was particularly apparent in the Mao era and Deng era. During the Mao era, a planned economy made economic intervention by the center easier, and industrialization of China’s northeast and the “Third Front” were explicit

402 This was effective: In the first year of his initiative, petitions to the province level fell by 33 percent, making Jurong the best performing county in Zhenjiang prefecture.
403 Smith (2009) refers to interviews at the Anhui Academy of Social Sciences to conclude that, “Taking their cue from Zhejiang and Jiangsu, since 2005 the Anhui provincial government has exerted pressure on county leaders to attract private and government investment.” In a similar vein to the “stages of development” idea, there is evidence that poorer provinces may be more likely to emphasize city development over county development. Recall the growth regressions in Chapter Three, which showed that across China, county growth rates were negatively correlated with the growth rate of the prefecture urban core. In that sense, there is a possibility that the stability emphasis is just a county phenomenon. For instance, Xuzhou City in Subei does seem to emphasize county growth more in recent years, likely as a result of the provincial emphasis on Subei counties catching up: see the 2010 introduction to “100 strong” counties and Xuzhou plans for changing from a “strong city weak county” model to a “strong counties make Xuzhou strong” model, and also the 2005 Xuzhou Yearbook, which highlights as a key annual development that county industrial value added exceeded city industrial value added for the first time. However, it is not clear that this is just a poor province versus rich province dichotomy – central Jiangxi has one of the most county-focused developmental strategies in all of China. Nor is it clear that city and county growth must be mutually exclusive.
regional development foci. In the Deng era, certain regions were given preferential policies in terms of relaxation of government price and regulatory controls and tariffs as well as beneficial provincial-center fiscal arrangements. This was done intentionally, with recognition that certain regions would prosper before others: at a meeting with a business delegation from the United States in 1985, Deng Xiaoping uttered one of the most (selectively) quoted lines of China’s reform era: “Let some places and some people get rich first, leading and helping other places and other people to progressively achieve joint prosperity.” Note the direct inclusion of “some places” (yibufen diqu 一部分地区) as well as “some people” (yibufen ren 一部分人). Policies in the 1980s and early 1990s explicitly allowed certain areas to have pro-growth preferential policies and special economic zones. The best discussion of these preferences is in Wang and Hu (1999). Wang and Hu titled their book The Political Economy of Uneven Development, and I see the findings here as providing an update to their conclusions. As explicit policy and fiscal preferences have largely equalized between regions (or at least started to converge), the central Party-state has continued to encourage uneven development through the incentives it provides to cadres in different regions. The rationale for Deng in the 1980s was to concentrate efforts in a small place and let these first movers “lead and help”

404 In both English and Chinese the aphorism has simply become “let some people get rich first” (rang yibufen ren xian fuqilai 让一部分人先富起来), although this exact combination of words was never actually uttered by Deng. Searching Google in English for “let some people get rich first” (in quotes) yields 158,000 results; combined searches for “some people and some places get rich first,” “some places and some people get rich first,” and “some places and people get rich first” yield a total 4231 results. Searching in Chinese enables searches for the untranslated exact quote, which yields 1,090,000 results for “一部分人可以先富起来” versus 193,000 results for the full “一部分地区、一部分人可以先富起来.”
带动和帮助) the backwards areas. But mostly these areas have led and helped themselves, and they continue to do so.

Beyond a “stages of development” perception that sees central provinces as incapable of growth, the relationship between economic growth and social instability provides a likely context for the dichotomous central emphases. The center has adopted a “some regions first” strategy as a way to maximize both national growth as well as national stability. In the economic growth literature, many papers identify a negative effect of instability on growth, but the more relevant relationship here is the effect of economic growth on instability. Olson (1963) and Huntington (1968) were among the earliest social scientists arguing that growth itself causes instability. Olson notes that the poor are as unlikely to start a revolution as the rich, quoting Hoffer that there is a “conservatism of the destitute as profound as the conservatism of the privileged.” Rather, those whose place in the social order is changing might resort to revolution. Not only does growth uproot and destabilize traditional social and political structures, but there are a significant number of losers and increases in various forms of unemployment – in China this is most clearly seen in the loss of 40 million jobs as SOEs restructured in the late 1990s and early 2000s. Huntington argues that when the development of political institutions lags behind social and economic change, instability and violence may result. Accepting this argument, a logical explanation for the dichotomous coastal/central cadre management foci is that the CCP fears that an emphasis on growth in undeveloped

405 For the negative effects of instability on economic growth, see Alesina, et al. (1996); Hibbs (1973).
406 Note that it might be more accurate to term this job loss as a “reduction in employment,” as a significant portion of the lost jobs were due to voluntary and forced early retirement.
regions will result in instability; a response is to let some first-movers get rich and make sure that stability reigns elsewhere.

As domestic concerns of instability have mounted, continuing to allow certain places to develop first may therefore be a rational decision. Issues associated with rapid development tend to lead lists of the causes of instability: for instance, land expropriation and environmental degradation result from industrialization and urban development. As one county official bemoaned, “when things get done, bad things can happen,” concluding that this explained why local leaders in Anhui did not implement bold economic reforms (Interview JS192). At the local level in particular there seems to be a contradictory relationship between economic development and social stability. County officials recognize the contradictory nature of the goals they are assigned. In Jingbian County (Shaanxi), Chan and Gao (2009) argue that this recognition leads county officials to be more tolerant of township officials not hitting targets (helping to explain the lack of demotions); in other words, in this poorer region, while economic and stability targets coexist, the economic targets are trumped, similar to the Anhui case county experiences described above.407

The causes of social discontent have evolved, with important regional implications. In the 1990s, discontent stemmed from SOE/TVE restructuring and agricultural taxation (and other rural problems confronting agriculture, the countryside, and peasants, i.e., the sannong wenti 三农问题). X. Chen (2012) documents the increase

407 Chan and Gao (2009) highlight this contradiction in the targets given to officials in Jingbian, arguing that growth leads to increased migration to the county seat, which leads to increased crime (migrants are responsible for 60 percent of local criminal cases).
in worker welfare and enterprise restructuring disputes over the 1990s in central China, leading to three times as many petitions in that period as land expropriation. But in the 2000s, environmental concerns and particularly land problems became more contentious and important.\textsuperscript{408} Land is now the most important source of state-society conflict and discontent, with as many as 65 percent of mass incidents in China stemming from land issues.\textsuperscript{409} There are important regional implications of this evolution in state-society conflict. Rural conflicts focusing on tax burden disputes were mainly a central China phenomenon, while land-rights disputes take place more in developed regions that have needed the land for urbanization and industrialization (Yu 2007).\textsuperscript{410} This has resulted in a shift from the concentration of mass incidents in central China to a concentration in coastal China: in the 1990s, central China had relatively more “instability,” but in recent years the coastal region has.\textsuperscript{411} Additionally, different sources of conflict have different

