

15

LOCAL GOVERNMENT

Local governments at all levels are fundamental to the implementation of government strategies for the development of the Western Region. This chapter first reviews the structure of local government in the Western Region, then some critical issues concerning local government and economic development, and finally possible strategies for improving governance.

Structure of local government

Article 30 of the Constitution provides for the division of administration into five levels. All local governments are part of this single administrative hierarchy and do not have independent powers. Almost all decisions are subject to reversal by the superior level of government; the autonomous areas have independent jurisdiction in some matters.

LEVEL TWO: PROVINCES, AUTONOMOUS REGIONS, AND MUNICIPALITIES

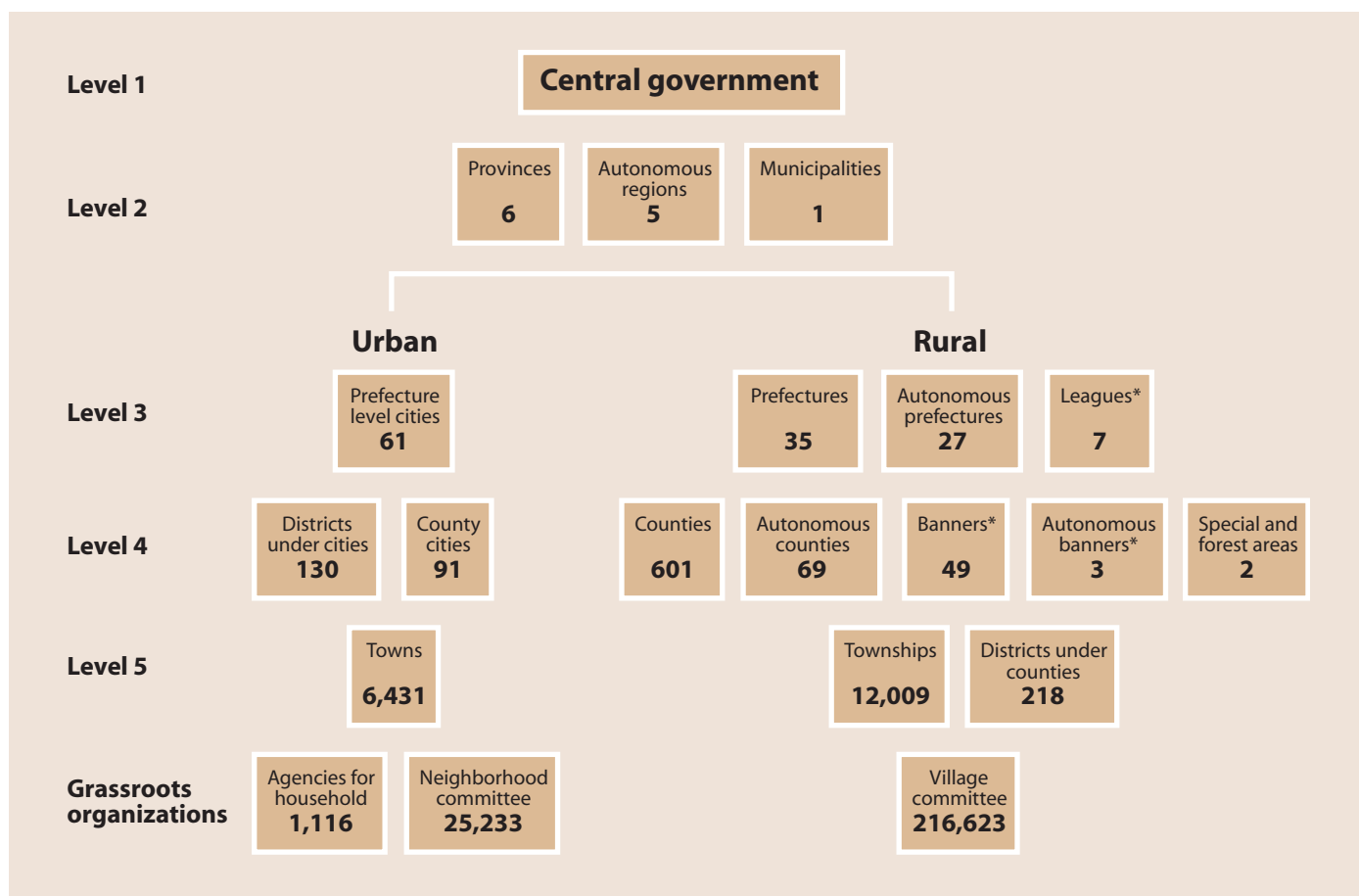
The Western Region has twelve second-level governments comprising five autonomous regions, six provinces, and one municipality (Chongqing) directly under the Central Government (Figure 15-1).

