Why a Poorer Village Can Provide More Public Services?

Collective Property Rights, Local Entrepreneurship and Public Investment of Two Villages in South China

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Abstract

In rural China, public services such as education, medical care and refuse collection are provided by the villages themselves rather than by the central or provincial governments. Due to different levels of economic development and institutional arrangements, the quality and quantity of public services provision are uneven from place to place. Generally, the source of financing such provision is mainly from the annual revenues of the villages obtained from land leasing or earnings of rural enterprises. It is usually considered that unclear collective property rights arrangement in rural China will lead to inefficient outcomes and hence the ambiguous collective ownership, management and use of village’s assets may cause inefficient use of revenues and social conflicts. However, through case studies of two villages in southern China, we find that clear definition of property rights may not always provide more public services than the collective management model. In addition to the property rights regime, the other element, local entrepreneurship, is also essential for social and welfare development in the Chinese countryside. Whether the collective property rights should be well defined and local entrepreneurs would actively support public services provision would mainly depend on the transaction cost.

Keywords: Transaction Cost, Collective Property Rights, Local Entrepreneurship, Public Investment

1 Introduction

Differentiated from cities, China’s countryside is characterized by its ownership and institutional arrangement. The socialist ideology requires that public ownership should be predominant in the whole country. However, the definition of “public ownership” is heterogeneous and it is mainly divided in to two categories which are state ownership in urban areas and the collective ownership in rural areas. The term “state” refers to the governments which are on or above town level, including the town, municipal, provincial and central governments. On the other side, the “rural collective” means “local state” which consists of township and village (Oi, 1997). Therefore in rural China, most of the local assets, like land, real property, production tools and so forth, are owned and managed by the rural collective primarily represented by the villagers’ committee (cunmin weiyuanhui). Legally speaking, the villagers’ committee is not part of the bureaucracy so that it can only acquire limited or even no funds from the upper governments. As a result, a village’s expenditure, in which public investment takes a great part, heavily depends on revenues generated by the collective-owned assets in the forms of land and property rental,
collective-owned enterprises profit and so on.

For a long time, scholars have criticized the collective property rights for its ambiguity. In their opinion, collective ownership is “fictitious” and in fact it stands for the control exercised by the Party and local government (Puttermann, 1995; Cai, 2003; Hsing, 2006). Some of them even directly points out that collective ownership is \textit{de facto} cadre ownership (Cai, 2003). When the property rights over collective-owned assets are not well defined, it provides leeway to the local officials to pursue their personal interest rather than the benefit of the whole community. Although a large body of literature exists on collective ownership and the vague property rights in rural China, few directly link collectivization to the public services provision. Whether the ambiguity of collective property rights has negatively affected the public investment remains an empirical question.

Moreover, local entrepreneurship is also closely related to the decision-making process of the villages. Vertically, researchers disclose that China’s successful rural industrialization is advanced through the flow of benefits and services between local state and local enterprises (Oi, 1997). Horizontally, kinship and friendship relations between cadres and entrepreneurs are emphasized as well (Pei, 1997). Nevertheless, in terms of public services provision, do local entrepreneurs still have the same strong influence as they exert on economic development?

Based on the above discussion, this study compares public investment of two villages in Guangzhou, which is one of the most economically and socially developed cities in south China, to examine how the collective property rights and local entrepreneurship affect villages’ expenses for public purposes. The locations of such villages are adjacent to each other but they have applied distinct institutional arrangements to manage collective-owned assets and the features of their social networks are also diverse. Thereby it is an optimal case to eliminate the impact of local context to the greatest extent. Interestingly, through the fieldwork we find that the poorer village in this case unexpectedly provides more public services than the richer one in terms of the quantity and the quality of investment. Having analyzed the data set includes detail information on village income, governance, industrial development and public finance, this paper finds that the choice of property rights regime and the behavior of entrepreneurs are in essence driven by the transaction cost.

