

*Differentiated Actors: Central–Local Politics in China’s Rural Tax Reforms**

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Introduction

How decisions and policies are made and implemented? This classical question in political science has attracted a considerable literature amongst observers of *realpolitik* in China, with its continental size, 1.3 billion population and five layers of government.¹ Mirroring the move

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¹ A sample of major works in this genre include Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures and Processes* (New Jersey: Princeton University Press, 1988), David Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987), Kenneth Lieberthal and David Lampton, eds., *Bureaucracy, Politics and Decision-Making in Post-Mao China* (Berkeley:

away from the traditional dualism of ‘top-down’ versus ‘bottom-up’ approaches in the general implementation literature,² recent literature on Chinese central–local politics emphasizes the co-participation of central and local actors in decision-making and the dialectical interactive relationship between central and local power.³ Goodman recognizes, for instance, that central and local actors have *differentiated* roles to play in decision-making.⁴ Li makes the case of interactive central–local power, calling for a reconceptualization of central–local relations in a non-zero-sum schema.⁵ Recent studies on the ‘Open Up the West’ national policy augment the claim for ‘disaggregating’ China, and the relevance of the provincial, regional and local as levels and foci of analysis.⁶ Against the traditional emphasis over central predominance *versus* provincial power, this body of literature, adopting a ‘non-dualistic’ approach to power, highlights

University of California Press, 1992), David S. G. Goodman and Gerald Segal, eds., *China Deconstructs: Politics, Trade and Regionalism* (London: Routledge, 1994); as well as earlier classics like A. Doak Barnett (with Ezra Vogel), *Cadre, Bureaucracy and Political Power in Communist China* (New York: Columbia University Press, 1967), Franz Schurmann, *Ideology and Organization in Communist China* (Berkeley: University of California Press, 1968), Audrey Donnithorne, *China’s Economic Systems* (London: George Allen and Unwin, 1967), and David S. G. Goodman, ed., *Groups and Politics in the People’s Republic of China* (Armonk, NY: M. E. Sharpe, 1984).

² For a succinct review of the recent trends of the implementation literature, see Michael Hill and Peter Hupe, *Implementing Public Policy: Governance in Theory and in Practice* (London: Sage Publications, 2002).

³ A group of literature in this genre is the three volumes published as a result of a series of annual workshops between 1995–8 under the project ‘China’s Provinces in Reform’, exploring the complexities of continental China and the role of the provinces and subprovincials as generic actors in the polity. The project was organized by the Institute for International Studies at University of Technology, Sydney (UTS), and later by the Centre for Research on Provincial China, a joint institution of UTS and the University of New South Wales. The Centre publishes the journal *Provincial China* first started by UTS in 1996. The three volumes are: David Goodman, ed., *China’s Provinces in Reform*, Hans Hendrischke and Feng Chongyi, eds., *The Political Economy of China’s Provinces*, and John Fitzgerald, ed., *Rethinking China’s Provinces*, all published by Routledge, in 1997, 1999, and 2002 respectively.

⁴ David Goodman, ‘Power, Policy and Process’, *British Journal of Political Science*, Vol. 19 (July 1989), 425–44.

⁵ Linda Chelan Li, *Centre and Provinces: China, 1978–1993. Power as Non-Zero-Sum* (Oxford: Clarendon Press, 1998).

⁶ The group of articles on the ‘Open Up the West’ campaign/policy appears as Vol. 178 (June 2004) *The China Quarterly*. Authors include David Goodman, Heike Holbig, Nicolas Becquelin, Eduard Vermeer, Christopher McNally, Lijian Hong, and Tim Oakes. For earlier works on the need to disaggregate China, see Goodman and Segal, eds., *China Deconstructs*, and Goodman, ‘Centre and Periphery after Twenty Years of Reform: Redefining the Chinese Polity’, *China Perspectives*, 31, 2000, 4–18.

the co-existence of central and local power in a diffuse, complex decision-making process.⁷

If central and local actors are all players with differentiated roles in decision-making, as the literature has convincingly argued, the next question in line is *what exactly* these roles are. So far these studies have produced a substantial amount of ‘thick’ description of central–local interactions employing, mostly, the inductive method. There is a need to consolidate previous observations to theorize the *specific* central and local roles as differentiated actors in *generic* terms. Case materials will continue to be useful as the derivation of specific roles will necessarily be informed by the contexts, but the literature needs to go *beyond* the description of single cases and do more theorizing based on the cases.

