

Decentralization and Local Processes of Social Development in the PRC: the case of education in a Shanxi County town¹

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*“The art of progress is to preserve order amid change
and to preserve change amid order”*
Alfred North Whitehead

New organizational and institutional arrangements introduced by economic reform in 1978 have significantly influenced the Chinese development process, particularly the ways in which different government levels take part in that development. An important element of that institutional restructuring has been decentralization efforts, which have been responsible for the radical changes in the relationship between the Centre and sub-national governments. Increased local government autonomy has strengthened local agency, allowing for greater maneuvering space in the formulation of local solutions. The main objective of those decentralization efforts has been directed towards regional economic efficiency and liberalization. Local governments are in effect the ones implementing China’s development agenda, playing a more active role in directing growth and interpreting and mediating social and environmental issues (Skinner *et al.* 2003), but also carrying a stronger responsibility in making that development more inclusive. Formulation and implementation of national policies – characterized by their gradual and experimental nature – continue to reaffirm the importance of the local input.

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The new power distribution setting has also been directly manifested in budgeting authority. Agreeing to share its budget authority with local governments, the Centre managed to win provincial back up for economic reform, at the same time that it disentangled itself from a wide range of budgetary responsibilities. Declining revenues at the Centre – consequently – triggered an ongoing delegation of fiscal responsibilities to lower levels of government. Local expenditure increased rapidly, as central expenditure and transfers receded. An imbalance between fiscal responsibility and fiscal capacity resulted in great disparities in the availability and quality of services among regions and between urban hierarchies. At the county and town level the responsibility to fill in the gap in funds has mostly fallen on local residents, who are paying increasing fees for education and health care services among other fees.

Uneven development and widening inequalities have become extremely important in understanding development at the local level in the People's Republic of China [PRC]. The aim of this article is to test the hypotheses previously discussed, through an empirical case carried out in a County town located in Shanxi Province in north China. This essay will analyze the consequences of decentralization on the provision and quality of education services at the town level. As towns have been expected to absorb an increasing number of workers from the countryside, the paper will put a special focus on rural workers use (or lack of use) of those two social services. Ultimately, the article will assess the ways in which local government promotes social development, and whether or not that development is being prioritized.

Decentralization and local financing of social development

In its transition towards a market-regulated economy the Chinese state continues to negotiate and redefine its role in the promotion of development. Sub-national governments – as part of that state apparatus – have become developmental states playing an important role in the economic and overall prosperity of localities (Oi 1995; Zhu 2004). Economic priorities have become such a pressing goal for local governments that other areas of development are being increasingly neglected. Particularly with the increase of financial responsibilities, local governments are even more concerned with the promotion of economic growth in order to raise enough funds to meet government expenditure. In order to be able to finance infrastructure and to provide for social services and welfare, local governments are closing the financial gap through the use of extra budgetary revenues [EBRs].² The levels of

² According to World Bank figures tax revenues in 2002 represented only 14 per cent of China's GDP, whereas extra budgetary revenues accounted for as much as 20 per cent of GDP. World Bank 2002,

extraction of those revenues, however, are highly dependent on the economic circumstances of the locality, creating disequalizing effects that further widen regional and spatial inequalities. Whereas the more dynamic economic provinces of the east coast and the south have been able to overcome financial limitations by successfully attracting foreign and domestic investment to boost their economies; less well off areas have had to cope with limited foreign and domestic investment, as well as a shrinking tax base.

Increased reliance on EBRs has not only severely undermined the effectiveness of the tax system, but has also made budget formulation passive and reactive (Wong 2002). Because the actual amount of disposable extrabudgetary funds cannot be fully accounted, allocation of funds has to be based on the previous year's budget and usually bears little consideration for local development needs. Inefficiencies in the way funds are raised and spent are therefore delaying local development, not to mention compliance with the national development agenda. In many cases, funds originally allocated towards social development efforts have to be used for more immediate and pressing issues like paying for local government staff salaries. Bad budget management is nevertheless the reflection of an incomplete economic and institutional transformation; one that still needs to establish a clear and more equitable division of financial responsibilities and functions between the different government levels.