\textsuperscript{408} See the 2012 Mass Incident Research Report (2012 \text{年群体性事件研究报告}) for a breakdown of current sources of conflict. Some land-based discontent arises from legal expropriation, meaning that land-rights conflicts stem from both legal and implementation problems. Chen Xiwen: “It is stipulated in our Constitutions that in rural China…land is collectively owned by farmers but contracted to individual households. However, at the grassroots level, few officials have read this provision…Therefore, some grassroots officials constantly make troubles with farmers’ land, causing endless land contract conflicts. Because of this, the Rural Land Contract Law was passed in March 2003 in which there are two basic regulations: (1) during the contract period, the contract granting party shall not be allowed to take back the contracted land; and (2) during the contract period, the contract-granting party shall not be allowed to adjust the contracted land. Neither regulation, however, has been well implemented” (X. Chen 2006).

\textsuperscript{409} A rural problems research task force at the Chinese Academy of Social Sciences found that in the first six months of 2004, of 62,446 phone complaints to central media, 15,312 reflected rural land issues (24.5 percent of the total) – much higher than the share for any other category – and of 623 petitioners who came to Beijing and were successfully interviewed from 6/14/2004 to 7/15/2004, 463 dealt with land issues (73.2 percent). In the first half of 2004, of 130 mass incidents, 87 (66.9 percent) were based on land issues.

\textsuperscript{410} Yu (2005) finds that in terms of petition frequency, the majority of land problems are in coastal regions, concluding that “today’s rural land disputes are most concentrated in relatively advanced coastal regions.”

\textsuperscript{411} Wedeman (2009) uses a locational coefficient in his dataset of mass incidents to identify the relative frequency of regional mass incidents, finding that while in the 1995-1999 period, the center had over twice as many relative incidents (central region locational coefficient of 1.60 versus 0.64 for the coastal region), by 2005-2009 the relative regional frequencies had reversed (coastal region locational coefficient of 1.29 versus 0.82 for the central region.)
consequences: according to Yu (2007): “…in the past, peasants mainly resorted to
*shangfang* (petitioning high-level government authorities to appeal against unfair local
government behavior), or propagandizing their cause and refusing to pay taxes. In land-
rights disputes, however, they choose demonstrations, parades, or other forms of civil
disruption including sit-ins (*jingzuo*) at the doorstep of government buildings or on
highways and railways to obstruct the flow of key transportation.” This implies that land
expropriation may be a more problematic concern for overall stability than rural issues.

Although the central focus on letting some regions grow first may be rational, it is
short-sighted from both an economic *and* a stability perspective. Economic growth can
have destabilizing consequences, but the implied Huntington relationship does not remain
linear and positively sloped forever; rather, initial stages of economic growth may be
destabilizing, but at a certain point continued growth should become a socially stabilizing
force. If we accept the Huntington argument, then petition volume should rise in tandem
with economic growth before leveling off and falling when state capacity suffices.
Already in China, there are some indications that the instability in coastal regions has
begun to peak, with new (and potentially less tumultuous) causes of state-society
conflict.\footnote{For instance, Fewsmith (2013, 12-13) finds that in poor Sichuan Province state-society friction generally arises between impoverished peasants and local cadres over land requisition and taxation, while in wealthy Zhejiang Province, “a growing entrepreneurial class, particularly those who are party members, has increasingly argued that its views need to be taken into account.”} An example from Xuyi County, Jiangsu, highlights the potential inverted-U relationship between growth and stability. Wang Youfu served as Xuyi County Party
Secretary from December 2000 through June 2006, a period in which Xuyi took off
economically through industrialization and urban development. As discussed in Chapter
Five, Wang was known for his boldness and direct style: he was the Party Secretary with the trademark phrase “act first, discuss later” (*bulner xiangan* 不论先干) (Y. Wang 2005). Naturally, this style created enemies and detractors as well as supporters. In 2002, Wang’s second full year in office, during a period of rapid economic transformation and growth, petitions grew almost three-fold year-on-year.\(^{413}\) In subsequent years, however, they rapidly fell, and Wang is now remembered as a bold reformer rather than a socially-destabilizing leader.\(^{414}\) Similarly, when Suining County’s economic reforms picked up the pace in the early- and mid-2000s, the county was known for its societal discontent: the “label” (*biaoqian* 标签) by which Suining was most famous to outsiders was “Suiningers are litigious” (*suiren haogong* 衛人好讼), referring to the high volume of local petitions and lawsuits (M. Yang 2010). But after several years of rapid growth, in recent years petitions have declined and Suining has become known more for institutional reforms than local litigiousness.

Using provincial data on petitions and per capita GDP, the expected inverted-U relationship between growth and petitions holds. This brief analysis uses the same petitions data as discussed above. As the simple univariate regression results in Table 7.2 and the chart in Figure 7.3 show, there is a strong negative quadratic relationship between per capita GDP and petition volume. Regardless of whether year and/or province fixed effects are included, petition volume seems to peak between 20,000 and 25,000 RMB per

\(^{413}\) Xuyi Almanac, various years.
\(^{414}\) This was the same general path that Qiu He experienced in Shuyang County, as indicated by the previously quoted local citizen who initially engaged in frequent petitions before determining that “It seems that at that time, I was backward. I couldn’t see as far as Qiu He” (quoted in Fewsmith 2013).
capita (in 2000 constant RMB). All central provinces remain below this inflection point (Anhui per capita income reached only 15,072 by 2010), implying that, for them, increased growth may indeed go hand in hand with instability. The predicted values in the graph below come from the fixed effect model with year dummies. The rich coastal provinces are all in red, while the poorer central provinces are in yellow. All of these poorer central provinces are still on the upward part of the curve: more growth can be expected to lead to more discontent.