The Constitution and the Regional National Autonomy Law of 2001 contain numerous special provisions for the autonomous areas, which comprise autonomous regions, autonomous prefectures, and autonomous counties. For the purposes of this report, the following provisions of the Constitution are noteworthy:

Article 118 In exploiting natural resources and building enterprises in the ethnic autonomous areas, the state shall give due consideration to the interests of those areas.

Article 122 The state provides financial, material and technical assistance to the ethnic minorities to accelerate their economic and cultural development.

Figure 15-1 Structure of Local Government in the Western Region



Source: *Civil Affairs Statistical Yearbook 2001*.
*Inner Mongolia only.

Table 15-1 Average Areas, Populations, and GDPs of Level 3 and Level 4 Governments

Region	Average Population		Average Area		Average GDP	
	Level 3 (millions)	Level 4 (thousands)	Level 3 (km ²)	Level 4 (km ²)	Level 3 (million yuan)	Level 4 (million yuan)
Eastern	2.3	422	5,500	1,000	25,700	4,600
Central	2.2	396	8,900	1,600	12,000	2,200
Western						
Southwest	2.5	356	26,700	3,900	10,300	1,500
Northwest	1.3	218	55,400	9,500	6,100	1,100

Source: Calculated from data in the *China Statistical Yearbook 2000*.

Table 15-2 Number of Cities, by Size and Region, 1999

Region	Population					Total
	>2 Million	Over 1 Million to 2 Million	Over 500,000 to 1 Million	Over 200,000 to 500,000	200,000 or Less	
Eastern	7	11	23	96	144	281
Central	3	8	22	74	120	227
Western	3	5	4	46	101	159
PRC	13	24	49	216	365	667
Western Region, as % of PRC	23.1	20.8	8.2	21.3	27.7	23.8

Source: *China Statistical Yearbook 2000*.

It is important that the strategies for the development of the Western Region are consistent with these articles of the Constitution.

LEVEL THREE: PREFECTURES AND CITIES

On average, level 3 and level 4 governments in the Western Region are larger in area but have smaller populations and much smaller GDPs than local governments in the rest of the PRC. On average, a level 3 government in the northwest has less than a quarter of the GDP that one in the Eastern Region has (Table 15-1).

The contrast with local government areas in the Eastern Region is particularly large. These differences mean that there is always a risk that the local governments in the Western Region will be weaker than those in the Eastern Region, and the cost of the bureaucracy heavier on a per capita basis. Differences in geography and economy demand a different approach to local government.

The number of cities at level 3 is slightly less than the number of cities with over 200,000 people (Table 15-2).

The level of urbanization in the PRC is not only far below that in developed countries but is also below

average for developing countries.¹ In 1999, 30.9 percent of the PRC's population was urban. Less than 24 percent of the PRC's 667 cities are in the Western Region, and these tend to be smaller than the cities in the other two regions (Table 15-2). While there are as many level 3 cities in the Western Region as city populations justify (level 3 cities normally have a population of at least 200,000) there are fewer level 3 cities in the Western Region than in the Eastern Region.