2 Collective property rights, local entrepreneurship and public services provision: a literature review

As one piece of the most important work in the history of economic theory, Coase (1937, 1960) points out the importance of transaction cost in addition to the costs like production cost and transport cost, which is highly influencing the efficiency of the market. On the basis provided by Coase, Barzel (1997) develops a systematic normative of property rights. He acknowledges that delineating property rights can never be perfect and the degree to which ownership is established over a commodity’s separate attributes lies on the transaction costs.
About China, comprehensively, this country’s property rights have long been regarded as an ambiguous one and are left behind by transitions in other categories (Li, 1996). Some scholars argue that the Chinese Government deliberately creates a vague property rights system to leave the state leeway to alter the rules and react to uncertain societal development (Cheung, 1982; Ho, 2001). Oi (1995) suggests that such institutional arrangement has paved the way for China’s successful economic reform and removed constraints on local government’s autonomy thereby injects strong incentives for them. Simultaneously, critiques also demonstrate that China’s reform over property rights is unsystematic and its ambiguity increases uncertainty and transaction cost, and also leads to corruption and reduction of the incentives to invest (Rawski, 2001).

There are also similar debates over the collective-own assets, particularly the collective-owned land. Rural land in China has been divided into two types which are respectively agricultural land and non-agricultural land. Household responsibility system (HRS) only allows the farmers to obtain revenue from the arable land while the rights to choose how the land would be cultivated and the rights to transfer the ownership of land is still restricted and controlled in the state and the Party’s hands (Putterman, 1995). For non-agricultural land, they are mainly controlled by the local cadres therefore the ‘collective ownership’ can also be regarded as ‘local state ownership’ (Putterman, 1995; Oi, 1997). The economic reform merely increases the power of local officials rather than the nominal land owners—the peasants (Putterman, 1995). Without the clear definition of individual farmers’ property rights over the rural land, cadres are able to pursue their personal interests through land conversion from agriculture to commercial development under a ‘black box operation’ which will definitely arouse frequent social conflicts (Cai, 2003; Lin, 2009).

In contrast to the above perspective, some other scholars may offer a positive interpretation about such ambiguity. They argue that it allows the state to adapt market mechanism, exercise strong state intervention whenever necessary, control the whole land develop process, and ensure the social stability (Lin, 2009). Ho (2001) demonstrates that like other domains, the ambiguity of property rights over rural land is a deliberate effort to create spaces for reacting to the uncertainty of societal development. Moreover, it is also helpful to avoid the escalation of land dispute between various levels of rural collectives while the law maintains a vague definition of collective ownership. Here the ambiguity of property rights which is usually unwelcome in the western literature on the contrary becomes beneficial to the economic viability and social stability. Lin (2009) indicates that the reason may be attributed to the agrarian cultural tradition of China in which communal interests over-ride the individual interests and the keen market competition in China is not always ready to accept the explicit delineation of property rights.

As an experiment for solving the problem brought by the vague collective ownership, some villages begin to introduce the shareholding system to define the property rights more explicitly and to satisfy the demand of sharing the fruit of economic development from the villagers (Chen, 2009). However, there is no standard answer to the question of to what extent property rights should be defined. Therefore, in terms of public investment in China’s countryside, it is interesting for us to ask: will more public services be provided once the collective property rights are better defined? It would be left to our subsequent discussion of the case study.
Additionally, behavior of local entrepreneurs usually exerts strong influence on the decision-making process. Using the framework of local state corporatism, Oi (1997) focuses on the relationship between the state and the society. But she mainly concentrated on the performance of local government while the other side, the local entrepreneurs are relatively ignored. Offering a distinguished opinion, Pei (1997) emphasized that it is the horizontal connection (e.g. kinship and friendship connection) rather than the vertical or hierarchical relation that playing an important role in economic and social life. Some researchers even have already linked up social networks like the temple and lineage institution with public goods provision in rural China. Through her case studies, Tsai (2007) concludes that solidarity groups, in part of which are local entrepreneurs, “can provide local government officials with important incentives to provide the public goods and services that citizens demand even when democratic or bureaucratic institutions do not work effectively”. As a kind of informal institution arrangement, local social network can be beneficial to local governmental performance in transitional system where the formal institutions are still weak (Tsai, 2007). Although informal rules may lower the transaction cost in a short period of time, formal rules are still fundamental for a long-term purpose otherwise the quality and quantity of public services maybe limited (Tsai, 2002).