**Table 7.2. Regression results: petition frequency and economic development**

<table>
<thead>
<tr>
<th>Real per capita GDP (1000 RMB)</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.655***</td>
<td>3.733***</td>
<td>3.361***</td>
<td>3.224*</td>
</tr>
<tr>
<td></td>
<td>(0.869)</td>
<td>(0.652)</td>
<td>(0.942)</td>
<td>(1.892)</td>
</tr>
<tr>
<td>Real per capita GDP squared</td>
<td>-0.106***</td>
<td>-0.0892***</td>
<td>-0.0703***</td>
<td>-0.0697**</td>
</tr>
<tr>
<td></td>
<td>(0.0221)</td>
<td>(0.0140)</td>
<td>(0.0223)</td>
<td>(0.0285)</td>
</tr>
<tr>
<td>Constant</td>
<td>26.14***</td>
<td>19.49**</td>
<td>15.35***</td>
<td>16.05</td>
</tr>
<tr>
<td></td>
<td>(5.465)</td>
<td>(8.512)</td>
<td>(2.691)</td>
<td>(34.91)</td>
</tr>
<tr>
<td>Province FE</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Year FE</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.251</td>
<td>0.720</td>
<td>0.351</td>
<td>0.835</td>
</tr>
<tr>
<td>Implied inflection point (RMB per capita)</td>
<td>21,958</td>
<td>20,925</td>
<td>23,905</td>
<td>23,128</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1
Given the inverted-U relationship between economic development levels and discontent, as well as the varying growth/promotion relationships in richer eastern and poorer central provinces, it is reasonable to expect that the central Party-state provides a different set of incentives to leaders of the two sets of provinces. But this is short-sighted: the central Party-state no doubt expects all provinces to develop at some point, and getting over the “instability hump” sooner rather than later might be more effective. By focusing more on stability in poorer regions, the center delays and lengthens this process, and in the meantime incentivizes less attention to economic outcomes in these provinces that in turn results in worse institutional and governance outcomes.
7.3 *Institutional and economic consequences of stability-based promotion incentives*

The contention here is not that poor provinces are incentivized to prevent economic development, but rather that the incentive to ensure stability inadvertently conflicts with pro-growth development strategies. An emphasis on stability maintenance in the promotion of local leaders leads to poor governance and to low growth. Low-growth provinces and counties therefore remain poor and continue to emphasize stability maintenance in promotion decisions. The emphasis on stability maintenance has two immediate effects: it disincentivizes local leaders to implement creative and/or courageous ideas, and it enhances the importance of patronage in promotion decisions for the reasons highlighted earlier, namely the inability for sufficient yardstick comparison of leader achievements across a binary yes/no stability maintenance variable. As identified in Chapter Five, low degrees of creativity and lack of courage will prevent the emergence of good governance through innovative and/or/bold institutional reforms. Without institutional reforms and with leaders’ lack of courage to “shake things up” locally, localities will not develop high degrees of control over local cadres; combined with the added importance of patronage in promotion decisions, this incentivizes (or at least fails to disincentivize) further corruption. A lack of pro-growth policies leads directly to lower growth, and poor governance leads indirectly to lower growth through lower levels of investment and firm efficiency, as highlighted in Chapter Four. Most of these processes have been analyzed already in the dissertation: the lower degree of cadre control and higher incidence of corruption in Anhui was a focus of Chapter Four, as were the effects of poor governance on growth; Chapters Four and Five also highlighted lower institutional innovation in Anhui; and Chapter Five demonstrated leader effects on local
economic policies. Below, I provide additional evidence that Anhui and non-coastal provinces are less innovative and bold with regard to institutional reforms, and that they select economic policies and fiscal priorities that do not maximize growth.

7.3.1 Regional differences in levels of institutional innovation and reform

Chapter Five argued that a key ingredient for local development arose from bold innovations of the County Party Secretary. Jiangsu has produced its fair share of courageous leaders: leaders who pursue economic growth and development without regard for local opinion. For instance, Wang Tianqi in Suining instituted bold, nationally recognized institutional reforms to control local cadres, limit corruption, and increase government transparency. This reform, as well as other institutional/administrative reforms that successfully rein in cadre behavior, have the potential to improve pro-growth governance, local investment, and growth.

China’s decentralized growth model in the reform era has emphasized the importance of local experimentation: some of this experimentation is directly sanctioned and encouraged by the central government: for instance, the Shanghai Free Trade Zone that has gotten so much press in 2013/2014. Other experimentation is locally driven, with successful experiments subsequently adopted more broadly.\[415\] There is a debate on whether less or more developed areas are more likely to experiment with institutional reforms. Fewsmith (2013) concedes that, “Local authorities do not experiment with

\[415\] As discussed in Chapter Two, this locally-driven experimentation can be driven by local governments as well as forced onto local governments by local citizenry.
political reform in places where heightened tensions are such that the experiments might spin out of control,” but he then argues that Sichuan used political reform as a provincial strategy to gain recognition from the center: “because the province was too poor to impress central authorities through economic growth, political reform became an alternate strategy.” Similarly, Saich and Yang (2003) note that while it is generally accepted that institutional innovations are more likely to occur once a certain degree of economic development has been attained, poor localities have often experimented with reforms as a consequence of local crisis: “it is interesting to note that a number of key innovations in China since the 1970s have occurred in less economically developed areas” (Saich and Yang 2003, 186).

One important example is Provincial Party Secretary Wan Li’s decision to eliminate communes in post-Mao Anhui. However, I show here that the conventional wisdom is correct: while poorer areas have indeed initiated some institutional and political reforms, such reforms seem to have predominantly been a developed region phenomenon. A likely explanation is that for every successful reform, other reforms may go “too far” or backfire; risk-averse officials in less developed areas that focus on stability do not want to take the risk. Beyond the discussions in Chapters Four and Five that identify higher levels of institutional

416 They analyze experimentation in 1998 with direct elections in three townships, two in Sichuan and one in Shenzhen. As additional evidence they cite the household responsibility system and the villagers’ committee elections, with the former initiated in Anhui (not according to Sihong’s branding efforts!) and the latter begun in Guangxi. Their explanation is that: “First, local governments in many poor areas lack the revenue to meet basic public needs or to respond to crises. This can create the need to innovate with existing institutions... Second, local communities in poorer areas may be less riven by interest groups and the forces of pluralism. This may facilitate consensus building about alternative solutions. Third, innovation initiated by government might be accepted more readily. Local societies might not have much information about alternatives, especially if migration is not particularly significant. Under these circumstances the combination of remoteness would allow for more experimentation…”
innovation in the Jiangsu case counties than the Anhui case counties, there are many additional examples of innovative reforms at the local level in developed regions, often initiated by local leaders trying to gain notice or improve local outcomes. These include some of the most radical institutional/political reforms in China: county-level participatory budgeting (Wenling, Zhejiang), marketization (Shunde, Guangdong), the Service Promise System (Yantai, Shandong). Additionally, political/administrative reforms are often initiated by the need for smoother economic operations, and these types of concerns are often more relevant in more advanced economic regions. The Zeguo Party Secretary admitted with regard to the participatory budgeting experiment:

