



Migrants as a source of revenue in small towns in China

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1. The terms "town" and "small town" are used interchangeably in this paper, as they are in all Chinese documents that refer to towns that are administratively situated between small cities and villages.

2. National Bureau of Statistics of the People's Republic of China, *China Statistical Yearbook*, various issues.

3. Felderer, B (1994), "Can immigration policy help

ABSTRACT This paper uses the cases of four small towns in Shanxi province, PRC, to examine how domestic migration has been used to boost the local economies and generate local revenues. However, how to govern migration is not a priority and as a result, the outcome of migration governance is very much affected by the ways in which towns interact with the higher authorities.

KEYWORDS China / governance / rural-to-urban migration / small town / social policy / town planning

I. INTRODUCTION

Towns⁽¹⁾ play a significant role in the Chinese economy, and between 1978 and 2007 their number rose from 2,173 to 19,249. Between 1978 and 1998, the proportion of people living in the built-up areas of small towns in China also increased, from 5.5 per cent to 13.6 per cent, and people living in small towns as a proportion of the urban population increased from 20 per cent to 45 per cent between 1978 and 2007.⁽²⁾ As some small towns prosper, they attract migrants from rural areas and other towns. Fast-growing small towns may also expand into peripheral rural areas and absorb the population of nearby villages. At the same time, some small town dwellers move out to seek higher incomes or different lifestyles in the cities. The situation is very different from the time when population mobility was under strict control, and it brings great challenges to small towns.

The literature on the challenges of integrating migrants and migration into local governance points to two key aspects. First, the political will to improve the circumstances of migrants;⁽³⁾ and second, whether there are sufficient financial resources to fund what a government is willing to do.⁽⁴⁾ A shortage of either of these will affect the impacts of migration on local development.⁽⁵⁾

These factors are also relevant to the governance of small town migration in China, and the problems faced by migrants in small towns can have many aspects:

- poor working conditions and poor labour protection in some township enterprises;
- lack of transferable social security contributions and coverage between the home town and the destination;⁽⁶⁾

- very few services dealing with the needs of migrants; and
- sometimes, discriminatory treatment by the authorities.⁽⁷⁾

It is true that migrants have increased the pressure on small towns; however, they also contribute to the local economic growth. Therefore, it is important to look beyond the financial constraints and examine more closely the causes of the funding shortage.

This paper examines the factors that affect the governance of migration in small town China. Here, by governance we mean the role of small town government in controlling migration flows and in offering public services to migrants. We argue that the evaluation of government performances and the incentives embedded in the administrative hierarchy lead town governments to focus on boosting the local economy and generating tax revenues, and that the governance of migration per se is not a focus of town governments unless it helps to bring in revenue. We use the example of four small towns in Shanxi province – Xinghuacun, Xugou, Gutao (Pingyao ancient town) and Qikou to show how migration is turned into a source of revenue.

II. URBANIZING TO BOOST THE ECONOMY

Starting 30 years ago, central government began to use GDP growth as **the** indicator to measure the performance of local governments at various levels. This was welcomed by local governments, as the greater the GDP, the larger their tax revenues. Until now, they have focused relentlessly on this single most important indicator, and other aspects of a town's life, economy and society have been subordinate to the economic goal.

The shift in the state's urbanization policy is also built around this priority. For many years, there had been a clear rural-urban divide that prevented farmers from working and living in towns, and the policy that tried to stop the migrant flow from villages to towns was implemented diligently.⁽⁸⁾ In the mid-1990s, the realization came that preventing rural-to-urban migration was having a negative impact on the urban industries, as factories demanded cheap labour to cut costs. To help urban businesses, the tight population controls were relaxed and the hurdles migrant workers had to overcome to become urbanized were fewer and much reduced. Relatively speaking, it was easier for migrant workers to settle in small towns as they could act as reservoirs holding back the massive waves of migration into larger cities. After all, township enterprises need labourers and they are good for rural industrialization, a key objective of central and local policies.

Because these changes were driven by the interests of industry and the economy, little attention was paid to how migrant workers would settle. With regard to small towns, policy makers and many scholars had this fantasy that ex-farmers would work in factories in town centres but would continue to live as farmers in nearby villages.⁽⁹⁾ This is the so-called "leaving the farm but not the village" (*li tu bu li xiang*). In this way, towns did not need to deal with ex-farmers' lives. However, this idea underestimated the depth of labour migration in China. Not only do people move locally but they also go to different regions or provinces, and therefore there is a need to provide necessary opportunities for ex-farmers to settle down.

to stabilize social security systems", in H Giersch (editor), *Economic Aspects of International Migration*, Springer-Verlag, New York, pages 197–226; also Storesletten, K (2000), "Sustaining fiscal policy through immigration", *Journal of Political Economy* 108, pages 300–323.

4. Penninx, R, J Schoorl and C van Praag (1993), "The impact of international migration on receiving countries: the case of the Netherlands", NIDI/CBGS Publication No 28, Swets and Zietlinger Publishers, Amsterdam, Netherlands, 240 pages.