No matter form the perspective of collective property right definition or local entrepreneur participation, it is obvious that the transaction cost is always the core issue that determines which kind of institutional arrangement is chosen to operate public services provision. In the next section, we will empirically examine how the factor of transaction cost affects local public investment.

3 Discussion: why a poorer village can provide more public services

Data and descriptive statistics

The data set in this paper is collected from three surveys in 2010. The surveys covered 2 villages in Xintang Town situated in the eastern part of Guangzhou city. Xintang had long been a market town since the Ming dynasty, and was designated as an administrative town of Zengcheng county, Guangzhou in 2004. Claimed as the ‘Golden Corridor of Eastern Guangdong Province’ (Xintang Town Government, 2009), Xintang is situated on the northern shore of Dong River which is one of the three main tributaries of Pearl River, geographically in the eastern part of the city of Guangzhou and across a river from Dongguan. As Figure 1 indicates, the town is located right in the core of the contiguous area between Guangzhou-Foshan Metropolitan Region and Shenzhen-Dongguan Metropolitan Region.
Since the economic reform in the early 1980s, Xintang had led the way in rural industrialization in Zengcheng and it is still upholding its flagship in the 21st century. By the year of 2008, more than 5,600 manufacturing enterprises had been found in Xintang, involving 19 industries such as automobile, motorcycle, denim clothing, building materials, furniture, paper, food, plastics, home appliances and so forth. Denim clothing, automobiles and motorcycles are three pillar industries, and their initial shape of industrial clusters is gradually being formed. In 2008, the whole town’s industrial output had reached 79.7 billion yuan in which the three pillar industries had contributed 54.7 billion yuan. As the result of the prosperity of the manufacturing business, 6 billion of taxes had been paid to the government. (Xintang Town Government, 2009)

Xintang’s industrialization process is regarded as a representative of bottom-up development of private economy, particularly in the sector of denim clothing. Most of the factories are owned by the local villagers who are also could be regarded as entrepreneurs and the majority of them only keep the manufacturing in a small scale. At present, there are over 2600 jeans manufacturers which constitute 60% of the entire town’s factories (Xintang Town Government, 2009). Their products compose over 60% of the national jeans market and more than 40% of the relevant exported goods (Xintang Town Government, 2009). In terms of output and market share, jeans are proved to be the gateway of the global market for Xintang.

Due to the highly developed private industry, local entrepreneurs in Xintang are rather influential on local governance. As one of our informants who is also a successful local businessman states, in this town, a village head or Party branch secretary must firstly be a strong entrepreneur. Meanwhile, the rural collectives are still responsible for public services provision as other villages in China. So here is a suitable place to investigate the relationship between collective property rights, local entrepreneurship and public investment.

The two villages in this study –Dadun Village and Jiuyu Village- are both located in the southern part of Xintang Town. Their geographic locations are shown in Figure 2. According to Table 1,
Dadun’s administrative region straddles over 8 square kilometers with a population of nearly 90,000, which consisted of 7,408 registered local population (*huji renkou*) and over 80,000 floating population (*liudong renkou*) in 2008 (Xintang Town Government, 2009). On the other side, despite Jiuyu Village merely had one thousand local villagers and ten thousand floating population, the collective income of the village had reached 20 million yuan in 2008 (Xintang Town Government, 2009). From the perspective of rural collective revenue, Dadun village indeed is a much poorer village compared with Jiuyu.