“Although I gave up some final decision-making power, we gained more power back because the process has increased the legitimacy for the choice of projects and created public transparency in the public policy-making process. Public policy is therefore more easily implemented” (B. He 2011). Similarly, Foster (2006) describes the impetus for Service Promise System reforms in Yantai as a way to prevent the phenomenon of “hard to get in the door, hard to deal with the bad attitude of officials, and hard to get things done.” This was part of the “administrative openness” (zhengwu gongkai 政务公开) movement that had become popularized at the turn of the millennium as a way to promote more efficient administrative. (D. Huang 2000).

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417 Wenling County in Zhejiang has been at the forefront of participatory budgeting, with experimentation in Xinhe (新河镇) and Zeguo (泽国镇) townships. Zeguo randomly selects citizens to oversee capital construction project decisions. See Fewsmith (2009) and Cabannes and Ming (2013). For Shunde reforms, see Y. Xu (2011). See also a 2003 Wenzhou (Zhejiang) campaign to “improve the way in which bureaucrats treat citizens” (Foster 2006, 221).
Using data on the Local Governance Innovation Awards (discussed in Chapter Four) enables a more rigorous look at the regional distribution of local institutional reforms. Every two years since 2000, the China Center for Comparative Politics and Economics, the Comparative Research Center for the Party of the Central Party School, and the Center for Chinese Government Innovations of Peking University jointly give out local governance innovation awards (zhongguo difang zhengfu chuangxin jiang 中国地方戏横幅创新奖). The topics for innovation include “political transparency, civil society organizations, democratic elections, self-governance, integrity, public hearings, poverty alleviation, political participation, administrative services, and etc.” Winners are awarded 50,000 RMB, and public agencies from the township level and higher can apply. Looking at the regional distribution of these awards, it is clear that the awards have been given predominantly to local governments on the coast, even controlling for population and number of county-level units (the central and Western regions have more county-level units than the coast as well as larger overall populations). This is seen in Figure 7.4. The contrast between coastal and central China is particularly stark; while 67 coastal-region governments were awarded or nominated for prizes between 2000 and 2010, only 11 central-region governments were. Moreover, according to Yang (2013), the majority of these local government “innovators” see the goal of governance innovation as boosting local government efficiency, and 23 out of 92 finalists involving innovations in public administration specifically focused on attracting outside capital and improving the local economy, the largest of any category. In other words, local governance innovations are concentrated in coastal China and they are seen primarily as a way to boost local
government capacity in the pursuit of economic efficiency. This strongly supports the divergent findings in the Anhui and Jiangsu case counties.

**Figure 7.4. Governance innovation concentrated on east coast**

*Number of winners and nominees of “Chinese Local Governance Innovation Prize”*

![Bar chart showing governance innovation in East, Center, and West regions from 2001-2010.](chart)

*Source: Innovations & Excellence in Chinese Local Governance (中国政府创新奖), 2013 handout; author’s calculations.*

7.3.2 *Regional differences in economic policy choices*

Stability-based promotion incentives also inadvertently result in policy choices that are less explicitly pro-growth.\(^{418}\) The case county examples demonstrate the lack of

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\(^{418}\) At the most basic level, a focus on stability may prevent cadres even from doing their own work. One Township Deputy Mayor in Sichuan, another poor province, notes that “I’m not a ‘stability maintenance expert’… but stability maintenance takes up most of my energy. From my own experience, every year I
pro-growth policies in Anhui, where local cadres and businesses identified a cadre environment that involved simply implementing provincial decisions and not pushing the envelope. For instance, with regard to investment promotion work, one interviewee explained that this work started very late in Anhui (officially not until 2001 in every county throughout the province). In 2004 the center allowed every county to have a province-level development zone, which were then developed over the next few years—but again there was no local decision or initiative (Interview AH104). Although one would think that every county getting a development zone at the same time would lead to massive competition that could determine county winners and losers, the interviewee said that while there was some competition, for the most part investment relies on city-determined “policy directions” (*fazhan dingwei* 发展定位). For instance, Mingguang focuses on refrigerators and other white goods as a result of Chuzhou City policies, whereas counties in Wuhu City all focus on car parts. In Jiangsu, counties were much more likely to take the initiative on new strategic directions.

More compelling cross-county evidence comes from fiscal decisions. Fiscal decisions directly reflect local government developmental priorities. If counties/provinces are more concerned with stability and less concerned with economic growth, we should expect to see fiscal expenditure concentrated relatively more on categories that prevent local discontent and fiscal revenue sourced from areas that do not cause discontent. For instance, as discussed above, land expropriation and environmental

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spend four months on stability maintenance (*weiwen* 维稳), two months preparing inspection materials, and two months in meetings and studying, which leaves at most four months to do real work (*gan zhengshi* 干正事)” (Xiao 2013).
protection are two of the most important sources of local mass incidents. Governments concerned about stability should therefore invest relatively more in environmental protection and rely relatively less on revenues from land expropriation.

County-level fiscal data can help determine if fiscal priorities differ between Jiangsu and Anhui by running the following two regressions on a set of expenditure and revenue categories:

\[
\text{ExpCat}_{it} = \alpha_1 \cdot \text{Anhui}_i + \beta \text{ExpTot}_{it} + \beta x_{it} (+ \varphi_t) + \epsilon_{it} 
\] (7.1)

\[
\text{RevCat}_{it} = \alpha_2 \cdot \text{Anhui}_i + \beta \text{RevTot}_{it} + \beta x_{it} (+ \varphi_t) + \epsilon_{it} 
\] (7.2)

Here, a separate regression is run for each expenditure (7.1) and revenue (7.2) category as a share of GDP, \(\text{ExpCat}_{it}\) and \(\text{RevCat}_{it}\), respectively. \(\text{Anhui}_i\) is a dummy variable taking value one for Anhui province counties; \(\text{ExpTot}_{it}\) and \(\text{RevTot}_{it}\) are total expenditure and revenue as a share of GDP. \(x_{it}\) refers to a set of additional control variables, and \(\varphi_t\) are year fixed effects. Note that we cannot use county fixed effects as this would make the Anhui dummy perfectly collinear and therefore prevent analysis of the variable of interest. Year effects are included whenever possible, but for certain expenditure categories data only exist for one year (2007). The coefficients of interest are \(\alpha_1\) and \(\alpha_2\), which determine the size and significance of the Anhui dummy variable.