LEVEL FOUR: COUNTIES, COUNTY LEVEL CITIES, AND CITY DISTRICTS

The phrase "at or above county level" appears repeatedly in the Constitution. The county level is the lowest level of government that produces comprehensive social and economic development plans. At the county level there are enormous differences in level of economic development. In Sichuan, for example, average per capita incomes in the counties in 1999 ranged from under 1,500 yuan to over 10,000 yuan. While the average population of a level 4 government is 218,000 in the north and 356,000 in the south, many counties have much smaller populations. In Yili prefecture, Xinjiang, for

example, three out of eight counties have populations under 150,000. In Xinjiang as a whole, 28 counties have populations under 100,000. In developed countries, a population of 100,000 would be regarded as near the lowest level for the effective and efficient delivery of comprehensive local government services.

LEVEL FIVE: TOWNSHIPS AND TOWNS

The Constitution does not provide any specific functions for towns and townships; it provides that the level 2 governments determine the establishment and boundaries of towns and townships. Some townships and town governments provide a wide range of government services. In addition to local government functions, they organize many businesses. However, the number of businesses organized by town governments has been declining. These business activities evolved from the communes.² The number of towns and townships in each county varies from an average of 40 in densely populated Sichuan to about 12 in Xinjiang (Table 15-3).

The growth of TVEs during the reform period has made some townships and towns much more important than they used to be.

The Tenth FYP refers to the need to dissolve or merge some townships and towns, where possible, to reduce the size of the bureaucracy. Many townships in the Western Region are simply too small in population and resources to support the cost of a local government.

GRASSROOTS ORGANIZATIONS

Village committees (and neighborhood committees in cities) are not part of the government bureaucracy but are, in principle, autonomous. This has implications for the implementation of poverty programs or other development policies in the Western Region. The law clearly implies that village committees assist the township in carrying out its work, not the other way around. A system of hierarchical policy implementation still prevails. Nevertheless, under the law,³ village committees enjoy considerable economic powers relating to TVEs, land administration, local infrastructure, and welfare undertakings. The introduction of elections for village committees is recent, and not everywhere effective. The ability of village committees to exercise their powers effectively depends on the government bureaucracy creating the right enabling environment.

- The role of the government bureaucracy in ensuring that village committees are properly elected and carry out their responsibilities in accordance with the law is vital.
- The government bureaucracy has to ensure the provision of the main infrastructure systems.
- It must assist poverty villages. However, having fulfilled its basic obligations, government must allow village committees to manage their own affairs.

Critical governance issues for the Western Region

STRUCTURE OF LOCAL GOVERNMENT

There is no single, best way to organize local government. It depends on what the national government is seeking to achieve. However, the structure of local government in the PRC differs from that in other large countries in that the Central Government for the most part does not have regional and local offices that are directly subordinate. Now that the Government has stated some strategic goals for the Western Region, it has become possible to

Table 15-3 Number of Level 4 and Level 5 Governments, 1999

Province	Level 4			Level 5	
	City Districts	Cities	Counties	Towns	Townships
Sichuan	36	17	124	1,705	3,320
Guizhou	10	10	66	685	779
Gansu	11	8	67	228	1,327
Xinjiang	—	—	68	186	667
Shaanxi	19	5	83	908	1,112

Source: Statistical yearbooks for the level 2 governments, 2000.

Table 15-4 Concentration of Economic Activity in Provincial Capitals, 1999

Province	Foreign Trade			GDP			GDP per Capita	
	Province (\$ million)	Capital City ^a (\$ million)	Capital City ^a (%)	Province (million yuan)	Capital City ^a (million yuan)	Capital City ^a (%)	Capital City ^a (million yuan)	Rest of Province (million yuan)
Xinjiang	1,765	594	33.7	116,855	24,878	21.3	15,647	5,692
Gansu	406	307	75.6	93,198	27,525	29.5	9,462	2,963
Yunnan	1,660	1,088	65.6	185,574	59,189	31.9	12,503	3,398
Sichuan	2,471	n.a.	n.a.	371,161	119,003	32.1	11,858	3,428

Source: Provincial statistical yearbooks.