5. Nel, E (2005), "Local economic development in South African small towns", in E Nel and C M Rogerson (editors), *Local Economic Development in the Changing World: The Experience of Southern Africa*, Transaction Press, New Brunswick, NJ, and London; also Morris, D (1996), "Communities: building authority, responsibility and capacity", in J Mander and E Goldsmith (editors), *The Case Against the Global Economy and for a Turn Toward the Local*, Sierra Club Books, San Francisco, CA, pages 434–442; and Wildavsky, A B (2004), *Leadership in a Small Town*, Transaction Press, New Brunswick, NJ, and London, 388 pages.

6. Entitlement to social security is attached to the place of permanent residence, i.e. the place shown in a person's household registration records. The registration cannot be changed easily. So if a person moves from one town to another, or from being a farmer to being a town resident, they have to get the registration changed before they can gain access to the local social security system. What is more, in the current system, even if a person changes their household registration, there is no convenient way of moving the contribution from one place to another because of the different contribution rates used in different places.

7. Li, T (2006), "Non-agricultural employment and governance structure during the urbanization process in China"

("Zhongguo chengshihua jincheng zhongde feinong juyue he zhengfu zhili jigou yanjiu"), China Small Town Reform and Development Centre, http://www.town.gov.cn/ois/uploadfile/com_content/119865595186071400.pdf.

8. Li, B and D Piachaud (2006), "Urbanization and social policy in China", *Asia-Pacific Development Journal* 13, pages 1–24.

9. Fei, X (2004), "Problems with small towns are far from being solved" ("Xiaochengzhen wenti hai yuanyuan meiyou jiejue hao"), *Rural Work Communiqué (Nongcun Gongzuo Tongxun)* 2, pages 27–28, www.wmf.org/pdf/MWM_2006_highlights.pdf.

10. "Higher authorities" in this paper usually mean any level of government that is above the town/township level.

11. Cities can be at different levels, for example a county level city (xianjishi), a regional city (dijishi), a municipality (a city under the direct control of central government, i.e. provincial level, zhixiashi).

12. Zhang, L (2001), "The evolution of the Chinese urban system since the adoption of the opening policy", *City Planning Review* 4, pages 7–10.

13. Huang, N (2002), "On the role of city authorities in regional urban system development" ("Lun quyue chengzhen tixi fazhan zhong de chengshi zhengfu zuoyong"), *Journal of Tianjin Administration Institute* 4, pages 42–45.

In 2000, it was understood that social stability in cities and the future of urban industries could be threatened if migrant workers continued to be exploited as second class residents, so during further reforms they were gradually offered the same rights as urban residents. In 2004, the state formally relaxed controls over migrant workers. To avoid migrants flooding into the big cities too quickly, the state formalized and stressed the role of small towns in facilitating localized urbanization and in relieving the pressure caused by large numbers of people moving into cities. However, this functional justification for allowing migration to towns and cities sends a message to the public: small towns are a temporary and less attractive solution to the urbanizing population.

Furthermore, under pressure to avoid tensions in rural areas, in 2006 central government completely abolished agricultural taxes. This has significantly reduced the revenue of small town governments, especially those in agricultural areas, and they have suffered from serious shortages of funding for administration, which used to come from local taxation. To overcome this financial stress, small town governments were required to downsize. It is true that they used to be too big and many officials were being paid who did not have a proper role. The downsizing required as a result of the abolition of agricultural taxes, however, turned out to be an overreaction by many local governments, especially for towns and counties that have relied mainly on agriculture. They did not have other sources of revenue and could not cope with daily administrative tasks.

III. THE ROLES OF HIGHER LEVEL AUTHORITIES

Many important decisions that are made by small towns were actually determined by higher authorities.⁽¹⁰⁾ The Chinese government has a five-tier structure, namely central, provincial, regional, county and town/township.⁽¹¹⁾ There are a number of ministries at the central level, each with its own office, dealing with small town affairs and development and, when necessary, these ministries make policies jointly.⁽¹²⁾ State policies are mostly in the form of guidelines and principles, and local authorities below the ministries are allowed to exercise discretion. The structure of the lower authorities mirrors the structure of central government,⁽¹³⁾ however small towns in rural areas do not have as many functioning departments as the county level governments.

It is very difficult for central government to directly control local affairs, and the attempt to do so during the Central Planning era failed. During the reform era, the relationship between central government or higher authorities and town governments is no longer one of fund holder and service provider. It is increasingly about how to motivate local governments to provide goods and services without asking for more resources from the centre. On the other hand, governments at the local level try to maximize their revenues and, in order to do so, may impose various controls on small towns.

a. Dimensions of control

Personnel and administrative control. Starting in 2004, central government imposed tight controls over the number of people who

could be hired by town governments and, to this day, provincial governments are in charge of the total number of people who are hired as public employees at the town and village levels. Town officials are appointed by county authorities and can be removed if the county is not satisfied with their work.

Since the economic reforms, there have been several attempts to restructure rural administration, with orders in 1986 to merge towns and village authorities. Within a year, the number of towns and township authorities was reduced by 19,618.⁽¹⁴⁾ By 1996, another 28,409 township level authorities had been removed. The purpose of these changes was to improve management efficiency, however, it can generate unpredictability for the local authorities with regard to policy enforcement and personnel arrangements.⁽¹⁵⁾

Economic control. There are two parts to this, the first being the economic strategy to be adopted by a town. Before 2002, under state guidance, apart from real estate development and infrastructure construction, thousands of small development zones were planned in order to attract investors.⁽¹⁶⁾ This turned out to be an inefficient and costly strategy.⁽¹⁷⁾ Since 2002, the economic strategy has shifted away from economic growth to urbanization and accommodating human settlement. However, as mentioned earlier, the practice of using growth in GDP as an indicator for the performance of government officials has not stopped at the local level, and there is no increased funding from higher level of governments for increased population. As a result, the political will to improve migrants' circumstances in small towns remains with the higher authorities, and nothing is done by the small town authorities.