Shanxi's delayed transformation

Compared to the developed eastern coast, Shanxi Province has not been greatly benefited from economic reform.³ Its close economic and political relationship with the Centre during the Maoist era and its limited connections with the rest of China and the outside world, were largely responsible for its delayed economic and institutional transformation. Shanxi's dependence on investment from the Centre had strongly influenced Shanxi's development strategies, which were centred on the exploitation of its natural resources as a critical element of China's modernization. At the start of the 1990s, however, changes in economic priorities

'China national development and sub-national finance: a review of provincial expenditures' Report 22951-CHA.

³ Shanxi Province is part of a group of mid-range provincial economies that is usually referred to as the central region. Throughout the reform period the economic performance of this group of provinces has been mixed. In the period between 1978 and 1994, however, the central region's participation in the national economy suffered the greatest decline among all other regions. Its share of the national GDP during that period declined by 3.6 per cent, a drop greater than that experienced by the western region (2.4 per cent). In the meantime, the eastern coastal area increased its participation share by 6 per cent over that same period. Cheng, Joseph Y.S. and Zhang Mujin 1998, 'An Analysis of Regional Differences in China and the Delayed Development of the Central and Western Regions', *Issues and Studies*, vol. 34, no. 2, p.38.

at the Centre significantly reduced the amount of state investment channelled into Shanxi. Against this backdrop, the new provincial leadership to come into power in 1992 had to emphasize the importance of locally generated economic development in order to take the province out of its economic downturn (Goodman 2002). Attracting investment – particularly from overseas – has been a difficult task for Shanxi. Economic cooperation with other provincial units has increased but foreign investment and trade has remained much lower than the national average.⁴ More recently, domestic trade and economic interaction with the rest of the country have been greatly enhanced by the development from the late 1990s of a vast road network that has made the province more accessible.

As shown by various socio-economic indicators, Shanxi's development is still lagging behind not only from that of the east coast, but also from other central and western provinces. Intraprovincial inequalities – especially those between the urban areas and the countryside – have continued to widen over the last decade, with at least 12 per cent of the rural population living in poverty (Goodman 1999, p. 211). Per capita real income of urban households in 1995 was 2.79 times that of their rural counterparts, and by 2002 that ratio had gone up to 2.89.⁵ Moreover, that same year the average per capita income of farmers in Shanxi was still lower than the national average by 13.2 per cent.⁶

Hongtong County: Urban growth and social development in the County Town

Hongtong County in Shanxi Province is not an average county. With a population of over seven hundred thousand, Hongtong is not only the most populous county in Shanxi but it is also one of its wealthiest. The county remains an important producer of agricultural products – especially cereals –, but the secondary sector has become increasingly important thanks to its booming township and village enterprise [TVE] sector. This industrial sector is a large contributor to the economic strength of the county, which ranks 8th among prefectural and county economies in the province.⁷ Rural industry is also responsible for high rural incomes,

⁴ In the late 1990s foreign investment in Shanxi represented less than 5 per cent of the provincial GDP. The national average was around 20 per cent. Goodman, David S.G. 2002, 'Structuring Local Identity: Nation, Province and County in Shanxi During the 1990s', *The China Quarterly*, No. 172, p. 846.

⁵ Shanxi Statistical Yearbook 2003. In 1995, the national average for that ratio was 2.70, 2.58 for the central region, 2.38 for the east and 3.4 in the west (Zhao & Tong 2000, p. 556).

