

4 Provincial Policies for Town Development

While central government defines the policy framework for development of towns and cities, provincial government takes the lead role in creating and operating a province-wide system for building the institutional capacity of LGs and facilitating the development of key sub-regions, cities, and towns. This section identifies the components of this LG development system and the specific tasks of provincial governments in creating and operating it. Treated separately in subsequent sections, the main tasks are:

- Strengthening the ability of city, county, and town governments to guide development
- Targeting provincial resources for efficiency and equity
- Development of sub-regions
- Provision of trunk infrastructure
- Monitoring and evaluation of LG development

The recommendations set out in this section are formulated based on the urbanization case studies in Liaoning and Shanxi Province. While the sections on planning the development of sub-regions are specific to the economies of those two provinces, most of the recommendations are considered to be applicable to provincial governments across the PRC seeking to promote town development.

Step-by-step guidelines for carrying out the tasks discussed in this policy section are included in Volume 2 (Guidelines).

4.1 Strengthening the Ability of City, County, and Town Governments to Guide Development

4.1.1 Incorporation of Local Governments

As described in Section 3.7, LGs need a solid legal foundation for the mobilization of additional revenue to finance development. Provincial governments are well positioned to grant specific authorities to worthy LGs through the process of incorporation. Provinces should adopt enabling legislation (see Volume 2, Guidelines) that sets out the process and that defines the specific authorities that provinces can grant to cities, counties, and towns.

Provincial governments should grant authorities that correspond to the responsibilities of LGs and to their institutional capacity. The great service-delivery responsibilities shouldered by LGs today acts as a “push factor” on devolution of authority; the low institutional capacity of most towns acts as a “pull factor.” Provincial agencies should build institutional capacity through training (see next section) in parallel with the devolution of financial authority.

Provinces should start slowly and build up LG authorities over time. The mechanisms that provincial government should use to regulate this incremental, long-term process are the enabling legislation and home rule charters. Provinces draft and pass the enabling legislation; only authorities included in the legislation can be devolved to LGs. LGs then draft their “home rule charter” in keeping with the enabling legislation. The home rule charter outlines the organization, duties, and powers of the LG and defines its responsibilities to the state, the province, and the citizens. At least during an initial period, home rule charters should be approved by the provincial government.

To allow fine-tuning of the system over time, both the enabling legislation and the home rule charters should be amendable.

In addition to granting additional power to levy local taxes and fees, the home rule charter will define the functions and areas of intervention of LGs. This provides an opportunity to exclude activities that are better left to the private sector, such as industrial production, retail sales, and real estate development. It also provides the opportunity to shift to higher-level governments some responsibilities for which the LG does not have sufficient authority, especially when the LG’s level of institutional development argues against granting additional authority. This may be true in the area of health care and social insurance, for example.

Finally, the incorporation process provides provincial government with the opportunity to reorganize the LG sector in general. Many provinces have been consolidating towns and townships in recent years to make LG more efficient. Provinces should consider the possibility of incorporating only those towns that have development potential, and allowing other towns (and conceivably all townships too) to be absorbed into their counties. This would produce a situation in which a typical county may have one, two, or more incorporated cities and towns located within its administrative boundaries, but for which it does not exercise a direct oversight functions. The rest of the area within the county would be “unincorporated,” and would be administered by the county government. Table 4.1 presents a hypothetical example of the impact of such a reform on the administrative structure of a county.

Table 4.1: Impact of Hypothetical LG Reform at the County Level

Parameter	Pre-Reform	Post-Reform
Number of cities	1	1
Number of towns	4	2
Number of townships	5	0
Total number of LGs	10	3

Such a change would substantially reduce the number of LGs, allowing for consolidation of staff and resources and lowering of costs to the public sector. Furthermore, the effectiveness of the remaining LGs would increase. The potential cost savings and efficiency gains of such a reform at the level of an entire province or indeed all of the PRC are enormous. For a case study in incorporating towns in rural areas, see Volume 3, Best Practices.

4.1.2 Local Government Capacity Building

Upgrading the skills of town government staff will be crucial to the sustained development of towns. This is a responsibility that needs to be shared at the national, provincial, and town levels.

As outlined in Section 3 of this volume, central government should take the lead in developing training modules targeted specifically to Chinese towns. Central government can also provide a pool of experts and specialists who serve as a technical resource for training programs in the provinces. For example, Beijing-based trainers can provide periodic training, lasting from one to two weeks, for province-based specialists who will train LG officials (training of trainers).

The role of the provincial government is then to create an operate a province-wide training system for LG officials by:

- identifying province-based specialists and technical matter experts who will receive training from the Beijing-based experts;
- financing the training of those trainers in cooperation with central government;

- establishing technical resource and training centers in the provincial capitals and in regional centers, as appropriate; and
- with province-based trainers, hosting a range of training opportunities for town officials; to facilitate attendance and reduce costs, training should be done at the prefecture level, and national training modules should be modified where necessary to suit local needs.

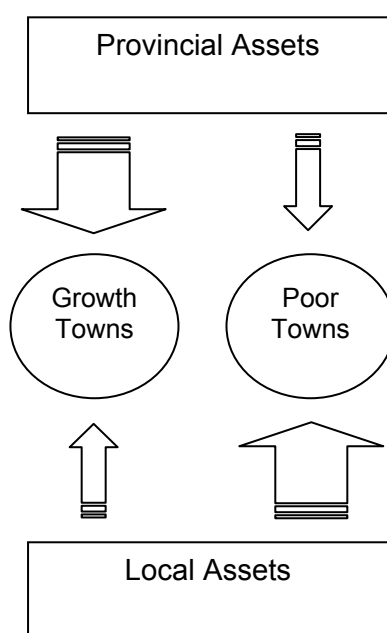
To ensure utilization of the program, provinces can require a certain number of training days annually for key staff members (for example, two weeks per year for accountants, one week per year for town mayors). Financing for the training should be provided primarily by the province, with some contribution from the LG, except in the case of poor towns (see “Provision of Subsidies to Poor Towns” in Section 4.2.2 below).