The second is business investment. The higher authorities played a particularly strong role in investing in strategic industries in newly constructed towns during the central planning era.⁽¹⁸⁾ Since the economic reforms, the general trend has been for the state to try and reduce investment in strategic industries. Some state-funded relocation of large enterprises has helped some small towns to develop quickly and others to decline.⁽¹⁹⁾ To encourage private investment, town governments are not encouraged to set up "state-owned" enterprises anymore. However, collectively owned enterprises, such as township enterprises, can be owned by town and village authorities, which are supposed to represent the interests of villagers and townsmen.

Social policy. The rural social protection system largely collapsed during the economic reforms and a new system is still under construction. Small towns used to share the same system as rural villages. In some regions, such as those near Shanghai, small town populations could enjoy town social insurance (*zhenbao*), which has a lower contribution rate than the Shanghai system. The town social insurance system includes health care, pensions, unemployment and a provident fund for home ownership. However, these reforms are not yet nationally available.

Sustainable development. Environmental problems are potentially a big threat to social stability and harmony. In 2007, central government finally decided to take serious steps to improve rural environmental protection, and a series of measures were introduced to reduce pollution. Apart from improving public education and legislation on environmental protection, some factories that were environmentally damaging were forced to close down and other factories were required to introduce new technologies to control pollution. According to statistics, in Shanxi alone

14. Zhang, X (2006), "Stages and goals of China's village and township reform" ("Xinshiqi zhongguo xiangzhen gaige de licheng yu mubiao"), *Journal of Nanjing Normal University, Social Science Edition* 1, pages 16–21.

15. Guo, S (2007), "Five problems appeared since the removal of village authorities and merging towns" ("Guanzhu chexiang binzhen hou keneng cunzai de wuda wenti"), *Productivity Research* 5, pages 81–83.

16. Xinhua Net (2004), "How can 'urbanization rate' be faked?" ("Chengzhenhualv qingeng zuojia"), http://news.xinhuanet.com/comments/2004-05/18/content_1483004.htm.

17. Wang, Z (2004a), "Understanding the diversification of small towns" ("Jiedu xiaochengzhen fenhua"), *Development of Small Cities & Towns* 11, pages 47–49; also Gu, W (2004), "How can medium and small cities and towns overcome the 'empty city' problem" ("Zhongxiao chengzhen ruhe tupo 'kongcheng' kunju"), China City Net, www.etownc.com/readarticle.asp?newsid=1558; and Zhu, B (2004), "Small town household registration reform and new problems with rural population urbanization" ("Xiaochengzhen huji zhidu gaige he nongcun renkou chengzhenhua xinwenti yanjiu"), *Journal of East China Normal University, Philosophy and Social Sciences Edition* 5, pages 56–65.

18. Chen, D (1997), "Some thoughts over the research on the national economy during the 'Cultural Revolution'" ("Yanjiu 'Wege' shiqi guomin jingji de jidian sikao"), *China Economic History Study (Zhongguo Jingjishi Yanjiu)* 4, pages 43–49.

19. Wang, Z (2004b), "Understanding local fiscal crises" ("Pojie difang zhaiwu weiji"), *Developing (Fazhan)* 5, pages 46–48.

4,287 polluting factories were closed down in 2007 and a further 1,798 enterprises in 2008.

b. Means of control

Town development planning. Development planning defines the targets and roles of a government and, if approved, is used by the higher authorities as a reference for fiscal budgeting. The planning exercise should be a good opportunity for small town officials to think about what to do in the near future and to help the higher authorities draw out their own plans. However, in the past, small towns had no planning powers and development plans were instituted at the county level. Towns were only a small part of larger plans at the higher levels and were tailored to fit into county or regional plans. The enforcement outcomes were not checked against the original plans, which therefore were essentially not legally binding.⁽²⁰⁾ And given that details for most small towns generally consisted of only a short section with no more than over-generalized guidelines, it was impossible for the plans to be binding anyway.

According to new regulations published in 2007, small towns may also carry out their own plans as long as they are “feasible”. County authorities will decide which towns need to make new plans, and towns are expected to play a more active role in their own future. However, as commentators point out, even with the new regulations, the role of small towns is not clearly spelt out and therefore quite vague.⁽²¹⁾

Public finances. Towns at the bottom end of the fiscal structure are meant to contribute to the higher authorities’ revenue. They are first expected to pay taxes and will then receive a funding allocation from these authorities, who decide arbitrarily the amount of money town governments will receive. Most funds are taken by the higher authorities and when it is the turn of the small towns to receive their allocation, only a marginal amount is left. Many town governments are only partially funded and a lot of administrative costs have been left unpaid. In 1998, the average amount of debt accumulated by each town was 3 million yuan (US\$ 439,000).⁽²²⁾ This was mainly in the form of:

- gaps in the social insurance reserve fund;
- loss of food production by the township enterprises;
- overdue salaries to school teachers; and
- unpaid payments for construction projects.