⁶ Shanxi's farmers' average per capita income in 2002 was 2,150 RMB, whereas the national average was 2,476 RMB. Shanxi Statistical Bureau 2003, Shanxi's County Areas Economic Potential Comprehensive Summary Analysis (*Dui Shanxi sheng xianyu jingji zonghe shili de pingjie yu fenxi*) [Online] Available:

<http://report.drc.gov.cn/drcnet/corpus.nsf/0/4953bbc0e620489248256e3600db02c?OpenDocument>
[Accessed: May 31, 2004]

⁷ Unless otherwise stated all figures in this section are taken from the Shanxi Statistical Yearbook 2003.

which in 2002 were 23 per cent higher than the provincial average. Urban income for that same year, however, was almost 18 per cent lower than its provincial equivalent. These figures partly reflect the low levels of urbanization⁸ and a still weak socio-economic development of the county's urban centres.

Hongtong's County town – centre of the county government – houses over forty per cent of the county's urban population. New businesses, shops and restaurant have sprouted all over, making commerce and light industry the two main economic activities of this County town. Tourism is another sector that is being further exploited since town is the site of a large migration movement that took place during the late Ming Dynasty. Those three economic activities have attracted a considerable amount of rural workers, who are now an important part of this town's socio-economic development. However, despite economic success in some sectors, the county government is running a large budget deficit⁹ that has implications on the ways in which development funds are being allocated. The following section will map the development of education in Hongtong County, through the analysis of a series of interviews and fieldwork carried out in the County town in January and October 2003.

Social Development in the County town: education for locals and rural workers

In January and October 2003 thirty-seven interviews were conducted out as part of research and fieldwork in Hongtong's County town. Out of the thirty-seven people interviewed, twenty-five had originally come from the countryside. Other people interviewed included county government officials, a primary school teacher, a doctor, and other local residents. The larger aim of the interviews was to find out about rural workers' lifestyle in the County town, especially in relationship to their work experiences, their use (or lack of use) of social services, as well as their social integration (or lack of it) into the local community. For the purpose of this paper, only the data gathered on education services will be used in order to discuss social development at the county level.

⁸ The county's urbanization rate (26.6 per cent) has lagged behind that of the provincial (28 per cent) and national average (30.4 per cent). Shanxi Statistical Yearbook 2003, and Zhu Qilin 2001, 'Some thoughts on how to accelerate urbanization at the county level'. In *China's Small Cities and Towns Economic Planning and Management Development (Zhongguo Xiaochengzhen Guihua Jianshe Yu Fazhan Guanli)*, p. 1450.

⁹ In 2002, County government revenue was 84,570,000, whereas expenditure went up to 229,360,000. Shanxi Statistical Yearbook 2003.

Education

Institutional and organizational changes in education are one of the transitional processes that have had more immediate and direct influences on social development throughout China. As a result of decentralization and the reform of the social security system, the institutional foundations of the education system have been dramatically overhauled. This sector has suffered drastic reductions to its budget share from the Centre. Since the 1990s, China's expenditure in education as a percentage of GDP has remained one of the lowest in the world. The average rate of expenditure in education during the 1990s was 2.4 per cent of GDP, but was as low as 2.0 per cent in 1994 (Rong & Shi 2001, p. 120). Although more recently budget allocations for education have been increasing – reaching 3.41 per cent of GDP in 2002 –, they remain much lower than the world average of 5.2 per cent (*Ibid.*). Furthermore, expenditure across regions, provinces, between rural and urban areas, and across urban hierarchies remains highly uneven (Rong & Shi 2001).

County and town governments have become – to a great extent – the sole providers of funds for the provision of education in their respective localities. In most areas, reduced transfers from local government have pushed education institutions to raise a large part of their income from user charges. Increasing costs for services have also prompted the establishment of a growing number of private providers¹⁰, who are now competing for clients with their public counterparts. Besides funding, county and town governments are now responsible for skilled personnel recruitment and for monitoring and regulating education, as well as being responsible for carrying out the nine-year compulsory education law. This has become an overwhelming task for local governments, who are consequently mainly concerned with raising enough revenues.