4.2 Targeting Provincial Resources for Efficiency and Equity

Provincial governments should create a competitive, demand-driven system for the promotion of town development. As described in the national policy framework in Section 3.1, the system should establish specific criteria that LGs have to meet to be considered for and/or ultimately awarded assistance from the provincial government in terms of infrastructure financing, channeling of private sector investment, technical assistance, and training.

The system should be “top-down” and “bottom-up” at the same time. Although provincial government should channel most investment into towns with high economic and employment growth potential, all towns are enabled, through incorporation and dissemination of development tools and best practices, to chart their own development course, drawing primarily on local assets. (Mobilization of local assets is critical for the development of high-growth towns, too, provincial assets notwithstanding.) All towns are also eligible to apply for technical assistance and training delivered by provincial authorities or designated organizations. To provide a “leg up” to the poorest towns, provincial government should provide “convergence subsidies” for delivery of urban infrastructure and social services.

Figure 4.1: Resource Flows for Top-Down and Bottom-Up Development of Towns



4.2.1 Components of Top-Down Development

Evaluation of Growth Potential and Designation of Key Towns. Provincial governments should systematically evaluate the economic and employment growth potential of towns and based, on the results, designate key towns into which public and private investment will be channeled. This is essentially a rationalized and upgraded version of the “key town” system that provinces employ today. The criteria of population, regional distribution, and functional distribution should not be employed to select key towns. Rather, provincial governments should analyze the development dynamics in towns and identify those towns that are most capable of attracting investment and generating employment.

The analysis can be carried out by the provincial government, PDRC, or a designated contractor, such as a research institute or consulting firm.

The designated entity should take into account the following key factors in the analysis of the development dynamics of specific towns:

- Location near or within cities, metropolitan areas, and sub-regions
- Location along major transportation routes
- Natural resource base of town and hinterland
- Quality of regional food products
- Labor pool of town and hinterland

While the analysis is undertaken at the level of the individual town, it will also be necessary to evaluate the development potential of certain sub-regions (see Section 4.3 below) to understand their impact on economic growth in towns. Generally, it is preferable to analyze and plan the development of the sub-region first, then evaluate the growth potential of individual towns.

Step-by-step guidelines for analysis of growth potential are presented in Volume 2 of this report.

Implementation of Fiscal and Financial Measures. Provincial government should make financing available for investments in support of local economic development and job creation. These should include:

- Short- to medium-term tax breaks for targeted industries or sectors
- Business support services, such as SME incubators
- Matching grant or grant/loan financing for public infrastructure investments that will leverage private investment

Note that the level of provincial subsidies will vary by province as a function of towns’ ability to enable their own development. In coastal provinces, many towns are attracting private investment without provincial level incentives. Where provincial government deems that towns are capable of this, no incentives should be provided. In many inland provinces, however, the incentives should be used if they will have a positive impact on private sector investment and job creation, and little or no development would take place in the town without them.

Channeling Private Sector Investment to Key Towns. PDRC and provincial governments should continue to channel large private investors in industry, agro-processing, tourism, and real estate to key towns. Information on development analysis and plans of sub-regions and

towns should be made available to private investors. Carefully prepared analyses and full disclosure of data will serve to boost investor confidence.

As for the fiscal and financial measures above, this function of provincial government is not required where towns already successfully attract private sector investment.

4.2.2 Components of Bottom-Up Development

Incorporation of Towns. All towns will benefit from the process of incorporation in Section 4.1.1, which assigns responsibility for service provision and delegates authority for generating necessary revenues, including own-source revenues. This new, explicitly defined package of rights and responsibilities will benefit not only high-growth potential towns, but other towns, the governments of which will have increased capacity to chart and implement their own development.

Dissemination of Tools for Town Development. All towns will receive guidelines, analytical tools, and best practices, to be distributed by provincial authorities. The towns can use these tools to form partnerships with stakeholders, mobilize local assets, and plan and implement development programs that will facilitate private sector investment and create jobs. The analytical tools and best practices are included in Volume 3 of this report; the guidelines are attached as Volume 2.

Technical Assistance and Training. Towns will be eligible to apply for urban management technical assistance and training programs provided by the provincial government or its designated contractors (see Section 4.1.2 above). Towns would also be eligible to apply for worker retraining programs made available in selected sub-regions.

Provision of Subsidies to Poor Towns. Provincial governments should allocate development subsidies to the poorest towns in the province. The sole criteria for receiving these subsidies should be the average per capita income of the town population (including population with *hukou* and migrants). The income threshold could be set at the level of the 20th percentile of all towns in the province. Towns under the 20th percentile would be eligible for subsidy transfers. The objective of these transfers is to distribute development opportunities more equitably across the province. Eligible uses of funds would include infrastructure investments linked to job creation programs and delivery of social services.

4.3 Planning the Development of Sub-Regions

The most critical planning role for provincial government is at the level of geographical sub-regions (part of a province). Sub-regions are important because economic activity spheres are often larger than any single LG jurisdiction. Metropolitan areas, for example, are often defined by their commuter shed in order to “capture” the total geographical space in which people are living and working. Similarly, certain economic activities, such as manufacturing and tourism, often cover multiple, contiguous towns and counties. Unlocking the potential employment growth of these sectors requires regional infrastructure delivery and other interventions that go beyond the administrative boundaries of individual towns and cities. In fact, developing a town in a sub-region with a specific economic vocation often depends less on what the town does and more on the sub-regional policies, programs, and investments.