In determining how relative fiscal priorities differ between Jiangsu and Anhui, note the importance of controlling for both total expenditure/revenue as well as wealth. If national or provincial governments have minimum expenditure requirements on the
environment, for instance, then we would expect poor governments to spend “more” on the environment. In the regressions below, I include both log per capita GDP and population as additional controls. Regressions were also run controlling for the industrial share and urbanization rate: the results were very similar and are not shown.

It is informative to compare results over several revenue and expenditure categories. For expenditure, I look at environmental protection, administration, and public security (combined with procuratorates, courts, and justice). For revenue, I look at land transactions, administrative fees (xingzheng shiyexing shoufei shouru 行政事业性收费收入), penalties and confiscations, and state asset and SOE revenue. Before analyzing the results, it is worth discussing the predicted effects. Environment and land have already been discussed: if local governments in Anhui attempt to prevent discontent (at the possible expense of economic growth), we would expect environmental protection expenditure to be relatively high and land-based revenue to be relatively low. Given lower relative institutional development and potential dissatisfaction over cadre waste, we should also expect less relative expenditure on administration. Public security and

419 A natural objection is that Anhui and poorer central provinces were seen as the foci of rural discontent, leading to abolition of the agricultural tax. But note that this may conflate a wealth-correlated result with regional variation – poor agricultural counties were concentrated in the center and thus more likely to have agricultural taxation. In analyzing county expenditure priorities and revenue sources, cross-provincial variation will arise from both county-level decisions and provincial decisions; national mandates on social expenditure should have constant effects by wealth.

420 Note that at the county level, the title deed (or contract) tax (qishui 契税) is the only regularly reported revenue from land transactions, which covers taxation from all transfers of fixed assets. Several other land-related taxes and fees, including the urban land use tax (chengshi tudi shiyong shui 城市土地使用税), land value-added tax (tudi zengzhi shui 耕地占用税), and land transfer fee (tudi churang jin 土地出让金), are not reported at the county level.

421 To look at state asset and SOE revenue, I combine the operation income of state-owned assets (guoyou xiben jingying shouru 国有资本经营收入) and income from the use of state-owned resources (guoyou ziyuan (zichan) youchang shiyong shouru 国有资源（资产）有偿使用收入).
law is more complicated, as it includes spending on public security (and state security), procuratorate, courts, and justice. While public security spending itself may be higher in Anhui, we would expect the other included categories to increase with institutionalization and the rule of law, which would imply higher relative spending in Jiangsu. On the expenditure categories other than land, Anhui counties should earn less from potentially contentious penalties and more from red tape (administrative fees) given a lack of other income sources and given the efforts in Jiangsu to reduce excessive fees (luan shoufei 乱收费). Similarly, Anhui counties should earn more from state assets due to a lack of willingness to privatize and restructure local state firms.

Table 7.3 reports regression results for all of these fiscal variables. The coefficient for the Anhui dummy is presented in the first row. The results support the story, with the possible exception of spending on public security and law (discussed above). Controlling for the aforementioned variables, Anhui counties spend more on environmental protection and less on administrative expenses, and their revenue relies less on land transactions and penalties and more on administrative fees and state assets. In other words, Anhui counties spend more money on a category with high potential for

\footnotesize{\textsuperscript{422} Indeed, the sample counties spend very similar expenditure shares on this category (between 4-7 percent of total expenditure in all six case counties), although slightly larger in the three Jiangsu case counties (5.9 percent versus 4.6 percent). Much of this has to do with greater institutionalization in Jiangsu, which has more courts and more cases handled, rather than more attention to local policing and public order management. For instance, Jiangsu in 2010 had over twice as many registered lawyers (11,903 versus 5,019), as well as many more mediators (226,714 versus 139,366). Additionally, most criminal cases are larceny (over 75 percent in both provinces). Office cases against public order (number of cases investigated and treated in 2010): Jiangsu 1,220,500 versus Anhui 608,454 (assault and robbery account for nearly 60 percent of all cases; blackmail, prostitution, gambling, illegal firearms, fraud, gang activities account for most of the rest; disturbing public order accounts for less than 1 percent of total cases in both provinces: 6,528 in Jiangsu and 5,710 in Anhui. (All of the data in this paragraph are from the Jiangsu and Anhui 2011 provincial yearbooks.)}
public disturbance and less on administration, and they collect fewer revenues from categories that could ignite public discontent (land and penalties), depending instead on red tape (administrative fees) and existing state assets.

7.4 Conclusions

This chapter has demonstrated that the counterpart to a lack of pro-growth incentives for promotions in Anhui and central China can be found in stronger promotion incentives for stability maintenance. This stability maintenance incentive is transmitted down the administrative hierarchy from the central Party-state, and it results in less courageous and less innovative local leadership as well as fewer pro-growth economic and fiscal policy choices. Consequently, this focus on stability over economic growth has weakened local governing capacity and lowered the potential for political reform and innovative governance, although it has also had positive effects (e.g., greater efforts at environmental protection). Moreover, the focus on stability may not even be effective. Without the growth incentive spurring efforts to improve local investment environments, local corruption becomes more likely, undermining efforts to win local support. Indeed, local citizens appear much more dissatisfied with local governments in Anhui than in Jiangsu, despite fiscal decisions that seemed designed to effect the opposite outcome.423

423 Of course, there are many disgruntled people in Jiangsu as well. One local taxi driver referred to the local Party Secretary as “a central Party dog,” and when I told him I was studying economic development at the county level, he told me (twice): “Don’t listen to anything they tell you, understand?”
Table 7.3. Anhui and Jiangsu county differences in revenue and expenditure categories