<table>
<thead>
<tr>
<th></th>
<th>Dadun</th>
<th>Jiuyu</th>
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<tbody>
<tr>
<td>Land area (square kilometer)</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Registered local population</td>
<td>7406</td>
<td>1008</td>
</tr>
<tr>
<td>Floating population</td>
<td>80,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Collective income (million yuan)</td>
<td>7</td>
<td>20</td>
</tr>
</tbody>
</table>

Table 1 Basic information of Dadun and Jiuyu (2008)
Source: [http://www.xintang.gov.cn](http://www.xintang.gov.cn) (Edited by author)

Nevertheless, the result is interesting when we compare the quality and the quantity of public services provided by the two villages. Having eliminated the irrelevant subjects of the collective-owned fixed asset category acquired from our fieldwork, we reorganize a new public service facility category specified as Table 2. We can easily find that Dadun’s category is more comprehensive, covering from production related investment like sewage treatment plant to recreation projects like village park. The major public facilities of Jiuyu only include a power-distribution circuit, a primary school, a temple and a geracomium. Furthermore, while we
continue to compare the investment of the projects, the disparity becomes much larger. The total investment of Dadun is 97 million yuan and the number of Jiuyu is solely less than 5 million. Even when we compared the specific input of each project, Dadun also got ahead of Jiuyu. It is obvious that they have spent more money on aspects like education and social welfare.

<table>
<thead>
<tr>
<th></th>
<th>Dadun</th>
<th>Jiuyu</th>
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<tbody>
<tr>
<td>Power-distribution circuit</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Sewage treatment plant</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Health center</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Primary School</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Middle School</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Geracomium</td>
<td>√</td>
<td></td>
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<tr>
<td>Temple</td>
<td>√</td>
<td>√</td>
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<tr>
<td>Cinema</td>
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<td>Park</td>
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Table 2 Public service facility category of Dadun and Jiuyu villages
Source: Author

<table>
<thead>
<tr>
<th></th>
<th>Dadun</th>
<th>Jiuyu</th>
</tr>
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<tbody>
<tr>
<td>Power distribution house</td>
<td>629,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Sewage treatment plant</td>
<td>80,000,000</td>
<td></td>
</tr>
<tr>
<td>Health center</td>
<td>85,000</td>
<td></td>
</tr>
<tr>
<td>Primary School</td>
<td>1,633,000</td>
<td>4,488,000</td>
</tr>
<tr>
<td>Middle School</td>
<td>5,116,000</td>
<td></td>
</tr>
<tr>
<td>Geracomium</td>
<td>1,210,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Temple</td>
<td>3,418,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Cinema</td>
<td>14,000</td>
<td></td>
</tr>
<tr>
<td>Park</td>
<td>5,000,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>97,105,000</td>
<td>4,823,000</td>
</tr>
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Table 3 Investment on public facilities of Dadun and Jiuyu village
Source: Author

Before we analyze why Dadun can provide more and better public services, one may ask where such large sum of money is from. The quick answer is in Dadun not only the rural collective but also the local entrepreneurs have financed the facilities. But why Jiuyu cannot invest more with their abundant revenue or obtain equivalent donation? And why entrepreneurs in Dadun intend to contribute their own wealth to support local social development? These are closely related to the different property rights regime and characteristics of local entrepreneurship, which will be explained in the next part of this paper.
Collective property rights regime and public investment

Firstly, we focus on the property rights regime of these two villages. Although they are geographically adjacent, Dadun and Jiuyu respectively apply two different approaches to manage their collective revenue and expenditure. As the mentioned history of Xintang’s industrialization states, private economy is dominant in most of the villages including Dadun and Jiuyu. The collective economy only takes a very small part. Despite the number of collective-owned enterprises is limited, villages still can share a large sum of profits generated by the factories in form of land and property rental. Take Jiuyu Village as an example, the villagers’ committee should manage 20 million yuan income every year, which is much more than their annual administrative income. In such circumstances, the regular villagers who were also members of the rural collective began to claim for their share of economic development. A few years ago, like some other villages in the Pearl River Delta, they introduced the shareholding system to manage their collective-owned assets and allocated bonus and dividends to villagers in accordance with the number of share. In 2008, the average dividend of each villager was up to 9,000 yuan, which accounted for nearly half of their annual income. There is no doubt that maintaining a shareholding system will increase the cost of the rural collective while such system is able to reduce conflict and is beneficial to social stability. Thus the villagers’ committee in fact cannot fully control the revenue and they should spare a large part of it for redistribution. In other words, they are not capable to invest all of them in public facility projects.