Since the geographic area includes multiple towns and/or cities, the planning process must be conducted at a higher administrative level than that of the town. Conceivably, this could be done at the prefectural level, but, in fact, given their higher technical and managerial capacity, provincial agencies will usually be the most appropriate choice for most sub-regional planning exercises.

The following sections present a set of policy recommendations for how provinces can facilitate the development of three types of sub-region: manufacturing clusters, agro-processing areas, and tourism zones. The recommendations are specifically targeted at Liaoning (manufacturing, agro-processing) and Shanxi (tourism, agro-processing), but are largely applicable to other provinces as well.

4.3.1 Creation of Manufacturing Clusters

This section uses the example of a manufacturing cluster in Liaoning Province as an example of how provincial governments should take a lead role in promoting this type of sub-regional development.

Since the pre-reform period, the Liaoyang-Yingkou corridor has long been one of the main industrial sites in the PRC, accounting for a large share of domestic steel, machine tools, and vehicle parts production. Given the country's nearly insatiable demand for steel and metal products during the current economic boom, the corridor continues to experience robust economic growth. Existing assets of the Liaoyang-Yingkou corridor include:

- well-developed industrial production facilities;
- skilled labor pool in two major cities (Anshan and Haicheng) and some towns;
- Shenda Expressway running through the corridor and connecting it to the capital Shenyang in the north and the port city of Dalian in the south;
- railway running parallel to the expressway; and
- sea access within the corridor at the port city of Yingkou.

The construction of the Shenda Expressway through the corridor shows how important this sub-region is to the provincial government. Yet the corridor has not realized its full growth potential. The development is essentially linear, following the expressway and the railway; there are relatively few east-west connections among cities and towns. There are also too few highways and prefecture-level roads in relation to the land area and the number of settlements. By densifying the road network and increasing the number of east-west connections, it would be possible to increase access to markets and facilitate exchanges among producers at different points along the production chain. Much of the success of the corridor has been derived from backward and forward linkages among the industrial sectors of neighboring towns and cities; these linkages can be strengthened and extended by developing the road network further.

Liaoning Province should prepare a plan for development of the Liaoyang-Yingkou Industrial Corridor. The plan should be based on careful market analysis and identification of infrastructure improvements that will facilitate future investment and that will preserve and enhance the quality of the environment. Particular attention should be paid to demand-side interventions, such as investment promotion. The main proposals should include the following.

Create a Public-Private Partnership for Investment Promotion. The province should initiate the creation of an economic development corporation for the corridor. The board of directors would include chief executive officers of major corporations in the area and representatives of provincial development and infrastructure agencies. This forum would serve to build consensus on the needs of the sub-region and the ways in which the different parties will contribute to meeting them.

Study National and International Markets for a Range of Products. The proposals for developing the sub-region should be based first and foremost on real opportunities for reaching new markets or expanding the corridor's share of existing ones. The market study

should include all of the major products produced in the corridor, and some other products closely related to existing production (to test the possibility of selected linkages). Input-output analysis (see Volume 3, Best Practices) should be used to quantify the existing linkages among industrial sectors. Underexploited linkages will be identified and targeted in development proposals.

Densify the Road Network and Provide Additional East-West Connectors. The province should develop a package of specific roads improvements projects that will increase access and economies of scale within the corridor. The main focus should be on east-west connectors between the main north-south roads. Where towns are demonstrated to have high-growth potential because of their economic relationship to larger cities, the new connections should be built or existing ones upgraded. Specific guidelines on how to develop the road network in manufacturing clusters are included in Volume 2 of this report.

Develop Multi-Modal Centers in Selected Towns. The market study should identify the potential for creating viable multi-modal transportation centers that combine road, rail, and warehousing. The feasibility of constructing such centers in towns with good access to highways and rail lines should be explored.

Work with Towns to Provide Sub-Regional Environmental Infrastructure. Many towns do not generate the volume of wastewater or solid waste required to make investment in treatment facilities cost-effective. The province and/or prefecture should explore the possibility of providing regional (sub-regional) facilities that will serve more than one town. Sanitary landfills, for example, can be located along a good road between three or four towns, all of which can dump their solid waste in the facility. Similarly, wastewater treatment plants can serve more than one settlement, provided that they are located reasonably close to one another (e.g., within a 10-15 mile radius).

The economies of scale achieved through regional solutions may increase the size of the market enough to attract the private sector. Few private sector firms will be interested in investing in environmental infrastructure in towns because of the small population size and limited ability to pay. But small companies may be interested in larger contracts involving multiple towns, or towns and cities bundled together.

Develop and Implement Area-Wide Environmental Standards. Provincial government should set air quality standards for the entire sub-region and hold all polluters jointly responsible for meeting them. When standards are not met, all of the polluters are held accountable, and all must take action (such as reducing production or installing cleaner technology) to rectify the situation. Industries with a large financial investment in their facilities will not want to be forced to relocate or reduce operations because others in the same area are emitting excessive pollution. So this policy can encourage industries to establish their peer monitoring scheme to ensure universal compliance with regulations.

Market the Corridor with National and International Investors. The Liaoyang-Yingou Industrial Development Corporation should develop and implement a marketing plan to attract and secure investment by private companies in targeted sectors. Marketing expenses should be financed by the corporation through grants from corporations and provincial government. The corporation should hire a public relations/advertising agency to develop a brand and prepare a marketing strategy and marketing materials. Marketing activities should be undertaken by the corporation staff as well as members of the board of directors and their representatives.