<table>
<thead>
<tr>
<th></th>
<th>(1) Expenditure</th>
<th>(2) Expenditure</th>
<th>(3) Expenditure</th>
<th>(4) Revenue</th>
<th>(5) Revenue</th>
<th>(6) Revenue</th>
<th>(7) Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Environment</td>
<td>Administration</td>
<td>Public sec. and courts</td>
<td>Land transactions</td>
<td>Administrative fees</td>
<td>Penalties</td>
<td>State assets</td>
</tr>
<tr>
<td>Anhui dummy</td>
<td>0.101***</td>
<td>-0.121***</td>
<td>-0.0938***</td>
<td>-0.0702***</td>
<td>0.174**</td>
<td>-0.0564**</td>
<td>0.129*</td>
</tr>
<tr>
<td></td>
<td>(0.0284)</td>
<td>(0.0177)</td>
<td>(0.00914)</td>
<td>(0.0179)</td>
<td>(0.0768)</td>
<td>(0.0280)</td>
<td>(0.0767)</td>
</tr>
<tr>
<td>Expenditure/GDP</td>
<td>0.00443</td>
<td>0.172***</td>
<td>0.0596***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00405)</td>
<td>(0.00786)</td>
<td>(0.00390)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue/GDP</td>
<td></td>
<td></td>
<td></td>
<td>0.0494***</td>
<td>0.0614***</td>
<td>0.0211***</td>
<td>0.0834***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.00264)</td>
<td>(0.0192)</td>
<td>(0.00304)</td>
<td>(0.0168)</td>
</tr>
<tr>
<td>Log p.c. GDP</td>
<td>-0.0113</td>
<td>0.00301</td>
<td>0.0250**</td>
<td>0.00910</td>
<td>-0.172***</td>
<td>-0.107***</td>
<td>0.0577</td>
</tr>
<tr>
<td></td>
<td>(0.0182)</td>
<td>(0.0197)</td>
<td>(0.0109)</td>
<td>(0.0123)</td>
<td>(0.0389)</td>
<td>(0.0170)</td>
<td>(0.0588)</td>
</tr>
<tr>
<td>Population</td>
<td>4.35e-05</td>
<td>-0.00196***</td>
<td>-0.00041***</td>
<td>-0.00049***</td>
<td>-0.00200**</td>
<td>-0.000660*</td>
<td>0.00101</td>
</tr>
<tr>
<td></td>
<td>(0.000324)</td>
<td>(0.000250)</td>
<td>(0.000128)</td>
<td>(0.000165)</td>
<td>(0.000939)</td>
<td>(0.000366)</td>
<td>(0.000702)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.178</td>
<td>0.131</td>
<td>-0.222</td>
<td>0.0466</td>
<td>1.862***</td>
<td>1.239***</td>
<td>-0.881</td>
</tr>
<tr>
<td></td>
<td>(0.218)</td>
<td>(0.210)</td>
<td>(0.147)</td>
<td>(0.122)</td>
<td>(0.399)</td>
<td>(0.187)</td>
<td>(0.575)</td>
</tr>
<tr>
<td>Year FE</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Observations</td>
<td>113</td>
<td>1,274</td>
<td>1,387</td>
<td>339</td>
<td>111</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.216</td>
<td>0.836</td>
<td>0.738</td>
<td>0.594</td>
<td>0.272</td>
<td>0.249</td>
<td>0.282</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
8 SUMMARY AND CONCLUSIONS

We are now ready to answer the three questions posed in the first chapter:

How do counties grow and what explains variation in county economic outcomes? County economic growth is highly capital-intensive and requires successful investment attraction efforts. These efforts are contingent on local pro-growth governance that helps firms by reducing government failures and ameliorating market failures.

What is the role of County Party Secretaries in determining local growth outcomes? County Party Secretaries wield high degrees of local control, and their personal characteristics, which I label the “4 Cs,” largely determine local governance and investment attraction outcomes. County Party Secretaries use connections to senior government officials and outside firms to attract investment and preferential policies; they ensure pro-growth governance through control over the local bureaucracy; and they initiate institutional reforms and county marketing tactics that require creativity and courage.

Why do County Party Secretaries emphasize particular developmental priorities? China’s personnel management systems, built on upward accountability, successfully transmit upper-level priorities down to the county level and largely shape the behavior of local leaders. In provinces that emphasize stability, County Party Secretaries concentrate their efforts on preventing destabilizing incidents. In provinces that emphasize economic growth, County Party Secretaries concentrate their efforts on policies and institutional reforms that will attract investment and boost growth.
In terms of the two provinces selected for in-depth analysis, Jiangsu, a wealthy coastal province, and Anhui, a poorer inland province, emphasize different criteria in their evaluations of County Party Secretaries. Despite publicized changes in emphasis away from growth “quantity” and towards growth “quality,” Jiangsu continues to promote its County Party Secretaries on the basis of economic success. Anhui, which needs all the growth it can get, instead promotes leaders based on stability maintenance. These promotion emphases are a direct consequence of differential implementation of the two primary central Party-state mandates: growth and stability. The center rewards Jiangsu (and other wealthy province) leaders who pursue and achieve economic growth, and rewards Anhui (and other poor/central province) leaders who maintain stability. Although the central Party-state no doubt would rather have growth and stability in both regions, its risk averse strategy has been to continue to let some regions develop first. As a consequence of this incentive structure as well as the relationship between leaders and growth and between governance and growth in China’s counties, local leaders and governments in Anhui and central regions have been less innovative institutionally, have had worse governance, have made less bold economic decisions, and have achieved worse economic outcomes; counties in Jiangsu have vastly outperformed their Anhui counterparts since the mid-1990s.

The argument can be summed up in the following two flow charts, representing the vicious and virtuous circles resulting from different promotion emphases:
Figure 8.1. The vicious cycle of stability-based promotion incentives, poor governance, and low growth

Figure 8.2. The virtuous cycle of growth-based promotion incentives, good governance, and high growth
This dissertation makes contributions across several areas of study: the relationship between local governance and local growth; the role of local leaders in economic and institutional development; and the developmental efficacy of upward accountability. There are several additional implications. For the China studies field, it is important to note that the cliché of GDP growth at all costs is not universal; there are regional differences. The dissertation both confirms and challenges the assumption that GDP growth is at the top of all local official rankings. Moreover, although the pursuit of GDP does have many unintended negative consequences, it does not have as many as critics suggest. Additionally, there are important implications for understanding central-local relations: China has a functioning meritocracy that effectively transmits policies and developmental priorities down the administrative hierarchy. For studies of economic development more broadly, there are important implications regarding the determinants of pro-growth governance as well as implications for the developmental capacity of upwardly accountable local autocracies: China’s Party-state has achieved many of its intended objectives through meritocratic promotions, and it is doubtful that a democratic government at a similar development level could have achieved similar economic outcomes, and possibly not even similar social and developmental outcomes.