The direct consequence of this system is that small town authorities are not able to provide the necessary services and facilities.⁽²³⁾ At the moment, small towns focus mainly on enforcing the “One Child Policy”, maintaining public security and preventing employers from defaulting on paying migrant workers’ salaries. All other social services such as housing and employment are left entirely to the private sector.⁽²⁴⁾

c. Interactions between small towns and the county government

At present, there is much debate about whether small towns should play a larger role in the planning system or whether small town officials

20. Tang, K (2007), “Press conference transcription of the Urban and Rural Planning Law of PRC”, edited by the Ministry of Construction PRC, the Central People’s Government of PRC, www.gov.cn/zwhd/2007-11/23/content_813276.htm.

21. See reference 20.

22. Exchange rate 24 August 2009: 1.00 CNY = US\$ 0.146402.

23. Yuan, C (2008), “Small town planning is both independent and compliant” (“Xiaochengzhen gui Hua shi jiyou dulixing youyou fucongxing de gui Hua”), China Small Town Reform and Development Centre, www.town.gov.cn/index.php?option=com_content&module=25&sortid=0&artid=162.

24. The rural cooperative healthcare system has collapsed since the health reforms. A new reform aims to set up a new rural cooperative health system (xinnonghe). It is still in progress and may take time to set up. Public education is under the control of the county, however some schools had charged higher fees. This is now forbidden.

should simply function as street level bureaucrats and carry out the tasks imposed by the counties. Those who support the idea of small towns carrying out their own planning argue that these have a better understanding of local affairs and should be more involved in planning and decision-making for their own future.⁽²⁵⁾ The opposing view holds that small towns often operate on quite a small scale with little room for bureaucratic complexity, and officials handle many tasks and deal with ad hoc requests. When official responsibilities are specifically defined and become specialized, administrative costs are much higher, therefore it is better to remove town level authorities and let the county authorities appoint officials to deal with small town administration.⁽²⁶⁾ The argument against further devolution has its merits, however it has missed the point. What is needed now is not a division of labour between different services but rather, between different levels of authorities. Whichever direction the reform may go, either centralizing or decentralizing, it will always require a clearer division between the responsibilities of county level and town level authorities.

Having shown the influence of higher authorities on small town affairs, we need to highlight the fact that not all higher level authorities' interventions are effective. Their actual impacts can vary and this is determined by the relationship between a specific higher authority and the small town. Based on the ways in which the government system works and the ever-present obsession with growth in GDP, the administrative power a small town can master is determined by two sets of factors. The first is dependency on the county. This has two parts: political dependency, i.e. the political support of the county can be crucial for carrying out innovative or adventurous practices; and financial dependency. The greater the dependency, the less self-control a town government has. The second is investment or grants from outside the county or from the private sector, which can be helpful in making a town less dependent on the county. However, if not handled properly, it may mean that the town becomes dependent on private investors.

The review of the role of higher authorities' influence on small town affairs shows that there may be different dynamics between towns and their higher authorities. Some towns are on more friendly terms with the county than others, some are more dependent on the support of the county than others; and the treatment of migrants by town governments is embedded in this relationship. In the following sections, we will use the examples of four small towns in Shanxi province to illustrate that the experiences of migrants can vary greatly as a result of the different dynamic interactions between towns and higher level authorities.

IV. THE FOUR SMALL TOWNS IN SHANXI PROVINCE

The four small towns of Gutao, Qikou, Xugou and Xinghuacun in Shanxi province were selected with the following considerations.

First, this project wanted to look at small towns in central provinces in China. Unlike coastal and western provinces, central provinces were not a national priority for economic development until very recently.⁽²⁷⁾ In the last few years, as overall labour costs grew in the coastal areas, some manufacturers relocated their businesses to central provinces and made

25. See reference 20; also see reference 23.

26. Xu, Z (2002), "On the reform of town/township government under the background of Chinese rural reform in taxation", *Journal of Shandong University of Sciences & Technology (Social Science)* 4, pages 63–67.

27. An, C and Q Liu (2006), "The strategy of 'rising central' helps to promote the dream of the revival of China" ("Zhongbu jueqi' zhanlue zhutui zhongguo fuxing zhimeng"), *Xinhua News*, 30 March, http://news.xinhuanet.com/politics/2006-03/30/content_4362267.htm.

the latter more important to the national economy than they had been in the past.

Second, Shanxi is known for resource- and energy-based industries and is the country's most important coal producer. As the world price for raw materials increases, so Shanxi's economy grows faster. As Shanxi becomes richer, services grow more rapidly, and vacancies in the service sector have attracted a large number of migrant workers from both inside and outside the province to cities and towns in Shanxi. At the same time, 80 per cent of the province's territory is in mountainous areas; these places are trapped in poverty and people move out to find jobs.

Third, the four small towns have different migration patterns and economic structures. Qikou has a large number of out-migrants who look for work in other parts of the country. Gutao's migrants are from two distinctive groups, namely business owners and labourers who work in the tourist industry. Xugou's migrants are attracted by the hundreds of small businesses and the local education system. Xinghuacun's migrants come from all over the country, mainly attracted by a giant state enterprise and its many subsidiaries.

a. Data collection

The fieldwork took place during September 2007 and June 2008. Interviews were carried out with the help of local collaborators, and the interviewees included stakeholders who were associated with migration. The data used in this research came from five main sources:

- government documents;
- interviews with local officials;
- interviews and small-scale surveys with local residents and migrants;
- interviews with business owners; and
- official statistics.