Throughout the fieldwork, when discussing the topic of education during interviews and informal talks with local people, everybody seemed to agree that expenditure on children's education was one of the biggest financial burdens of households. Yet, parents seemed willing to put as much money as was necessary to give their children the best education possible, regardless of the socio-economic situation of the household. Education is seen as one of the most important (if not the most) way through which not only the individual but also the whole household can better their socio-economic standing. This belief is particularly strong among

¹⁰ The Private Education Promotion Law came into effect in September 1, 2003. Froissart, Chole (Translated from the French by Peter Brown) 2003, 'The Hazards of the Right to an Education', *China Perspectives*, no. 48, July-August, p. 26.

peasant households. One respondent, a wholesaler originally from a poor peasant family, had two of his children studying at universities outside the province. He thought his children, with their university education, would get the social respect and recognition he had not been able to gain through economic achievement.

Per capita private expenditure on education has indeed had the largest share increase of total household expenditures, not only in Shanxi (Table 1) but also throughout the whole country. From 1983 to 1999, for example, per capita private spending on education in urban China rose from less than 1 per cent to 7 percent. In Hongtong County – and in the County town – the cost of education represented a big financial burden for local families, especially if they wanted their children to pursue education beyond the nine years of compulsory education. According to the Head of the County Education Department, primary and secondary schools around the county only charge a small fee of 40 to 70 yuan RMB per student per year, which cover for students' books and other teaching materials. Interviews with a local teacher and respondents who had school age children, showed that those fees actually went up to several hundred yuan RMB. Struggling schools, strapped of resources, are indeed raising a substantial part of their financial resources from student fees.

Table 1. Average per capita living expenditures urban and rural households and their composition in Shanxi Province for selected years

Unit: Yuan RMB

Item	1995		2002	
	Urban Household	Rural Household	Urban Household	Rural Household
Total living expenditures	2,640.73 (100%)	563.98 (100%)	4,711 (100%)	1,125.40 (100%)
Food	1,71.23 (48.14%)	228.80 (40.56%)	1,531.36 (32.51%)	366.82 (32.59%)
Clothing	473.46 (17.93%)	102.53 (18.17%)	657.03 (13.95%)	137.89 (12.25%)
Household facilities and services	169.77 (6.43%)	42.74 (7.57%)	284.43 (6.04%)	64.27 (5.71%)
Medicine and Medical Services	84.59 (3.20%)	31.09 (5.51%)	364.79 (7.74%)	64.44 (5.72%)
Transport and Communications	99.08 (3.75%)	14.05 (2.49%)	406.21 (8.62%)	103.23 (9.17%)
Education and Cultural and Recreational Services	265.84 (10.07%)	62.80 (11.13%)	781.82 (16.60%)	176.64 (15.69%)
Housing	176.79 (6.69%)	71.54 (12.68%)	535.01 (11.36%)	169.78 (15.08%)
Miscellaneous Commodities and services	99.97 (3.79%)	10.43 (1.84%)	150.36 (3.19%)	42.33 (3.76%)

Source: *Shanxi Statistical Yearbook 2003*.

After the nine years of compulsory schooling, the cost of high school education skyrockets. Tuition fees at No. 1 High School in the County town are set at 1,600 yuan RMB per student per year, with parents expected to pay for the three years of high school education in advance. Parents usually end up spending between six and seven thousand yuan RMB to secure their children a place in a local high school.¹¹ For most peasant families high school education is unaffordable. Of the twenty-five rural workers interviewed only seven had finished high school or further education (five of which were women). The majority of the rural workers interviewed had left their villages right after finishing secondary education. Five out of eighteen had only finished primary school. Although this was not a question directly posed to the interviewees, many did state that they had not continued studying because their families could not afford financing further education for them. Once they completed secondary education they had to go out in search for work to supplement the household income.