4.3.2 Agro-Processing Development

Agro-Processing Incubation

While China's primary agriculture output has expanded at an astounding pace in recent years, growth in agro-processing has been modest. The ratio of agro-processing output value to agricultural output value ratio is 0.85:1, in contrast to 3:1 in many developed countries. Given domestic consumer income growth trends and the PRC's integration into the world commodity market following World Trade Organization (WTO) accession, the pressure on the agro-processing sector to improve its performance is growing. Agro-processors need to adjust to increasingly diversified consumer demands, improve the quality and nutritional content of foods, introduce new food products, shift to more sophisticated processing methods, adopt innovative packaging methods, and comply with new labeling requirements.¹⁴ The central government has made it clear that vertical integration of agriculture and downstream links through agro-processing constitute a key to enabling town development. It is crucial for the study towns in Liaoning and Shanxi to take advantage of this emerging opportunity to "jump start" their economies.

Identify Comparative Advantages

Neither province is competitive in bulk commodities, but both are rich in other distinct food products.

Liaoning

- Seafood (for example, Pikou). Liaoning can take advantage of its long coastline to develop fishing and farming for the domestic and international markets.
- High-quality japonica rice (Goubangzi, for instance). Liaoning can maintain a share of the japonica rice market in the PRC and perhaps in Japan and Korea, too.
- Other products, e.g., Goubangzi Roast Chicken, may function as a brand of Liaoning agro-processing products in domestic market.

Figure 4.2: Value Should Be Added Locally to Abundant Food Resources



¹⁴ See OECD: Agro-Food Processing Sector in China: Developments and Policy Changes, 2000.

Shanxi

- Small grains, such as oats, naked oats, millet, buckwheat, and sorghum, may have a high potential in domestic and international market, depending on the creation of demand and development of new processed products.
- Red meat (beef and lamb) and dairy products can figure more prominently in the regional North China market.
- Vegetable production is be mainly for provincial consumption.
- Liquor and vinegar production processing has traditionally been competitive, but requires diversification in products and marketing skills in promotion.
- Other traditional products, e.g., Pingyao beef and Shanxi dates, will continue to be distinctive Shanxi products on the domestic market.

While these products enjoy some comparative advantages, they are not sufficient to guarantee business success. The development of agro-processing sector depends on a number of factors besides resource endowment, including diversification of products, creation of novel foods, processing and packaging methods, marketing and branding skills, and meeting changing nutrition and safety standards. Entrepreneurs and provincial planners will need to join forces if the agro-processing sector is to meet this broad set of challenges. It is recommended that the PDRCs take the lead role in implementing the series of measures described below.

Carry out Market Analysis and Identify Niche Markets

Economic planning in the PRC has historically been supply-oriented. But success in agro-processing depends primarily on responsiveness to demand. Drawing inspiration from successful development of niche markets, such as asparagus production in Puzhou, provincial planners should team with industry associations to study the national and international markets for key products, such as those listed above. Through demand analysis, Shanxi Province can identify existing demand overseas for small grains, for example, and create additional demand by marketing the nutritional value of its specialty products to potential consumers. These activities should be carried out before taking steps to guide farm production.

Improve the Market Environment for Private Sector Investment in Agro-Processing

Agro-processing in general needs a relatively large initial capital input and a long period to receive an adequate return on investment. It is also exposed to the risk of natural disaster. But agro-processing should be a priority sector for economic development planners because it creates many jobs per unit of investment. Because of its great potential helping achieve government's goal of closing the urban-rural income gap, agro-processing investment should be stimulated by provincial government by implementing the following measures.

- **Streamline the regulatory environment.** Make it easier and faster for agro-processing investors to get licenses and permits.
- **Initiate tax holidays**, e.g., 3-year business tax exemption for firms locating in priority agro-processing zones (industrial parks).
- **Facilitate access to financing.** Consider incentives as required to make commercial bank financing available to SMEs. If necessary, introduce national/provincial government guarantees on a percentage of the capital portion of loan to agro-processing companies for development of expansion of facilities.
- **Give priority to agro-processing enterprises** in accessing industrial land.

- **Provide business support services**, e.g., technical assistance in management, sales, and promotion, etc.
- **Facilitate contacts between private agro-processors and farmers** to help them do business together.

Develop Feeder Roads and Trunk Highways

A town that processes agricultural goods has different needs from those of manufacturing clusters or tourism towns. Provincial, city, county, and town planners should develop good feeder roads to bring agricultural inputs from nearby farms into town and trunk highways linking to those feeder roads to the agro-processing factories and the production centers to markets.

Perishable goods are normally shipped by truck. This allows individual farms, or groups of farms, to ship goods to an agricultural marketing center with minimal delay. Unfortunately, it is not cost-effective to build quality, high-class highways between several villages and the agro-processing town. However, the agro-processors will most likely choose suppliers from towns with good access to existing trunk infrastructure. Therefore, the town planners should focus on developing rural roads that lead to trunk road, and processing centers along trunk roads.