TABLE 1
Basic indicators of the four towns

	Local population	Migration	GDP (RMB million yuan)	Annual income per capita (RMB yuan)
Xugou	Whole town ⁽¹⁾ : 41,000 ^(d) Town centre: 12,255 ^(d)	In: 11,000 (6,000 workers; 5,000 students) ^(b) Out: 2,000 ^(b)	501 ^(a)	8,000–9,600 ^(d)
Qikou	Whole town: 31,472 ^(c) (14,996 with urban Hukou) ^(c)	Out: 20–30% of the total population ^(c)	n.a.	1,040 ^(c)
Xinghuacun	Whole town: 37,000 ^(b) (13,225 with urban Hukou) ^(b)	In: 7,658 ^(c) (including 2,368 temporary)	455 ^(b)	9,298 (24,000 Fenjiu group employees) ^(c)
Gutao	Whole town: 108,100 ^(c) Town centre: 27,000–30,000 ^(c)	In: 10,000 (including 1,000 temporary)	1,300 ^(b)	7,724 ^(c)

NOTE: ⁽¹⁾ Whole town population means people living in the centre and nearby villages.
Year of the data: ^(a) 2004; ^(b) 2006; ^(c) 2007; ^(d) 2008.

SOURCE: Data provided by the town governments.

This paper presents a summary of the findings. For a more detailed account, please refer to the longer report.⁽²⁸⁾

b. Impacts of the higher authorities on the four small towns in Shanxi

Xugou. Xugou's economic development benefits tremendously from a good relationship with the county. It relies on the higher authorities to create various opportunities to win titles, such as Provincial Technology Model Town (*Quansheng Xianjin Zhen*) and Provincial Cultural and Sports Model Town (*Quansheng Wenhua Tiyu Xianjin Zhen*), and offer favourable treatment. This good relationship is partly the result of the relatively stronger economic and political power that Xugou enjoyed in the past when it was a county seat in its own right and it only lost its status when two counties merged; but it is still the second largest town in the new county. Throughout the second half of the 1990s and the 2000s, the town received many honours and awards, which confer titles and bring favourable policies and sometimes funding. It was also selected to be the pilot for a number of projects on rural development. These activities all brought business success to the town. The reality is that without the support of or nomination for awards by the county, Xugou would not be able to achieve these on its own.

Xugou has developed its own township enterprises for processing agricultural products and manufacturing and has quite a prosperous service sector. There are 486 shops in the town centre, many of which are distribution centres sending products to the 13 cities and towns and 200 villages in the surrounding area. Its economic prosperity also benefits the county, and the town has become one of its main sources of revenue. To prolong the relationship, the county continues to offer Xugou favourable treatment.

Many jobs in the manufacturing industries in the town are filled by migrant workers. In 2006, the total population of the town and its surrounding villages was 41,000, of which 12,255 were long-term residents living in the town centre and about 11,000 were long- and short-term migrants, including 6,000 migrant workers. At the same time, the beacon high school and vocational training schools attracted 5,000 students each year, and the county allowed the local government to collect tuition fees from students who were not from the same county or who wanted to attend special classes. Furthermore, the good relationship has allowed Xugou to keep open factories that were heavily polluting. However, some of these practices have been banned by the provincial and national governments.

Gutao. Gutao's development was mainly the result of it having been established as a tourist attraction. Despite the initial unwillingness of the locals to conserve the town's historical heritage, it went on to gain world heritage status under the command of the central government. In the last decade, the town has gained tremendously from tourism. At the end of 2008, there were more than 1,200 shops, 49 catering businesses, nine department stores, five schools and 43 industries and government agencies.⁽²⁹⁾ However, it should be highlighted that initially, the county was also against the conservation plans but was later keen to grab money from the town's revenue to subsidize other parts of the county. As the town becomes more successful, it does not need to rely on the county's support.

28. Li, B and X An (2009), *Migration and Small Town Migration in China: Power Hierarchy and Resource Allocation*, Rural-Urban Interactions and Livelihood Strategies Series, Working Paper 16, IIED, London, <http://www.iied.org/pubs/display.php?o=10575IIED>.

29. Zhang, W (2009), "Community-based AIDS prevention campaign model and practices" ("Yi shequ weijichu de aizhibing zonghe xuanchuan ganyu moshi tantao yu shijian"), <http://www.chain.net.cn/document/20090605144810207493.doc>.

The growth in tourism has also led to a growth in migration. At any given time, more than 10,000 people from outside the county work in Gutao. They include migrant labourers, sex workers, truck drivers and businessmen. Also, Pingyao middle school is a very well-known school in the region, and every year about 2,000 parents accompany their children to Gutao for their schooling. However, the local town population dropped over time because of the resettlement plan. In 2009, there were 27,000–30,000 people living in Gutao, a decrease from 55,000 in 1997.