The concentration so far in descriptive accounts has contributed to the continual relevance of the dualistic approach.⁸ New studies in the field continue to pose the central leaders against the local officials in a zero-sum relationship, arguing for a dominant role for the central in some cases, and for the local in others.⁹ This is despite the fact that the *raison d’être* of the dualistic account has been thoroughly criticized by the non-dualistic challenge. In the dualistic framework the key to effective decision-making and implementation lies in enhanced incentive structures, effective compliance monitoring mechanisms,

⁷ Heike Holbig, ‘The Emergence of the Campaign to Open Up the West: Ideological Formation, Central Decision-Making and the Role of the Provinces’, *The China Quarterly*, Vol. 178 (June 2004), 335–57.

⁸ A similar observation along this line was made in other contexts. For instance, over the discussion of philosophy of social sciences, Roy Bhaskar and Tony Lawson noted that a major reason for the continuing survival of the positivist conception of social sciences was ‘the inability of its opponents to sustain in a sufficiently coherent manner’ (the key components of the critique). Margaret Archer pointed out that the Collectivist Account of the structure-agency question is kept defensive against, and supplementary to, the Individual Account due to a failure to advance coherently an independent ontology of social structure. See Roy Bhaskar and Tony Lawson, ‘Introduction’, in Margaret Archer, Roy Bhaskar, Andrew Collier, Tony Lawson and Alan Norrie, eds., *Critical Realism: Essential Readings* (London and NY: Routledge, 1998), 3; Margaret Archer, *Realist Social Theory: The Morphogenetic Approach* (Cambridge: Cambridge University Press, 1995), 46–9.

⁹ Some examples of recent work adopting a dualistic framework, sometimes implicitly, are: Maria Edin, ‘State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective’, *The China Quarterly*, 173 (March 2003), 35–49; Kai-yuen Tsui and Youqiang Wang, ‘Between Separate Stoves and a Single Menu: Fiscal Decentralization in China’, *The China Quarterly*, 177 (March 2004), 71–90; and Fubing Su, ‘Agency, Incentive, and Institutional Design: Bureaucracy control and Evolution of Governance in Contemporary China’, Doctoral dissertation, University of Chicago, 2002.

and the development of adequate capacity. Such prescriptions remain daunting, however, by the inability of the dualistic account to explain why these same institutions have not been in place from the beginning. As Li points out, there is a built-in reliance upon *ad hoc*, circumstantial factors exogenous to the central–local relationship for change to happen in the dualistic account, short of which changes are left highly indeterminate.¹⁰

This paper seeks to go one small step further in the direction of filling the ‘specificity gap’. It discusses the specific roles of central and local actors *qua co-participants* in reform decisions, using observations acquired through archival research and interviews on the shifting designs of China’s rural ‘tax-for-fee’ reform—a national reform to address the intriguing question of excessive state extraction and state–society relations in China’s vast countryside. The paper notes traces of dualistic thinking in the official definition of reform issues and reform designs, but argues that the evolution of reform details is better explained in a non-dualistic framework. Central and local actors are more co-participants in reform decisions than holders of diametrical roles, one as reformer and the other as ‘targets’ of reform. Bearing in mind the need to go beyond thick description of cases—the current subject of ‘tax-for-fee’ reform is obviously a case—the paper will explicitly identify and analyze the differentiated roles of central and local actors, drawing from but not confined to a description of case materials.

Definition of Reform Issues, Objectives and Reform Design

The plight of peasants has increasingly commanded the attention of China’s political leaders after the 1993 riot in Sichuan Province of south-west China.¹¹ Peasant incomes have deteriorated, the

¹⁰ For an extensive critique of the dualistic approach and an argument for the non-dualistic alternative, see Linda Chelan Li, ‘Towards a Non-Zero-Sum Interactive Framework of Spatial Politics: The Case of Centre-Province in Contemporary China’, *Political Studies*, 45, 1 (March 1997), 49–65. In a further development, Li attempts to locate endogenous forces of change in ‘Understanding Institutional Change: Fiscal Management in Local China’, *Journal of Contemporary Asia*, Vol. 35, No. 1 (2005): 87–108.

¹¹ In early 1993 tens of thousands of villagers in Xie-an Township, Yanshou County in Sichuan Province protested against the imposition of local levies of some 70 yuan per person to pay for the construction of a road connecting the county to Chengdu, the provincial capital. Local officials staged a clamp down, resulting in persistent resistance from the peasants for some time, and subsequently

urban–rural gap widened up,¹² and violent clashes between local government personnel and rural residents on the rise.¹³ A somewhat radical approach was attempted to relieve tension during the 1990s, through the opening up of village-level elections and improving transparency in grassroots administration.¹⁴ These did not bring the

drew the attention of the central government and the international community to the heightening tension between peasants and local cadres in China. See <http://bjzc.org/bjs/bc/02/6320/8/2004> for an account of the 1993 events, and Pou Wencong, 'What can a representative of peasants' interests achieve in China?', *Zhongguo Gaige* (China Reform), (the rural version), 3 (2003), 42–3, for an interview of the peasant leader of the 1993 resistance.