There were five rural workers interviewed who had school-age children, but only one couple had their children enrolled in a County town school. Thanks to their personal relationship with the school headmaster they were allowed to pay the standard school fees for local children, even though only one of their sons had local urban registration. The rest of the couples had either left their children behind in their home village to get education there, or had their children enrolled in schools in nearby villages. One respondent – a native of the Shanxi southwest city of Changzhi – complained he had to pay one hundred yuan RMB for a ‘temporary enrolment fee’ imposed on non-locals for his son’s education. This practice by schools of imposing higher fees on non-local children has been widespread countrywide, but most marked in urban areas.

Competition from private schools around the county seems to be changing this trend in Hongtong. Local public schools are starting to abolish the ‘temporary enrolment fee’ for non-local children, in an effort to attract more students. In the last three to five years more than ten primary and secondary private schools have been established in the County town, with private kindergartens sprouting in almost every neighbourhood. Even though these new private schools usually have much better equipped campuses, most respondents were not convinced about the quality of the education those institutions provided. Nevertheless, strong competition for limited placements in the more prestigious public schools has made many parents turn to private schools for their children’s education. Private cram schools have also been very successful thanks to the increasing number of parents sending their children to

¹¹ Interview with local school teacher.

those school, in the hope their children will get better marks which will later give them a better chance to enter university.

The Education Department is a strong supporter of private education, presumably holding stakes in its development. Private schools seem to be providing the much needed income to the fund strapped Education Department, which has no role in the formulation of its annual budget. The county government budget for education is based on the previous years' budget, and on the amount of government fiscal resources available that year. Although no consistent figures are available, County government budget deficits in the last decade suggest there has been a slow growth in education expenditure. In terms of needs assessment, much emphasis is being put in complying with the Law on Compulsory Education, trying to get all school age children to complete at least nine years of formal education. According to the Head of the Education Department, a large part of their budget goes into primary and secondary schools both in rural and urban areas. Public high schools received only part of their budget from the government and are therefore more dependent on tuition fees for their functioning.

The biggest neglect was perhaps in the provision of technical education. With the growth of the manufacturing and service sectors, skilled labour is in much demand in the county. Of those interviewed who had technical skills they had either learned their trait at technical schools in nearby cities, or had worked as apprentices without pay in local enterprises and businesses. The only technical schools available in the County town are the Education Department teacher's training school and a technical high school. A medical technical school was to be closed at the end of 2003, due to the low quality education it provided.

Discussion

In reform era China decentralization efforts have greatly increased local governments participation in China's modernization process. Local autonomy, however, has been accompanied by an ongoing delegation of fiscal responsibilities from the Centre down to lower levels of government. County and town governments are perhaps the ones bearing the heaviest burden, since they are now expected to provide such crucial services as health care, education, pensions, etc. Unable to raise enough revenue resources, county governments and government institutions are closing the financial gap through extra budgetary revenues [EBRs] and service charges on users of public services. Reliance on EBRs and fees, however, makes planning and expenditure allocation a complex task; since those fees are difficult to quantify and may vary greatly from year to year. This situation is usually responsible for the inefficient way in which resources are spent, especially when it gets to the promotion of social development.

In Hongtong County in Shanxi Province this pattern of development is replicated. Local budget deficits are having important consequences on the development of education services. Reduced financial resources available to the Education Department are pushing schools' fees up. In the interviews sample there was an agreement that children's education represented the heaviest economic burden of households. Even for the nine years of compulsory education parents are paying increasing school fees. High school education is mostly unaffordable for peasant families, whereas their urban counterparts are paying substantial tuition fees that can go up to seven thousand yuan RMB. Education, however, continues to be considered the most important socio-economic value, and parents are willing to pay whatever price for their children's education.

This situation has also promoted the growth of private education institutions, which have also secured the support of local authorities and the back up of the 2003 Private Education Promoting Law. These private schools seem to be providing the Education Department with much needed income. Pursuit of financial income, however, has been given priority over regulation of the quality of education those private schools provide. Raising economic resources and short-term economic gain seemed also to be prioritized over long term planning. Much needed technical education for the development of labour skills for a growing manufacturing and service sectors is now almost non-existent in the county.

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