Qikou. Qikou is not prosperous and is highly dependent on higher authorities, both financially and politically. Each year, the town government receives about 6 million yuan (US\$ 0.88 million) from the county to cover administrative costs. The higher authorities focus mainly on poverty relief and on investing in tourist infrastructure. In 1999, the Shanxi government named Qikou a scenic place of interest. In recent years, it has been nominated as a famous sightseeing place, a national park and a well-known town of historical and cultural heritage. Qikou wants to follow a similar path to that of Gutao, and some traditional style villages attached to the town are applying to be a world heritage site. At present, the town can host about 40,000 tourists every year, and about one million yuan (US\$ 0.15 million) in revenue is generated annually. The tourist industry supports 60 shops, seven hotels, 12 taxis and eight buses, but because the town is not gated or walled, the authorities cannot charge an entrance fee. As a result, the income that is earned from tourism is quite limited.

Generally speaking, locals don't really benefit from tourism. The county is the key investor in the town's tourist infrastructure and any revenue from tourism is tightly guarded by the county. Encouraged by the town government, emigration to large cities is still the most important source of income.

In 2007, the total number of residents, including those living in the town centre and nearby villages, was 31,472. There were 28,540 people registered as residents in the town centre, including school students from nearby villages and temporary migrants. The estimated number of long-term or temporary migrants living and working in the town was 3,000. The Public Security Office estimated that about 4,000–5,000 people work outside Qikou.

Xinghuacun. Neither the county nor the town government have very much say in Xinghuacun's development. It is literally led by a giant state enterprise, the Fenjiu Brewery, which is now one of the two largest factories in the alcohol industry in China. It has more than 8,000 employees and occupies 2.3 million square metres of land in the town. Alongside the large brewery, there are also more than 20 small breweries and supporting businesses (food processors, suppliers and service providers). The ability of the giant factory to generate revenue and employment opportunities in the town cultivates a subtle relationship between the town government and the Fenjiu Group, with the latter having a very strong bargaining position over the local resources.

At the end of 2006, the total population of Xinghuacun town centre was 37,000, of which 13,221 held urban household registration (*hukou*). Included in the population figures were long-term migrants working for the Fenjiu Group, residents of Xinghuacun town neighbourhoods and residents from eight nearby villages. According to official statistics from the registration records of the local Public Security Office (*Paichusuo*), there were 7,658 migrants from outside the town in 2007.

The situations in these small towns indicate that a higher dependency on the county can work either in favour or against a town. The outcome has much to do with the town's historical position and economic dynamics. Low dependency on the county requires support from the private sector or from outsiders if the town wants to thrive economically. However, if the source of outside support is not diverse, it can also generate dependency on a small number of big businesses, which may impose their own interests on small towns. In the following section, we will look at how different types of migration are positioned in the system and have contributed to the local economy.

c. Using migration to support the local economy

Despite the benefits of county support, towns often seek to be less dependent on counties so that there can be less intervention from above. To reduce the level of financial dependency, small towns often seek resources from outside. Migrants often play an important role in this regard.

i. Encouraging local businesses and outside investors

To gain more economic power, small towns are eager to resort to business strategies, and they set up township enterprises.⁽³⁰⁾ These are known to be less competitive than enterprises in large cities because they are often far away from either the market or the resources; also, because salary levels are often lower than in large city enterprises, it is difficult for the enterprises to attract highly skilled workers. However, it is easier for ex-farmers to become accepted in small towns, and life for newcomers is not as difficult as it is in a large city. But towns are less attractive to business investors than cities, and it has been normal practice for small towns to offer favourable treatment in order to attract investors. These can enjoy cheaper services or facility charges and various other financial incentives that they may not be able to enjoy in a larger city.

Xugou is a successful example of this. It has an industrial park that is intended to attract technology-based industries. It also has a beacon high school, and if the students are not accepted by the university they have a good chance of being employed in the factories in the industrial park. Once they find a job, the town can offer local citizenship (household registration cards) to the workers. This is a good step forward for young villagers who would otherwise not be able to establish themselves in town. The school itself is also a source of income for the town government, as students have to pay tuition fees of 30,000 yuan (US\$ 4,392) if they are not from the county. For a while, students needed to pay a further 10,000 yuan a year for attending special tutoring classes that would secure them a better opportunity to enter the university. This extra charge was approved by the county, but was considered illegal by the provincial and national governments and was withdrawn in 2006. There are also skills training schools that target the local skilled labour market. Xugou's strength in education works. Investors from other parts of the country or even other countries have set up manufacturing factories in the industrial park. They received favourable treatment in the past and set up contracted training programmes to obtain young and skilled workers.

30. An enterprise owned by a town or village government.

At the same time, the benign relationship between the county and the town helps Xugou to take advantage of human and financial resources from the outside world.

ii. Selling land use rights and business licences

Selling land use rights to enterprises or real estate developers in larger cities has become one of the most popular ways for towns to raise funds. However, selling land means that the current occupiers of the land need to be relocated, and compensation can either be in the form of financial compensation or employment opportunities. For example, in Gutao, the development of tourism pushed many old residents, including farmers, out of the ancient town to live in the newly developed modern town. However, tourism became an important source of jobs for the locals, and many ex-farmers abandoned farming to live in built-up areas and work in non-agricultural sectors.

Often, in the early stages of land acquisition, there is conflict between business interests, corrupt local government officials and local residents' interests, over compensation terms for relocating existing land occupiers. Because local governments, who are supposed to represent the interests of their populations, are more interested in attracting businesses, and some officials have a vested interest in collecting bribes from these, they become guardians of business interests.