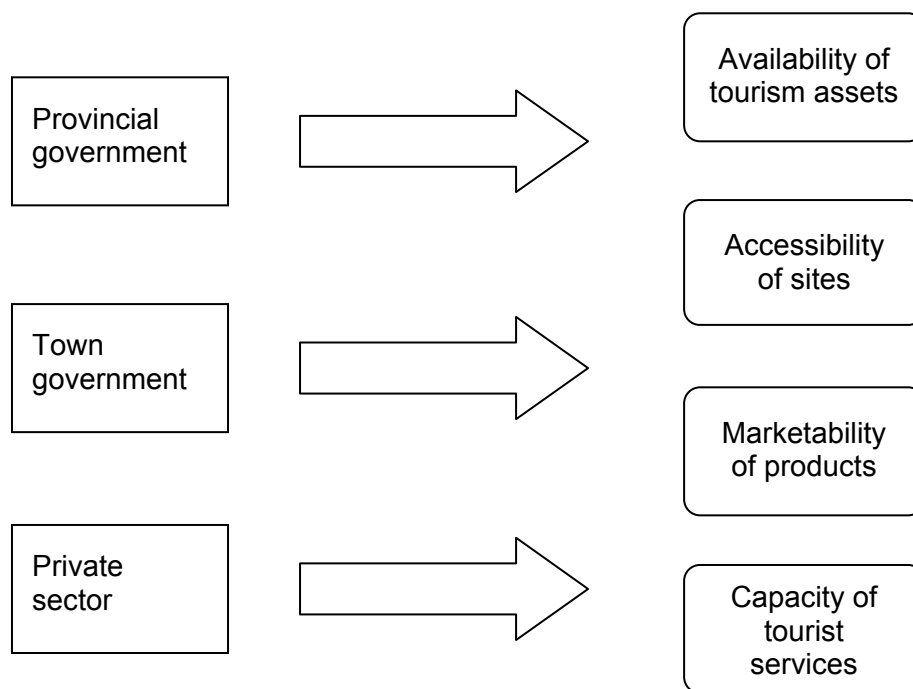
4.3.3 Tourism Promotion

Tourism is among the most labor-intensive sectors and will play a key role in employment generation in the coming years. China is expected to become the number one international tourist destination in the world by 2020, according to a WTO projection. Moreover, the Chinese people are becoming more affluent and will spend more on tourism as their disposable income rises.

While Liaoning is among the top 10 provinces in terms of tourism earnings and tourist numbers, Shanxi lags behind at 26th among Chinese provinces. This is a very low ranking in light of the fact that 70 percent of the buildings more than 1,000 years old in China are located in Shanxi. This mismatch indicates there is great potential for the province to diversify its economic base and to create more jobs through the expansion of tourism and related sectors. As most of the tourism sites are located in rural areas, it provides a unique window of opportunity for many towns along the tourism routes to take advantage of the tourism development to take off.

As seen in Figure 4.3, success in tourism development requires partnership building among provincial government, town government, and the private sector in four key areas.

Figure 4.3: Partner and Areas of Cooperation for Tourism Development



- **Availability of tourism assets.** The availability of tourism assets in Shanxi in general is not a constraint. The Shanxi Tourism Development Master Plan 2000-2010 identifies inventories 1,000 sites, of which about 150 have been developed. The question is how to capitalize on these resources.
- **Accessibility to the tourism sites.** With the construction of trunk infrastructure like the Dayun Expressway and associated feeder roads, access to most sites has been greatly improved. Yet the question remains as of how to link the dispersed sites through tourist-friendly routes by using the trunk and feeder roads to create lively and diverse tourist experiences.
- **Marketability of tourism products.** The provincial government’s marketing activities do not seem to have achieved the desired results. Alternatives must be found to package and market assets and experiences in an innovative way in order to fuel the take-off of regional tourism.
- **Capacity of tourism services.** Domestic and especially international tourists must be offered higher-quality accommodation, dining, and other services for Shanxi to attract large numbers of new tourists. Environmental conditions around sites and in towns must also improve.

Provincial Government: Shifting from Supply-Side to Demand-Side Management

The existing Shanxi Tourism Development Master Plan 2000-2010 is essentially a portfolio of assets, but does not lay the groundwork for how to convert these products into marketable tourism commodities. The Provincial Tourism Bureau should **adopt a more demand-driven approach to promoting tourism** by systematically studying the market and defining with precision customer preferences and priorities. A more sophisticated approach should be adopted to look at supply and demand in different market segments, such as the Datong-

Wutaishan religious cultural tourism sites, Pingyao-Jinzhong merchant and courtyard tourism mix, and Yuncheng cluster of historical and religious assets. Up-to-date, accurate data collected through the study should inform investment decisions on rehabilitating tourism assets, building trunk and feeder roads linking tourism sites into routes, designing pollution control measures, and investing in infrastructure, such as hotels, restaurants, and other amenities.

Figure 4.4: Temples in Yuncheng Cluster Can Attract More Tourists through Better Marketing



The Tourism Bureau should also develop a more systematic and creative approach to marketing Shanxi tourism. Consistent with the PDRC's proposed emphasis on cultural tourism ("To know the *real* China, come to Shanxi!"), tourism promoters should disseminate better-quality information through more media, including brochures, videos, and advertising on television and in local newspapers in other provinces of the PRC where there are potential tourists to Shanxi. Public relations and advertising services should be provided by specialized private firms.

It is also recommended to **integrate tourism into the overall economic development framework of the province**. This requires definition of the anticipated contribution of tourism to the achievement of government goals in employment generation and economic growth. By incorporating tourism development into the overall socioeconomic planning process, provincial planners will have to address conflicts between tourism and other sectors, such as coal and coke processing. Tradeoffs between tourism and the polluting sectors along the Dayun corridor should be considered, agreed to, and implemented. Dayun corridor is home to more than 80 percent of Shanxi's tourism sites and many of the province's coal and coke producing areas. Since it is not realistic to reallocate coal and coke production, some sectors (such as Datong-Shuozhou and Jiexiu-Linfen) may continue to be too polluted to draw in large number of tourists. In Pingyao and Yuncheng sectors, however, provincial government should consider working with the coal and coke industry to try to control pollution levels, at least in the tourism season. Among the most polluted provincial capitals, Taiyuan should also control pollution if it intends to be a major tourism center in the future.

The process of integrating tourism into the overall development framework clearly goes beyond the mandate of the Tourism Bureau. A concerted effort by the Bureau working hand-in-hand with PRDC and provincial government economic and physical infrastructure

planners will be required. Only this kind of broad-based, interagency effort, for example, under the leadership of an interagency task force, will be able to produce the varied types of inputs needed to successfully promote tourism development at the sub-regional level.