^a Relevant level 3 government.

consider whether the structure of local government helps or hinders the achievement of those goals.

For several reasons, the presence of regional and local offices of the Central Government would, at first glance, appear to be the most appropriate for some government functions:

- It would facilitate correcting disparities in fiscal capacity between the Western Region and the Eastern Region.
- It would give the Government maximum flexibility to mobilize and allocate resources for the development of the Western Region and the reduction of poverty.
- It would lead to the consideration of policy issues in the various parts of the country from a national as well as a local perspective.

Recent fiscal reforms, and the ones that Chapter 2 proposes, will have the effect of increasing the fiscal resources of Central Government and giving it the power to make bold strategy decisions such as the development of the Western Region. But recentralizing economic power is a high-risk strategy in that its success depends on an inordinate amount of rationality and capability at the center.⁴ This report, on the other hand, has argued for a greater reliance on the market to allocate resources.

Many measures proposed for the Western Region in earlier chapters neither require nor would benefit from a centralized structure. For large areas and populations, there are efficiency gains from a decentralized structure. Furthermore, the proposals in earlier chapters would generally facilitate decentralization:

- The greater mobility of the labor force (Chapter 11) may facilitate fiscal decentralization by acting to “limit local government action or to equilibrate demand and supply of public goods at the margin.”

- The separation of business enterprises from local government will make it much easier for the Government to contemplate fiscal decentralization.
- Measures to let the market determine the allocation of capital and facilitate its mobility would facilitate the separation of business from local government.

Since 1978, there has been a progressive devolution of responsibility and control over resources to lower levels of government. However, earlier chapters have also highlighted the need for strong Central Government action in relation to social assistance, social security, and health.

OVERCONCENTRATION OF ECONOMIC ACTIVITY IN PROVINCIAL CAPITALS

Coupled with the great urban-rural divide in the PRC is the dominance of the provincial capitals in the provincial economies of the Western Region (Table 15-4).

In the large Western Region provinces, this concentration means that rural areas are even farther away from cities than they would be otherwise. Also, there is the risk that measures to develop the Western Region will mostly benefit the provincial capitals.

FUNCTIONS OF LOCAL GOVERNMENTS

The Organic Law of the Local People’s Congresses and Local People’s Governments of 1995 lays down the functions of local government. The Law refers to administrative work in relation to the economy, education, science, culture, public health, physical culture, protection of the environment and natural resources, urban and rural development, finance, civil affairs, public security, nationality affairs, judicial administration, and family planning. There is no

reference to the operation of businesses, but local governments at all levels are very much involved in just this.

There is little separation between the provision of essential local public services and the management of SOEs and TVEs. As a senior Government official put it in 1999:

As far as the functions of governments at all levels in the PRC are concerned, their functions are not separated from those of enterprises. They are characterized by excessive management and an excessively wide range of functions, and the problem of failure to manage well.⁵

Local agricultural, environmental, forest industry, and commerce bureaus are under the administrative control of local governments, but under the technical supervision of departments of the Central Government.

TRIMMING THE SIZE OF LOCAL GOVERNMENT

Reducing and rationalizing the functions of local government should reduce staffing and save on the cost of operations. There is a widespread view that there is overstaffing at the township level in particular:

As the township governments represent the lowest level in the PRC's administrative ladder, they

are the most closely related to the farmers' interests. Therefore, the streamlining of the township government is of the most immediate significance in reducing the farmers' burdens. Throughout the country now, there are on average twice as many as Party functionaries and administrative personnel at the township level as are actually needed.⁶

The Tenth FYP acknowledges the need to reduce the number of employees in towns and townships.⁷