Gutao thrives on selling land and business licences to investors. Many business owners have been attracted to the town because of the opportunities brought by tourism, and this has been facilitated by the large-scale resettlement of local residents from the ancient town to a newly built town nearby. Initially, people were happy to move to the new flats with modern facilities. However, as land prices rose, relocation became increasingly difficult. As a result, county authorities started to offer differentiated compensation packages to people with different bargaining powers. As businesses prospered, the town government regretted allowing smaller businesses to occupy central locations in the first place, and started to offer compensation to smaller businesses for them to vacate the good locations so that they could re-sell the land to investors who were willing to pay more. However, these compensation programmes were contaminated with corruption,⁽³¹⁾ and in this sense local government officials began to represent business interests, especially the larger businesses.

Apart from land, outside investors also need to consume local resources and require local services, and powerful outsiders may have stronger bargaining powers to obtain the resources. In Xinghuacun, for example, water shortages constitute a serious problem. Breweries consume large amounts of water and as the output of the Fenjiu Group increased, its water consumption also grew, and the reduction in underground water levels caused damage to residential housing.⁽³²⁾ Also, the water supply in Shanxi was privatized in 2004, and water prices have grown rapidly because of increased demand. However, the Fenjiu Group has to compete nationally. If water prices increase, the price of alcohol has to be increased as well. Neither the local government nor the Fenjiu Group is keen to dampen the business opportunities of the alcohol company. However, subsidizing their water costs allows the factories to keep on

31. Xinhua News Agency (2007), "Corruption behind Pingyao regeneration" ("Pingyao gucheng chajian beihou de fubai"), *Xinhua News*, 28 December, Beijing, http://news.xinhuanet.com/newscenter/2007-12/28/content_7327927.htm.

32. Bai, H, Y Wang and D Ping (2003), "Chapter 12: structure and geographic distribution of industries in Shanxi province and future trends" ("Diqu baogao zhisi: Shanxisheng gongye jiegou yu buju fazhan qushi"), in *Regional Report* No 4, China Planning Press, www.amr.gov.cn:8080/xszz.nsf/633a919045a80e7848256bec0013cff4/fbc2e81cfe57c2dd48256e5b002d2734?OpenDocument.

using wasteful water usage technology. As a result, household water supplies have decreased and small businesses and migrant households suffer from punitive water costs. According to the water pricing system, the household water price is incremental according to the total amount a household consumes. The purpose of this system is to encourage households to use less water. However, low-income migrant workers tend to live in shared accommodation, therefore the total water consumption of a migrant household is much greater than that of an average local household. Although more recently, the provincial government and the factory took measures to cope with the water shortage, the measures they adopted did not stop the problems caused by the water pricing system.

iii. Sending workers to larger cities

In the towns that do not have many opportunities to generate local revenue through attracting outside investment, the local authorities can rely on sending migrants to other cities to earn money.

The government of Qikou has taken this approach for a while, and the town set up a service centre in Taiyuan, the capital city of Shanxi, to provide recruitment information and services to the townsmen. When asked whether they were worried that the out-migrants would decide to move out of the town forever and stop sending remittances, a local official said:

“It is good that they will not come back...if they settle down, they will be able to bring more people out of the mountain area. If in the future some of them can become successful, they will be able to benefit their home town....”

It is also hoped that a small number of people will come back once they have earned money from the outside, and this is already happening. Some successful emigrants have indeed returned and set up traditional-style hostels by the river, which are clearly helpful in attracting tourists. These hostels employ young local people as waiters and waitresses, and the success of the hostel owners has inspired other locals to use the remittances they have accumulated to renovate their houses and start their own businesses.

iv. Selling services or entitlements to immigrants and outsiders

Other ways in which small town authorities can raise revenue include fees for household registration⁽³³⁾ for farmers, or expanding public services to non-local residents at a higher price, for example education for non-local students or road tolls.⁽³⁴⁾ Not all these activities are legal, and are a reflection of the constraints faced by small town authorities in funding their costs within the existing financing framework.

Xugou has added a private wing to the local high school. However, education is a public service and funding is allocated according to the number of students living in the catchment area. Selling school vacancies to students from outside the area, or charging extra fees for extra services,

33. The household registration system (*hukou*) is a system of government population control. During the central planning era, people who were registered in one part of the country were not allowed to move to another area permanently. There have been some major reforms regarding *hukou* registration, and it is no longer a way of stopping people from moving. However, there are still a number of welfare items attached to *hukou*, i.e. a non-resident does not have the same welfare entitlements as a local. The recent changes include some towns and cities allowing migrants to become local citizens if certain conditions are met, for example owning a house or working for a minimum number of years.

34. Zhu, G (2002), “China’s rural reform in taxation and the financial gap in townships” (“Nongcun shuifei gaige yu xiangzhen caizheng quekou”), *China Rural Survey* 2, pages 13–21.

is in essence a way of turning the state-funded education resource into localized capital, and the town has benefited from this strategy.

d. Exchanging money for power

Previously, within the central planning system, government officials had to obtain approval from the higher authorities if they wanted to carry out major business activities. The economic transition has provided some changes and there appears to be a greater level of local discretion or even autonomy. One should not forget that the higher authorities also need to maximize their revenue, so if discretion or autonomy can bring in financial resources, it is supported by the county.