Finally, provincial planners should **undertake supply-side measures** to improve tourism experiences and spread out tourism benefits.

- **Diversify tourism circuits.** A major weakness of the Shanxi tourism is the similarity of sights in any given region, which creates repetitiveness in the tourism experience. The public and private sectors should work together to develop routes that ensure diversity and complementarity of sites and experiences.
- **Decentralize tourism centers.** Taiyuan should be the gateway to Shanxi, not the center of tourism in the province. Other towns—Pingyao, for example—should also be developed as “overnight” destinations of tourists in order to increase revenues in those centers and boost service sector development.

Town Government: Generating Employment for Local Residents through Tourism Development

The major function of town government in tourism development is to provide job opportunities for local residents, including surplus agricultural laborers and migrants. This can be accomplished through rehabilitation of tourism assets, creation of an attractive urban environment around the assets and in the town as a whole, and working with the private sector to facilitate the provision of tourist infrastructure, such as hotels and restaurants. Town government should:

- **Develop the arterial road network.** A tourism center should have high capacity to accommodate traffic on peak visitor days (moon festival, spring festival, May Day festivals, and, of course, weekends, when most tourists visit the town). Arterials should link tourist sites to expressways and rail lines conveying visitors from distant location. Redundant road networks will provide release valves permitting traffic to move from one highly congested point to links that are operating below capacity.
- **Develop adequate parking.** Several parking areas located at different sites throughout the road network are often necessary. The town should provide public transport links between the parking lots and the main attraction to tourists at no charge. An alternative is to have a few large “drop-off” points near the main attraction from which visitors will disembark and embark, and buses will go to distant parking lots while tourists enjoy the city.
- **Improve street cleaning and garbage collection and disposal.** An attractive, pleasant environment is critical to the success of any tourism site. Cleanliness is a particularly strong factor in tourist site selection for many international tourists. Towns that seek to attract international tourism should improve the quality of these services, ensure adequate sanitation services to limit odors, and undertake street and open space beautification projects.

Private Sector: Meeting the Market Demand

The main functions of the private sector are to provide sophisticated market analysis and promotion services for the formulation and implementation of tourism plans on the one hand, and the construction and operation of tourism services and amenities (hotel, restaurant, travel services) on the other. Private sector firms should:

- conduct market surveys, mainly by those large travel agencies, with the public sector in tourism promotion; these agencies should fully take advantage of their marketing

expertise from a demand-side management point of view in supporting the government to capitalize the tourism assets and become “first comers” in the market;

- participate in “tourism site” development in various ways, e.g., independent investment, shareholding, and subcontracting, etc., to introduce a business management in tourism development;
- build hotels, restaurants, amenities, and other related services that are affordable to target customers; and
- develop local crafts that are attractive to tourists.

4.4 Provision of Trunk Infrastructure

Provincial and prefecture-level governments should consider financing, building, and operating large-scale infrastructure facilities that will serve multiple LGs. This is true for transport infrastructure, such as expressways and highways, and for some types of environmental infrastructure.

Transport Infrastructure

Provincial and prefecture governments currently build and maintain trunk roads and should continue to do so in the future. Investments should be identified and programmed within a “sub-regional development perspective” that seeks to maximize physical and sectoral linkages between different types of urban settlements (cities, towns) to increase access to markets and to facilitate economic transactions.

Provincial and prefecture governments should also consider the development of road networks in areas around seaports in an effort to create manufacturing clusters. The map on the following page identifies a number of candidate seaports for development in Liaoning Province. In addition to the province’s largest port at Dalian, Liaoning has other major ports at Dandong, Yingkuo, Huludao, and Zhuange, and four or five smaller ports that are candidates for possible expansion. In addition, the huge port of Qinhuangdao in Hebei province is only 20-25 kilometers from Liaoning’s southwestern border. Some areas, Yingkuo, for example, are reasonably well served by trunk infrastructure. Other areas, such as those surrounding Dandong, Zhuange, and Bayquan, and perhaps some areas near Huludao, contain several towns with inferior access to trunk infrastructure. Planners from Liaoning Province and the state’s NDRC should study these areas more closely and consider the possibility of building industrial zones supported by trunk infrastructure leading to these ports. The ports may also require expansion. National, Liaoning, and Hebei planners should also consider the area surrounding Qinhuangdao, in as far as its industrial hinterland could extend into southwestern Liaoning Province.

Environmental Infrastructure

Provincial and prefecture-level agencies should take on primary responsibility for watershed management, including monitoring of ground and surface water supplies in relation to current and anticipated consumption and establishment of regulations to ensure that supply can meet demand in the future. Furthermore, provincial and/or prefecture-level agencies can in some cases get involved in bulk water production. Government can finance, construct, and operate (with or without a private sector partner) a water treatment plant that produces drinking water for a number of cities and towns in the region. The provincial or prefecture-level agency would “wholesale” the water to municipal water supply companies that would in turn sell it to end users: enterprises, government offices, households. Such a “regionalized” bulk water supply scheme can be effective where water supplies are short, endangered by pollution, or otherwise too expensive to be developed by town governments.

As noted above, prefecture-level governments should also consider providing regional infrastructure for wastewater treatment and solid waste disposal. Taking advantage of more qualified staff, prefectures should prepare Master Plans for Environmental Infrastructure for their entire jurisdiction that identify the approximate location and service area of treatment and disposal facilities that support growth while protecting public health and the environment. Estimated costs and a time schedule for implementation should be included in the plans. Prime candidates for such regionalized facilities in the demonstration towns include:

- Xiaoyi City landfill, currently under construction, which could receive domestic solid waste from Wutong Town in the future; and
- Xiliu Town (Liaoning Province) and Haicheng City, which could co-develop a solid waste landfill that would serve both communities.