This research both challenges and confirms the assumption of “GDP worship” that pervades the study of China’s economic growth and local politics. The cliché of the “blind pursuit of GDP growth” at all costs is not universal; it holds in some regions but not all. In enabling an identification and comparison of one province that has growth-based promotion incentives and one province that does not, this dissertation sheds important light on a long-running debate over the consequences of GDP worship in an
upwardly accountable political environment. As suggested by the conventional wisdom, growth-based incentives have many unintended negative consequences; however, such growth-based incentives also have unintended positive consequences, and it is unclear if alternative promotion criteria or even downward accountability would have been able to achieve similar social and developmental outcomes, to say nothing of growth outcomes.

The pursuit of GDP growth enshrined in an upwardly accountable system results in many local pathological behaviors and potentially sub-optimal social outcomes. Minzner (2009) puts the problem aptly: “China’s leaders’ existing strategy for addressing the principal-agent problems at the heart of the Chinese bureaucracy is itself the cause of many governance problems that they seek to address.” Demonstrating the lack of attention to local citizenry, one popular saying in Anhui in the 1990s went: “Your promotion does not depend on my begging; my begging does not affect your promotion” (K. X. Zhou 1996). Many studies of social problems arising from cadre behavior focus on the pursuit of GDP growth: for instance, Bernstein and Lu (2003, xv) note that peasant burdens “were the product of a well-entrenched approach to development that set performance targets irrespective of local capacities to meet them...and that rewarded officials for achievement, not questioning the methods used.” Similarly, Fan, et al. (2009) find that social welfare is missing in bureaucrats’ promotion formula: “There is little evidence that bureaucrats are promoted for their contributions to hospital beds,

424 “So long as officials are only responsible to their superiors and not the people they supposedly serve, and as long as the people have no means to attain justice for themselves through democratic elections as stipulated in the constitution, nor oversight from the National People's Congress or an independent judiciary, a bottom-up system of self-government will not replace the top-down performance evaluation system, and the rights of Chinese citizens will continue to be arbitrarily violated by those wielding power over the public” (Q. Zhang 2010).
green space, and education. Moreover, even though the bureaucrats are successful in propping up local GDP and attracting continuous development of the private sector taken by home firms, social welfare (education, health care, and environment) is sacrificed.”

Poor environmental outcomes are also associated with the GDP focus. W. Xi (2006) finds that environmental problems are “closely related with a lack of interest from subnational government officials, who found that enforcing environmental regulations detracted from their ability to provide regional economic growth” (quoted in Xu 2011). Indeed, the fiscal analysis in Chapter Seven showed that where pro-growth promotion incentives were replaced by pro-stability incentives, expenditure on environmental protection rose. The existence of “race to the bottom” tax policies due to interjurisdictional competition to boost growth has resulted in lower local revenue, which further hurts social outcomes through lower social expenditures.⁴²⁵

Yardstick evaluation based on GDP growth also leads to economic pathologies, particularly over-investment at the expense of consumption. China’s growth model has been based on excessive domestic investment, and an intended switch to domestic consumption as a source of growth has thus far proved fairly elusive; part of the difficulty has been aligning local government incentives to pursue consumption rather than

⁴²⁵ A “race to the bottom” and regulatory arbitrage to attract investment ironically hurts overall potential for revenue generation even while benefiting individual localities – in other words, tax breaks and cheap land make sense for local growth and revenue collection, as they may lead to lower short term revenue but will bring industrial investment and future revenue – so it is rational for each locality to engage in this race to the bottom. Break (1967, 23-24): “The trouble is that state and local governments have been engaged for some time in an increasingly active competition among themselves for new business . . . In such an environment government officials do not lightly propose increases in their own tax rates that go much beyond those prevailing in nearby states or in any area with similar natural attractions for industry... Active tax competition, in short, tends to produce either a generally low level of state-local tax effort or a state-local tax.”
investment. As Zhu Hanqing from the Quzhou Party School notes, the “Chinese characteristics tournament promotion model” dictates that GDP competition will be based on boosting investment rather than consumption, leading to China’s excessive \(\text{jigao}\) investment rate” (H. Zhu 2011). In the counties I visited, they referred to the “three \text{luans}” in investment attraction: \text{luan zhaoshang} (乱招商) means every investment is sought out, even those that have already failed locally; \text{zhao luanshang} (招乱商) means if it is from outside accept it no matter; and \text{zhaoshang luan} (招商乱) means accepting all investments just to boost evaluations. Such overinvestment leads to inefficient allocation and bubble-type euphoria. In Xuyi, for the price you could buy a downtown apartment just a few years ago, you now cannot even rent for a year, and plans are underway to build a 312 meter skyscraper and a five star hotel (Interview JS207). Consequently, worries of a bubble based on excessive debt have started to grow. Since the central crackdown on lending, locals have started to worry, and there are now upwards of 50,000 square meters of empty unsold apartments in Xuyi. In Suining, several recent investments seem to have been “over-euphoric,” including a factory built to resemble the White House and a chateau built to resemble a European castle (where construction had stopped, although the owner already planted 1000 \text{mu}, or 165 acres, of grapes, so maybe when those age the place will actually take off). One mover and shaker in the informal finance field (self-described as working in “private finance”) assured me that everything I saw (cars, houses, factories, etc.) was bought on debt, and it “will not end well” (Interview JS262). Such debt is also frequently (and correctly) attributed to growth-based promotion competitions (W. Zhang 2011).
These frequently identified problems with the pro-growth incentive structure are acknowledged by the research here, but the dissertation also suggests unexpected positive impacts on local governance and institutional reform. Some complaints levied against the growth model go too far. For instance, corruption is often blamed on the growth pursuit, but whereas China’s political system with upward accountability enables corruption, the results here imply that the pursuit of GDP may actually result in cleaner government compared to alternative promotion incentives.\textsuperscript{426} This plays into the debate on China’s capacity for administrative adaptation or atrophy. For instance, S. Wang (2003, 38) argues that China’s political and administrative institutions are atrophying, and China is “in the midst of a deep and overwhelming crisis of governance,” contrasting with D. Yang (2004) and Shambaugh (2008) who argue that China’s institutions are successfully adapting to current realities. This dissertation implies that central capacity to control local outcomes (or at least developmental emphases) remains strong, and also that a pro-growth incentive has resulted in “adapting” local institutions.