For example, the staffing levels of taxation bureaus in Altay prefecture (population 588,000) indicate that at the county level the collection of each 1 million yuan of state tax requires four tax collectors, working under a prefecture office with a staff of 450 (Table 15-5). A similar ratio seems to apply to tax collection by the county governments. However, this is just a part of the bureaucracy that controls business in Altay prefecture. Also governing business are the Industrial and Commercial Bureaus of each county, the Industrial and Commercial Bureau of the prefecture, the Town and Village Enterprises Bureau of the prefecture, the Commercial Office of Altay Prefecture (which looks after SOEs), and the Grain Bureaus in each county and at the prefecture level (which govern companies besides engaging in the grain trade). The Tenth Agro Division, for one, is virtually a local government on its own, administering 21 agricultural companies, nine factories, three hydro plants, a cement plant, and a population of nearly 15,000.

A transitional economy cannot avoid having a multitude of local government agencies operating the local economies. The switch to a market economy cannot be made in an instant. The objective of a local government system that concentrates on regulatory functions and delivery of services rather than managing businesses is clear enough; the policy issue is how to go about making the transition.

VERTICAL RELATIONS BETWEEN LOCAL GOVERNMENTS

There is a perceptible move for vertical relations between local governments to progress from direct

Table 15-5 Tax Collection Staff in Altay Prefecture

County	State Tax Collection			Local Tax Collection (no.)
	Staff (no.)	Taxpayer Households (no.)	Revenue (yuan)	
Habahe	42		3,200,000	44
Qinghe	42		4,800,000	
Beitun	34	733		36
Burqin	31	500	7,000,000	
Fuyun	56	730		48
Fuhai	47			36
Jeminay	40			
Altay prefecture	450			307
Total	742			

Source: Office of the CPC Prefectural Party Committee, Office of Altay Prefecture Administrative Government, and Gansu Legend Culture Disseminating Co. Ltd., eds. (1999).

subordination to guidance. As a senior Government official put it in 1999:

Local governments at all levels should operate within their respective domains. A government at a higher level may not go beyond its domain to interfere in the rights and activities of a government at a lower level.⁸

The greatest difficulties in vertical relations have occurred at the lower levels of local government, where much tax collection takes place.⁹ The introduction of elections of village heads and village councils has given the villages some counterweight against tax impositions by towns and townships (see “Grassroots Organizations” section above).

Decentralizing service delivery away from Central Government monopolies should open the door to alternative service providers, including local governments, the private sector, and NGOs. The pressure of competition provides incentives for government to be responsive to demand, which often leads to higher quality services. Effective decentralization requires an active role for the Government, because rules and restraints are necessary for distributing responsibilities across levels of government, encouraging fiscal discipline, and providing a basis for effective auditing.

A particularly complex set of rules revolves around the design of an internally consistent system of intergovernmental fiscal relations. These rules assign functional responsibilities to the most suitable level of government (depending on the nature of the service and national objectives), assign revenue sources and transfers adequate to meet those functions (no “unfunded mandates”), and design transfers to enable local governments to be more flexible as well as to accomplish central objectives. These rules, perhaps above all else, must be transparent and predictable to enable provincial governments to plan and execute their functions in a responsible way. Other critical rules set clear parameters within which provincial government borrowing can occur, including a legal framework

for local bankruptcy, regular auditing, and financial reporting requirements. Still others govern political processes that link citizens to their government and determine pay and employment conditions for civil servants. Taken together, the rules and incentives provided by a central decentralization framework are essential for creating fiscal discipline and enabling effective service delivery.

HORIZONTAL COOPERATION BETWEEN LOCAL GOVERNMENTS

The Government, in the 1980s, called for “spatial specialization and cooperation” between local governments according to their comparative advantages. It revived the policy in the mid-1990s with the Ninth FYP and 2010 Long-Term Plan.¹⁰ However, this policy was not successful, for various reasons:¹¹

- Local governments were concerned about the risks of investing in areas outside their control.
- There was a lack of market references against which to assess comparative advantages.
- A distorted price system created large profit gaps between agricultural and manufactured goods and between raw materials and final products, so that the more the poor regions traded primary products the more they lost.
- The system did not have a means of clearly how to divide profits and apportioning the State’s entitlement.