Gutao is an example of a town gaining a greater level of autonomy because of its ability to bring in grants and investments from outside and contribute to the county revenue. The town has gradually established itself as a hotspot for tourism and has attracted a large number of investors. These days, it does not need to rely on county or even regional level fiscal budgets, but can secure funding quite easily either from private investment or from national grants. In this way, the town authorities can be a powerful actor in its massive relocation plan and can enjoy greater independence over its own future. As stated by one official:

“We have plenty of money these days. We do not need to beg from county government anymore. Whatever we want to do, we talk to people in the provincial or even the central government directly. If it is related to conservation, as long as we open our mouth, we get grants for it straightaway. There is little hassle.”

Also:

“There are too many people who want to buy business properties or traditional-style residential houses here in the old town. They think Gutao is worth investing in. We can’t make all of them happy these days. We have to prioritize... We increasingly accept business proposals that fit our own vision of the town, unlike in the past, when we allowed the business investors to do whatever they wanted to do.”

Whether the power enjoyed by the town government is beneficial to migrants cannot be over-generalized. It depends on which group of migrants we are looking at. As previously stated, only the investors that are valued by the local authorities matter and they have to accept various conditions imposed by the town government in order to get into the market. These conditions include conservation requirements, scope of business and scale of investment. Business owners who are not as attractive have to give way to more “important” ones. When migrants are compared to the locals, the ones with more money are the winners. They can either be small businesses or better-endowed local residents. What can be generalized is that the poorest people, who lived in and outside the old town, are the weakest and have little voice in the system. They had to give way to the thriving tourist businesses and move from their homes, receiving unequal compensation based on their connection with the officials in charge.⁽³⁵⁾

On the other hand, Xugou, despite its prospering economy, has not gained as much autonomy as Gutao and has not won financial

35. See reference 31.

independence from the county. It has received a number of awards locally and then nationally with the help of the county; it is one of the county's several "milk cows", and therefore each county government office makes sure that their staff reside in the town to ensure that as much revenue as possible is squeezed out. Paradoxically, despite its prosperity, the town authorities do not have very much influence over its business affairs. The capacity of the town government is limited to public security and family planning, and it is therefore not able to offer any real public services to the migrant population or even businesses. As discussed with the mayor of Xugou:

"The enterprises here are not reportable to me, but to the county. We have many county officials residing in the town to make sure the revenue goes to them directly. What I hope to achieve during my term in office is to pave a road for the town. Even for this, I need to ask for money from the county. So far I am not successful. I can only hope...."

The town is now in a risky position because its polluting industries are being closed down by the higher authorities, under pressure from the central and provincial governments to reduce pollution. These factories had hired mainly migrant workers, but at the time of the fieldwork the town was desperate to develop tourism and was trying to turn itself into a cultural town. This will clearly have significant implications for the type of migrants needed in the future.

V. CONCLUSIONS

The four case studies have illustrated how small towns acquire resources and how they have used migration to support their economic growth. Despite the state's urbanization policy, accommodating rural-to-urban migration is rarely a goal on its own but, rather, is dictated by migrants' ability to contribute to the local economy.

There are several problems with the existing practices. First, the dynamics between the higher authorities and the town governments. The power of the county to make plans for a town and their tendency to disregard a town's need for administration costs means that small town governments are seriously underfunded and they have little to offer in terms of accommodating migrant workers. Second, the towns' struggle to maintain some level of autonomy pushes them into taking advantage of migration as a resource.

The result of the existing system is a game that the wealthy and well connected tend to win. In Xinghuacun, migrant employees of the Fenjiu Group enjoy a higher status and better treatment than the locals because the factory is the dominant player in the local economy. In Qikou, where most migrants are out-migrants working in the bigger cities, the town government has succumbed to the power of the county. The locals cannot really benefit from tourism and a large number of people have had to find jobs outside the town. In Xugou, the good relations between the county and the town have guaranteed that the town can win projects that are helping the local economy, and these require skilled labourers and migrants. In Gutao's case, it is even more obvious that the town focuses on satisfying the bigger businesses.

The four case studies show that a greater dependency on the county has both benefits and dis-benefits. It can offer protection and support for the town's economy but it may also suffocate the town government. When it is beyond the capacity of the county to protect a town's business interests, such as with the new national environmental policy and the policy on educational charges, this may prove negative to the town's economy and put the town in a vulnerable position. However, this does not mean that a greater reliance on the private sector is necessarily a better solution for the town government. Heavy dependency on a small number of private sector businesses can cause an imbalance in power between the town and the enterprises, and may work more in favour of the enterprise employees, with private employers sometimes being able to offer more protection to its employees. The research in Shanxi province can shed light on some necessary changes in the policies on small town governance. First, there needs to be a clearer division of labour between small town and county governments. Second, the government evaluation system that emphasizes GDP growth above all else needs to be revised, to reflect other aspects of small town development. Third, even though at present one cannot stop town governments from seeking greater revenues, there needs to be more effort to accommodate population settlement and long-term settlement. The progress so far in realizing a shift towards a more human-oriented development and using alternative indicators to distract local governments from focusing on economic growth has been very slow and not very successful.

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