¹² According to official income statistics, rural to urban income per household widens from the lowest at 1: 1.86 in 1985 to 1: 3.11 in 2002. The widening gap was reversed briefly during 1995–1997, when the ratio dropped from 1:2.86 in 1994 to 1:2.47 in 1997. The ratio was 1:2.57 in 1978. See National Bureau of Statistics of China, *China Statistical Yearbook, 2003* (Beijing: China Statistics Press, 2003), 344. In 2003, the gap widened further, as rural income per capita increased by 4.3% in 2003, against 9.3% for urban dwellers. *China Daily* 28 April 2004.

¹³ An estimate purportedly by the Party Central in 2002, as reported in a Hong Kong source, put daily demonstrations, rallies, and other collective activities in cities at an average of 120 cases, and 160 cases in the countryside, excluding visits to the 'Receiving the Public' section of the various government departments. See *The Trend* 4 (2002), 12–14. A semi-official study on the subject gives a long list of 'direct causes': heavy peasants' burden; reform to state enterprises (and the consequent massive urban unemployment); maladministration over land, finance and enterprises; malpractices in village elections; tensions over lineage, religion and ethnic groups; and general law and order issues. The report quotes also an equally handsome list of deep-seated causes: bureaucratism, breakdown in grassroots level governance structures, poverty, transitional problems in economic development and reform, implementation failures, and the absence of 'self-corrective' mechanism in the political system. Chinese Public Administration Society Project Group, 'A study on social clashes in transitional China: main features, causes and policy recommendations', *Chinese Public Administration*, 203, 5 (2002), 6–9. A body of literature has emerged to study this phenomenon. See for instance Kevin O'Brien, 'Rightful resistance', *World Politics*, 45, 1 (1996), 31–55; O'Brien and Lianjiang Li, 'The politics of lodging complaints in rural China', *China Quarterly*, 143 (Sept 1995), 757–83.

¹⁴ The year 1998 saw two major developments in political development in China's vast countryside. Village elections were formalized and given a strong boost from the top vide the amendment to the 'Village Committee Elections Organizing Law', in trial since 1987 (see the 1998 Law at <http://www.npcnews.com.cn/big5/paper12/1/class01200006/hwz64679.htm>). Not only were elections prescribed, the operation of village-level administration should also follow rules of transparency and democratic management, vide Central Committee of Party and State Council, 'A Notice on the implementation of transparent administration and democratic management institutions in village level', No. 9 (1998), at <http://202.99.23.199/home/begin.cbs>, assessed on 8 September 2004. For discussion on the background and pre-2000 developments, and assessment of the significance, of the elections, see a group of articles in *The China Quarterly*, 162 (June 2000) by Kevin O'Brien and Lianjiang Li, Robert A. Pastor and Qingshan Tan, and Jean C. Oi and Scott Rozelle.

desired results, however.¹⁵ By the late 1990s attention shifted to what were perceived to be the direct causes of rural grievances: the high level of state extraction, and depressed rural incomes—thus the ‘tax-for-fee’ reform agenda.¹⁶

The decision to reform the rural tax regime nationwide has its origin, according to official record, in a Party Central Committee Plenum held in 1998, though the decision then contains only a vague reference to the need for some kind of tax reform with few details.¹⁷ A team of three was formed under the State Council to oversee the formulation of a reform program.¹⁸ After some consultation with provinces, the contours of the national reform package were laid down in 2000.¹⁹ All these suggest a largely ‘bottom-up’ process wherein the central government felt its way to respond to societal tensions.

¹⁵ Data obtained from surveys of some 6000 rural households in 10 provinces indicate that rural extraction in terms of formal agriculture taxes, local administrative fees and education charges increased in all provinces since 1993, the year of peasant resistance in Sichuan. For instance, well-off Guangdong sees the proportion of total fee burden to rural household income rise from 7.95% in 1993 to 9.67%, whilst poorer provinces rose even more from 9.85% to 13.05% (Shanxi in West China), and from 10.83% to 18.7% (Sichuan). In Anhui where pilot reform started in a few localities since mid-1990s, the rise was from 9.71% to 13.9%. See Tao Ran, Liu Mingxing, Zhang Qi, ‘Zhongguo Nongcui Shuifei Fudan: Yige Zhengzhi Jingjixue di Kaocha’ (The peasants’ burden in China: A political economy analysis), at <http://jlin.ccer.edu.cn/download/2002926522340.doc>, assessed on 30 May 2003.