The Government advocates regional cooperation between local governments in the Eastern Region and the Western Region.¹² However, PRC governance specialists see this primarily in terms of horizontal relations at the provincial level:

The relations between local governments have to be handled correctly. These relations consist of the vertical relations between governments below the provincial level and the horizontal relations between provinces.¹³

The lack of definition of independent powers of governments inhibits horizontal cooperation between level 3 and 4 governments in different

provinces. Every action by a local government is subject to reversal by a superior government. In 1995 the Government initiated the Projects for Cooperation between the Township Enterprises in East and West China to encourage the development of TVEs in the Western Region. Programs such as these will be less effective than creating a business environment in which SMEs can operate freely across local government boundaries.

URBAN INFRASTRUCTURE

Compared with rural life, urban living requires more government intervention. This is because the high population density of cities generates externalities that require government services, such as public transport, traffic management, and infrastructure. Urbanization will require additional expenditures by local government. For this reason, the Western Region will benefit if urbanization takes place partly through migration to other parts of the PRC (Chapter 11). The Western Region already spends proportionately more on urban maintenance than its share of the country's nonagricultural GDP (Table 15-6).

POVERTY ALLEVIATION

The execution of poverty alleviation programs at the grassroots level often runs into difficulties because the officials at this level lack the necessary training. Managing poverty programs in a particular locality should be a temporary administrative task as distinct from permanent ones such as road maintenance, education, and health services. The objective of poverty programs should be to reduce the incidence of poverty to the point where normal social assistance and health services suffice. It does not make sense to give local government officials in every locality specialist training. Rather there is a need for local governments to use the specialist services of quasi-government or nongovernment organizations.

RESPONSIBILITY FOR SOCIAL ASSISTANCE AND SOCIAL SECURITY

The division of responsibility for social security and for social assistance is not clear. Both the Central Government and local governments perform social assistance functions (Chapter 5) and social security functions (Chapter 11). Local government in the Western Region would benefit if these functions predominantly belonged to the Central Government.

Table 15-6 Expenditure on Urban Maintenance Compared with Share of Nonagricultural GDP, 1999

Region	GDP (%)	Urban Maintenance Expenditure (%)
Eastern	59.9	59.1
Central	24.3	21.0
Southwest	10.2	12.7
Northwest	5.6	7.2
PRC	100.0	100.0

Source: Calculated from *China Statistical Yearbook 2000*.

There is a danger, therefore, that urbanization in the Western Region could actually force a reduction in local government spending in rural areas. With this risk in mind, Chapter 18 takes an in-depth look at urban development in the Western Region and Chapter 19 at rural development.

Future role of local government

The development of the Western Region will require stronger and more effective local governments at all levels. Size and distances make the role of local government a very important one.

DEFINING THE FUNCTIONS OF GOVERNMENTS AT EACH LEVEL

There is a need to distribute functions across the various levels of local governments and to give local governments appropriate specific independent powers. In a market economy, only when there is a comprehensive legal framework setting out obligations and discretionary powers can local government be effective. In distributing functions to

different levels of local government, the Government should seek to devolve powers to local decision takers, and move the implementation of development programs and projects closer to the beneficiaries.

DEVELOPING LOCAL CAPABILITY

Local governments at levels 3 and 4 in the Western Region have varying capacities to respond to opportunities and threats. There are enormous variations in local resources between level 4 governments. An examination of local Tenth FYPs shows that some have been quite successful in developing “visions” for their development that derive from a realistic assessment of their strengths and weaknesses. There is less evidence of success in coordinating and mobilizing local resources through regional development organizations. Local governments lack sensitivity to, and understanding of, the needs and interests of the private sector. In particular, they do not understand the need to “market” a region and its products, or to provide business information. Today, local governments compete for government funds; in 2020 they will be competing for private sector and foreign investment.