More controversially, the growth-based incentives may actually have improved social outcomes and public goods provision compared to alternative promotion criteria, and potentially even compared to a democratic system. Even in democracies, decentralized developing economies often experience collusive rent-seeking between local business elites and politicians that harms non-connected and weaker portions of the local population (Duflo et al. 2006). Chen and Xu (2011) argue that in China’s early

\textsuperscript{426} This is not to say that upward accountability is better than downward accountability for preventing corruption. Indeed, a large body of evidence has shown that elections can serve as a disincentive to corruption (Banerjee, et al. 2010; Ferraz and Finan 2008 and 2011).
development phase, a tournament competition that made economic growth the basis of competition was not only good for growth, but actually was the governance model with the most potential to increase social welfare. This is because public good preferences were weak and also because asymmetric/incomplete information problems arose as a consequence of undeveloped channels for public expression.\textsuperscript{427} Although I did not specifically research local public goods provision, it is worth highlighting the strong relationship between GDP and fiscal expenditure and between local fiscal expenditure and education and health outcomes: the best determinant of local social outcomes is wealth. Moreover, democracies in low information polities with low levels of education and development have not always functioned smoothly: Pande (2011) argues that “the weight of the evidence suggests that lack of information prevents voters from using elections to effectively screen candidates and discipline incumbent behavior.”\textsuperscript{428} In poor countries with low levels of development, economic growth may be the most effective way to boost local social outcomes, and local democracies do not have a great track record at incentivizing politicians to focus on growth, even in developed countries.\textsuperscript{429}

Although this discussion highlights the efficacy of an upwardly accountable meritocratic system for producing growth, institutional reform, and possibly even social

\textsuperscript{427} Chen and Xu (2011) further argue that in more recent years a change to a model of public provision of social welfare/insurance requires a shift in the tournament promotion model towards competition based on “harmony” (hexie 和谐).

\textsuperscript{428} Almond and Verba (1963, 315) write that “The uneducated man or the man with limited education is a different political actor from the man who has achieved a higher level of education.” The conclusions are very much a part of modernization theory. For instance, Lipset (1959) concludes that low levels of education lead to poorly-functioning democracies.

\textsuperscript{429} Boyne, et al. (2007) find, based on published Comprehensive Performance Assessments of 148 local authorities in the UK, that “objectively measured performance” does not predict vote share, although citizen “satisfaction” with government and levels of local taxation do.
outcomes at low levels of development, China may now be at an inflection point that requires greater local government responsiveness to local citizens. Many challenges to the system are becoming apparent. At the local level, procedural injustice is highlighted as the area causing the greatest discontent (Whyte 2010); combating this problem requires greater downward accountability. It is possible that as the economy switches towards services, the pro-growth incentive itself could be a useful path for creating downward accountability among local governments: as China becomes more service-based, the livability of a local environment will determine growth.

However, it seems more likely that accountability mechanisms will have to adapt to make local governments sufficiently responsive to a growing middle class with growing demands. A question is whether the current upwardly accountable personnel management system can adapt sufficiently by including new targets. There are two questions implied here: first, is a multi-target evaluation system feasible; and second, is the central Party-state willing and able to change evaluation criteria to reflect local citizen satisfaction? With regard to the important issue of switching targets, the analysis here has demonstrated that intentions are insufficient – a focus on stability does not necessarily achieve stability. Although the focus on growth has achieved growth, would a focus on other factors have similar success? Xu (2011), citing the work of Holmstrom and Milgrom (1991), finds that China’s institutions have worked well in pursuit of GDP growth, but that “it is known that assigning high-powered incentives, through methods such as tournament competition, to subnational officials can be harmful when they are responsible for multiple tasks.” There have already been initial attempts to switch targets.
to focus on public satisfaction. But a key will be whether these become the *de facto* criteria for promotions; if they do, then the authoritarian system should be capable of responding to local preferences and needs.

The second question for the capacity and effectiveness of switching targets relates to central government will and ability. The research here shows that the political hierarchy works relatively well and that the center maintains high degrees of control through control over personnel. In 1992, Oi wrote that “Local state corporatism holds the most threatening consequences for central-local relations... the success of local state corporatism may in the long run force the emergence of something akin to a federal system that more clearly recognizes the rights and power of localities.” Similarly, Oi (1999) found that “local officials in China have gradually modified their role as agents to become more like principals as they have gained rights to the resources that once served as the basis of central-state control.” However, the analysis here suggests that local officials are still agents, not principals. Jiang Zemin’s comment in the early 1990s still stands: “Don’t believe that because local economies are getting stronger and because you have more money you can bargain with the Center. I tell you that although you have money, the Party Center still has the power to select and fire personnel” (Y. Huang 1996). Counties are not as independent as sometimes implied. The idea that “heaven is

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430 Fujian province, for example, has included ratings for environmental quality, energy consumption, R&D, public safety, education, and rule of law in its performance evaluations. A city in Jiangsu province recently started using a “happiness index” as a supplementary measure of performance. A national poll last year found an overwhelming 89 percent of respondents in favor of including a “happiness index” as part of local government performance evaluations (S. Feng 2011).

431 A. Wang (2013) finds that when eight environmental targets became “hard” targets, provincial leaders were highly incentivized, putting these targets into evaluations for subordinates.
high and the Emperor is far away” (tiangao huangdiyuan 天高皇帝远), implying that central control may not reach localities, should perhaps be rephrased as “heaven is high, and local officials’ heads are in the clouds”: local officials act like local autocrats (their heads are in the clouds), but they also operate within the confines of authority (within heaven). The CCP likely recognizes that moving from GDP and stability emphases towards explicit downward accountability in performance evaluations could help resolve current developmental problems, but such moves would also make localities less responsive to the center, and there is likely a fear on the part of the principal (the center) to cede control over its agents to other principals (the people). In other words, the biggest obstacle in developing responsiveness to local citizens may not be the poor governance of local governments and weak control of the center, but rather the CCP’s fear of giving up a piece of its power.
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