Towns 50 Kilometers from Ports, Suitable for Expanded Trunk Infrastructure



4.5 Monitoring and Evaluation of Local Government Development

One critical aspect of the provincial government’s role as enabler of LG development is monitoring and evaluation (M&E). The objective of the M&E system is to evaluate:

- the performance of individual LGs;
- the aggregate performance of all of the LGs in the province; and
- the impact of the province’s measures in support of LG development.

The province should carry out the analysis in a systematic fashion and use the results to refine the LG development system and ultimately to improve the future performance of LGs.

The technical approach of the M&E system is based on indicators for performance measurement. An indicator is a piece of quantitative information that lends insight into the achievement of a particular objective. The objectives that the province wants to measure are set out in the documents that define its LG development system. One such objective might be “to stimulate greater LG investment in urban infrastructure and services.” To measure progress on that objective, the province could define an indicator like “infrastructure investment per capita,” which is measured at the LG level. This quantitative indicator simply and efficiently conveys the total amount of investment that the town made in urban infrastructure during the year in question. It is also comparable across towns, and can be aggregated to generate a prefecture- or province-wide indicator value. Generally, the best indicators are expressed as ratios (such as total infrastructure investment divided by population, in the example) or percentages (such as the percentage of households that have an individual water supply connection), since data in this format are easily compared data for other geographic areas.

Table 4.2 below sets out a proposed set of LG development goals, strategies, and indicators. It is proposed that this set of indicators is finalized at the national level, and then distributed to the provincial level for implementation of M&E activities. At the provincial level, the PDRC should be responsible for managing this M&E system. Data for indicator calculation should be collected yearly by doing a survey of all LGs. The PDRC should tabulate the data, calculate the indicators, analyze the results, and prepare a short (say, 10-page) report on the performance of LGs in the province. The report should be distributed to the LGs, concerned departments of the provincial government, and the NDRC. The PDRC and provincial government departments should meet to discuss the findings and decide how the provincial system for LG development should be refined. Representatives of selected LGs should participate in the meeting. This feedback from the indicator collection and analysis process should be used to make specific proposals for introducing new policies, modifying or discontinuing existing incentives, and/or preparing other proposals for improving the effectiveness of provincial government as an enabler of LG development.

Table 4.2. Indicators for Performance Measurement in Town Development

Goal	Strategy	Performance Indicator
Urban Governance and Management		
Improve delivery of town services and better support economic and population growth	<ul style="list-style-type: none"> • Clarify roles of government, the private sector, and the community 	<ul style="list-style-type: none"> • % of new dwelling units financed by private sector • % of new land development carried out by private developers • % of municipal services expenditure outsourced to private firms
	<ul style="list-style-type: none"> • Streamline functions of town government 	<ul style="list-style-type: none"> • Existence of local government charter stipulating functions of town government
	<ul style="list-style-type: none"> • Strengthen legal foundation of local governments 	<ul style="list-style-type: none"> • % of local governments with approved home rule charter
	<ul style="list-style-type: none"> • Increase opportunities for citizen input and representation 	<ul style="list-style-type: none"> • Number of publications disseminated to public by town government • Number of town meetings/hearings
	<ul style="list-style-type: none"> • Create new opportunities for local leadership 	<ul style="list-style-type: none"> • Average ratio of number of candidates to number of positions in elections

Goal	Strategy	Performance Indicator
	<ul style="list-style-type: none"> • Build the capacity of town government staff 	<ul style="list-style-type: none"> • Number of workshop days attended by senior managers last year over number of senior managers
Municipal Finance		
Mobilize additional revenues	<ul style="list-style-type: none"> • Introduce new instruments: property tax, special assessments, block grants, loans, and bonds 	<ul style="list-style-type: none"> • % increase in tax revenues • Own-source revenues over total revenues • % total revenue from property taxes • % total revenue from special assessments • Number of block grants received • % total infrastructure financing from bank loans • % total infrastructure financing from bonds • Capital and recurrent expenditure per capita
	<ul style="list-style-type: none"> • Increase use of market-based pricing of services 	<ul style="list-style-type: none"> • Tariff revenues over total cost of water supply and sanitation services • Tariff revenues over total cost of solid waste management services
	<ul style="list-style-type: none"> • Rationalize revenue sharing with higher levels of government 	<ul style="list-style-type: none"> • % increase in revenue transfers from upper level government
	<ul style="list-style-type: none"> • Strengthen capacity of finance department 	<ul style="list-style-type: none"> • Existence of organigram for finance office/department, showing divisions • % of towns using performance-based budgeting • Number of workshop days attended by senior financial managers last year over number of senior financial managers
Economic Development		
Facilitate employment generation and economic investment	<ul style="list-style-type: none"> • Change performance evaluation criteria for town officials 	<ul style="list-style-type: none"> • % of towns using employment, not growth, as main performance criterion
	<ul style="list-style-type: none"> • Increase town size 	<ul style="list-style-type: none"> • Average population of towns
	<ul style="list-style-type: none"> • Focus on tertiary sector development 	<ul style="list-style-type: none"> • % of tax rebates/exemptions for service sector over total tax rebates/exemptions • Change in average period for issue of service sector business license • Change in number of tourist visits • Change in number of tourist overnights • Change in number of service sector firms • Change in service sector employment