However, as the first village that developed jean industry in Xintang, the rural collective of Dadun is not able to obtain income which is commensurate with their economic development level because most of their former collective-owned land had been transferred to state-owned land through land requisition and the land use rights over them were sold as well. Therefore only 7 million yuan of land rental can be used to support the whole village’s expenditure on public uses. Even if the application of shareholding system will not render extra transaction cost and all the 7 million yuan are allocated to more than 7,000 villagers, each of them will only get about 1,000 yuan, which is much less than Jiuyu.

Such comparison has confirmed Bazel’s interpretation that whether the property rights should be explicitly defined depends on the transaction cost (Bazel, 1997). Dadun cannot afford to pay the cost for maintaining and operating a shareholding system, so it can only leave the collective property rights to be vague and let village officials to decide how the money is spend on public services provision.

Local entrepreneurship and public investment

Solely explaining different approaches of property rights regime is definitely not convincing enough to reveal the reason why there is such a large gap between Dadun and Jiuyu’s public investment. Shareholding system passively constrains the ability of Jiuyu to provide more input, but how Dadun actively increase the investment is heavily relied upon the behavior and attitude of local entrepreneurs.
As an early bird of industrialization, Dadun has the longest history of private economy in Xintang and the highest degree of entrepreneurship localization. According to the statement of the village head, about 90 percent of the factory owners in Dadun are holding the local hukou. Therefore they seek to pursue long-term benefit in the village. Taking the expensive sewage treatment plant as a vivid example, the village is only responsible for the land requisition and all the other expenses on construction are paid by a group of local entrepreneurs. The annual input in this project during the first five years is 12 million yuan and it is even more than the collective revenue of the village. Not only production related projects, local entrepreneurs also intend to finance school, geracomium and other social welfare. Dadun Middle School is strongly supported by the donation of factory owners. Villages are not required to build schools at the middle school level, but the entrepreneurs intend to consolidate the relationship with the cadres. Superficially speaking, the active participation of local entrepreneurs had improved the quantity and quality of the public facilities; in essence, it had strengthened the kinship and trust in the rural community.

Jiuyu is also a highly industrialized but its local connection is much weaker. Less than half of the entrepreneurs in the village are Jiuyu villagers so that most of the investors here do not regard their investment as long-term business. Furthermore, not like Dadun where entrepreneurs have already bought land from the rural collective, factory owners in Jiuyu are actually tenants and they still have to pay a portion of their profit to the villagers’ committee as rental. Without the ownership of land, the mobility of entrepreneurs may enhance. The recent reportage of Zengcheng Daily (2010) also provided evidence that even village officials themselves cannot trust in each other quite well. Since the lineage and social connection is weak, there is no use to reduce transaction cost by supporting local public services. Thereby the indifference of local entrepreneurs is not difficult to be understood.

4 conclusion and implication

Studies about China’s institutional change and property rights arrangement usually suggest that the ambiguity of collective ownership should be eliminated. However, to explicitly define property rights is costly. The story of Dadun and Jiuyu has proved that vague property rights are not always inefficient in terms of public services provision even though the village has passed its early stage of development. Instead of the clearness of property rights, the transaction cost is the most important issue. Thus the behavior of local entrepreneurs should be taken into account as well. Whether they intend to contribute the wealth to support local public services would heavily depend on the effect on transaction cost reduction.

Since data collection in rural China is always difficult, this study can only provides details of two villages and give some hints about how transaction cost shapes collective property rights and local entrepreneurs’ choice, and then influences public investment. Collective property rights and local entrepreneurship are both debatable topic so that further studies are needed.
References