Parallel to efforts to improve local government capabilities, the Government should encourage public demand for better local administration and better services.

SEPARATING BUSINESS FROM LOCAL GOVERNMENT

Local governments should work to separate the delivery of public services, regulatory functions, and the management of business enterprises. There are various ways of achieving this reform:

- Splitting bureaus that now have both regulatory and service delivery or enterprise management functions
- Transferring responsibilities from industrial and commercial bureaus to finance bureaus, to clarify the financial nature of primary goals
- Concentrating regulatory functions at level 3 and service delivery functions at level 4

- Transferring responsibilities for SOEs under local governments to an asset management corporation with powers to sell or merge operations

The Government can assist this process by developing the regulatory environment for local government, for business, and for the machinery for resolving disputes.

The separation of judicial administration from local government is also important for creating a more attractive environment for investment in the Western Region. Investors must have confidence in the independence of courts in resolving commercial disputes.

OVERCOMING OVERCONCENTRATION IN PROVINCIAL CAPITALS

The term “local government” often seems synonymous in the PRC with level 2 government. Provincial capitals are invariably wealthier, healthier, and better provided with services than other cities. In part this reflects the hierarchical nature of local government in the PRC. However, an objective of PRC planning has long been to constrain the growth of very large cities and promote secondary cities. Article 4 of the City Planning Law of 1989 states:

The State puts into effect the principle of keeping strict control over the size of large cities and developing rationally medium-sized cities and small cities, so as to promote a rational structure of productivity and population.

The Tenth FYP also recognizes the need to develop the secondary cities:

Concentrating on developing small towns, taking the initiative to develop small and medium-sized cities, giving full play to the role of large cities in promoting the development of surrounding areas and guiding the orderly development of concentrated towns and cities.¹⁴

In the Western Region, policies that would support the development of secondary cities are as follows:

- Devolving functions from provincial cities to third level cities, and raising more cities to level 3 status
- Increasing the number of open ports, especially airports (e.g., Yining, in Xinjiang)¹⁵
- Developing higher-education facilities in appropriate cities (Chapter 11)

CREATING COMPETITIVE CITIES

Cities are the engines of modern economic growth. As barriers to trade and economic activity fall, and the impact of market forces spreads, the cities of the Western Region will need to become internationally competitive. Today, the comparative advantage of Western Region cities lies almost solely with basic factors of production such as an abundance of cheap labor or natural resource endowments. The development of secondary and tertiary industries will require the infrastructure systems discussed in other chapters (transport, energy supply, education, etc.), as well as urban infrastructure, an attractive urban environment, and affordable serviced land.

Notes

- 1 Zhong Fenggan (2000).
- 2 Jiahua Che and Yingyi Qian (1998).
- 3 Specifically, the Organic Law of the Villagers' Committee of 1998, the Land Administration Law of 1998, and the Township Enterprises Law of 1996.
- 4 Yasheng Huang (1999).
- 5 Wei Liqun (1999).
- 6 Chen Xiwen (2000).
- 7 Zhu Rongji (2001).
- 8 Wei Liqun (1999).
- 9 Bernstein and Xiaobo Lu (2000).
- 10 Zhang and Zhang (1999).
- 11 Zhang and Zhang (1999).
- 12 According to the Circular of the State Council on Policies and Measures Pertaining to the Development of the Western Region:
Under the guidance of central and local governments, all resources in the general community should be mobilized to conduct counterpart aid between the Western Region and eastern region....Regional economic cooperation in various forms should be conducted.....
- 13 Wei Liqun (1999).
- 14 State Development Planning Commission (2001c).
- 15 Yining is the prefecture city of Yili. From 1755 until 1884, Yili, not Urumqi, was the administrative center of Xinjiang province.