Goal	Strategy	Performance Indicator
	<ul style="list-style-type: none"> Promote development of SMEs 	<ul style="list-style-type: none"> % of tax rebates/exemptions for SMEs over total tax rebates/exemptions Number of person-days of technical assistance provided to SMEs Change in number of SMEs % in SME employment
Economic Infrastructure		
Increase access to important markets	<ul style="list-style-type: none"> Expand links to markets 	<ul style="list-style-type: none"> Minutes to nearest expressway entrance Minutes to nearest highway Number of highways passing within 5 kilometers of built-up area. Number of cities within 30 minutes travel Number of daily bus departures to cities
	<ul style="list-style-type: none"> Develop multi-modal access 	<ul style="list-style-type: none"> Increase in warehouse space (m2) % increase in freight handled Number of rail lines Number of cities within 60 minutes travel by rail and expressway
	<ul style="list-style-type: none"> Improve rural roads 	<ul style="list-style-type: none"> Increase in number of villages connected to town by road and paved road Town-village roads: total km and total paved km Daily bus departures to village
Improve energy availability and independence	<ul style="list-style-type: none"> Allow power generation by private enterprises 	<ul style="list-style-type: none"> % increase in power produced by private enterprises % increase in total power generation Total electricity consumption per person (kWh/capita)
	<ul style="list-style-type: none"> Promote local power generation 	<ul style="list-style-type: none"> % increase in local generating capacity Capacity of local private generating capacity Length of approval process for each application to expand local capacity
Increase telecommunications coverage	<ul style="list-style-type: none"> Expand telecommunications coverage to all citizens 	<ul style="list-style-type: none"> % households connected by copper land-line ("POTS") service % households covered by broadband service and cellular service
Increase availability of parks	<ul style="list-style-type: none"> Expand size of parks and public spaces 	<ul style="list-style-type: none"> hectares (ha) of park and public space per capita % of built-up area that is park/open space

Goal	Strategy	Performance Indicator
Environmental Infrastructure		
Ensure provision of adequate and efficient environmental services to all users	<ul style="list-style-type: none"> • Provide environmental services (water, wastewater, solid waste) to 100% of occupied buildings in built-up areas 	<ul style="list-style-type: none"> • % buildings in built-up area that are • connected to water supply • connected to sewer • within 100 meters of a trash collection point • % hours per day water supply available • % wastewater receiving some treatment • % days per year trash collected • % non-revenue water • % Bio-Chemical Oxygen demand reduction • % trash by volume disposed of in sanitary landfill
	<ul style="list-style-type: none"> • Provide financial assistance to towns for investment in environmental infrastructure 	<ul style="list-style-type: none"> • Environmental infrastructure expenditure per capita • Change in investment in environmental infrastructure
Protect and enhance the natural environment in and around towns	<ul style="list-style-type: none"> • Improve environmental regulations compliance by separating functions 	<ul style="list-style-type: none"> • % of town governments not responsible for environmental enforcement
	<ul style="list-style-type: none"> • Promote integrated environmental management between town and industry 	<ul style="list-style-type: none"> • % of town's wastewater treated by treatment plant in industrial park
Property Markets and Housing		
Meet housing needs of all local population groups	<ul style="list-style-type: none"> • Convert collective land in towns to state land 	<ul style="list-style-type: none"> • % of land in built-up area that is state land
	<ul style="list-style-type: none"> • Allow management companies to develop and lease collective land 	<ul style="list-style-type: none"> • % of collective land leased by management companies
	<ul style="list-style-type: none"> • Increase private sector participation in land development 	<ul style="list-style-type: none"> • % of land developed by private firms
	<ul style="list-style-type: none"> • Diversity housing types 	<ul style="list-style-type: none"> • % of new units that use alternative housing models: terrace housing, garden apartments, other • Ratio of most expensive housing unit to least expensive unit produced last year • House price to income ratio
	<ul style="list-style-type: none"> • Reduce public sector involvement in housing production 	<ul style="list-style-type: none"> • Change in total net expenditure on housing by public sector

Goal	Strategy	Performance Indicator
	<ul style="list-style-type: none"> • Conduct analysis of housing demand and ability-to-pay 	<ul style="list-style-type: none"> • % new units incorporating housing analysis findings into design process
<p>Increase equitable distribution of benefits of land development projects</p>	<ul style="list-style-type: none"> • Establish standards for land development and valuation • Guarantee right of first refusal to displaced land use rights holders 	<ul style="list-style-type: none"> • % land compensation carried out using new valuation standards • % displaced land rights holders that received right of first refusal to new housing units
Social Sector		
<p>Alleviate urban poverty</p>	<ul style="list-style-type: none"> • Expand MLSP to include poor in both urban and rural areas 	<ul style="list-style-type: none"> • % of households below poverty line • % of poor households receiving social assistance funds • Expenditure on poverty reduction per capita • Ratio of 20th household income percentile to 50th household income percentile
	<ul style="list-style-type: none"> • Improve access by women to urban services, employment, health, and credit 	<ul style="list-style-type: none"> • % of working age women in labor force • Access to services by gender
<p>Improve quality and quantity of social infrastructure</p>	<ul style="list-style-type: none"> • Introduce the CMS in villages • Expand coverage of existing health insurance programs 	<ul style="list-style-type: none"> • Ratio of households enrolled in CMS to number of households eligible • Number of new persons added to the CMS per year • % of persons with formal sector health insurance • Cost of health insurance over average income per capita per year
	<ul style="list-style-type: none"> • Reduce class size by 20% over next decade • Encourage post-compulsory school education 	<ul style="list-style-type: none"> • School enrollment rate • Average number of school children per classroom • % of compulsory school graduates enrolling in senior middle school • Town budget allocation for education (RMB per student per year)
	<ul style="list-style-type: none"> • Establish vocational facilities • Increase job placements 	<ul style="list-style-type: none"> • Number of vocational schools in town • % of compulsory school graduates enrolling in vocational middle school • Job placement rate
	<ul style="list-style-type: none"> • Remove restrictions on migrants 	<ul style="list-style-type: none"> • Additional fees required from migrants in public schools • Number of restrictions removed