¹⁶ Nevertheless, new initiatives were attempted recently to make the political approach work. See a document jointly issued in July 2004 by the Central Committee of the Party and State Council, ‘On enhancing and improving the institutional arrangements on transparency and democratic management in village level governance’, at <http://202.99.23.199/home/begin.cbs>, assessed on 8 September 2004. New institutional details were prescribed to clarify the respective jurisdiction of the local party branch and elected village committees, and to regulate the operational details of transparent administration.

¹⁷ For the announcement, see ‘A Decision of the Chinese Communist Party Central Committee on Important Issues on Agriculture and Rural Affairs’, passed at the Third Plenum of the Fifteenth Central Committee, 14 October 1998. The Third Plenum was explicitly referred to in the Central Document No. 7 (2000) announcing the launch of national pilot reform. Also see Wen Jiabao, ‘A speech at the Rural ‘tax-for-fee’ reform mobilization meeting in Anhui’, 13 April 2000, in Zhang Ping, ed., *A Practical Manual*, 211.

¹⁸ The three members are Xiang Huaicheng, then Minister of Finance, Chen Yaobang, then Minister of Agriculture, and Duan Yingbi, then Director of Central Leading Group on Finance and Economics. State Council Office, ‘A notice on formulating reform packages for the rural ‘tax-for-fee’ reform’, 20 November 1998, in Office of State Council Rural ‘Tax-for-Fee’ Reform Working Group, ed., *Nongcun Shuifei Gaige Gongzuo Shouce* (A Manual of Rural ‘Tax-for-Fee’ Reform), (Beijing: Jingji kexue chubanshe, 2001), 91.

¹⁹ Wen, ‘A speech at the Rural ‘Tax-for-Fee’ reform mobilization meeting’, 211–12.

The overriding objective was to reduce state extraction and pacify rural agitation. However, as Yep points out, the complex cures of an equitable fiscal system and ending systemic discrimination against peasants were abandoned for a simpler recipe putting the blame mostly at local officials.²⁰ In the reform design, excessive extraction was defined largely as an implementation issue, disregarding the historical and institutional embeddedness of the current problems of peasants' burden, as documented persuasively by Bernstein and Lu.²¹ Peasants suffered because there were too many local officials to feed, and many were corrupt and abused their powers. Inefficient local governments therefore needed to downsize to minimize waste, and better monitoring and control from above would provide the cures. Reducing the problems to an agency issue in a dualistic model of central-local politics, the reform measures prescribe adjustments to the carrot-and-stick mix to enhance the control of the principal.

This definition of reform issues as enhancing agency control is evident in the key contours of reform design. Firstly, a minimal reduction rate (20 percent) of state extraction was prescribed nationally for all localities, failing which the local chiefs would be penalized and their positions endangered.²² The effect was provincial

²⁰ Ray Yep, 'Can "Tax-for-fee" Reform Reduce Rural Tension in China? The Process, Progress and Limitations', *The China Quarterly*, 177 (March 2004), 43-70.

²¹ Thomas Bernstein and Xiaobo Lu, *Taxation Without Representation in Contemporary Rural China* (Cambridge: Cambridge University Press, 2003). Interestingly, the wider institutional roots of the peasants' burden have been well noted by mainland researchers, though this recognition has not been translated into reform design. See for instance Chen Xiwen, ed., *Zhongguo Xianxiang Caizheng Yu Nongmin Zengshou Wenti Yanjiu* (A Study of County and Township Finance and Issues Around Increasing Peasants' Income), (Taiyuan: Shanxi Jingji chubanshe, 2002), 135-7. He Zhenyi, 'Shenhua nongcui shuifei gaige xinfanglue di tansuo' (Exploring new strategies of deepening the rural 'tax-for-fee' reform), *Shuiwou Yanjiu* (Taxation Affairs Research), 2004, 5 (2002), 2-5; and Zhang Jun, 'Xiangzhen caizheng jidu cuixian yu nongmin fudan' (Institutional defects of the township public finance and peasants' burden), *China Rural Survey*, 4 (2002), 2-13. Chen Xiwen is the vice-director of the State Council Development Research Center, and the Secretariat of the Central Leading Group on Economics and Finance, and thus a key figure in the formulation of central rural policy. He and Zhang are both scholars at the influential Chinese Academy of Social Sciences.

²² Under the 'Target Responsibility System' of cadre appraisal first instituted in the mid-1990s, specific indicators were designed to assess job performance. Jobs that were regarded as the highest priority would cause the officials their position if they failed on these. Reduction of peasants' burden was added to fertility control as jobs on that 'pass or perish' list, as per State Council Notice No. 5 (2001), 'On further improving the pilot work of the rural 'tax-for-fee' reform', 24 March 2001, section 5. For discussion of the Target Responsibility System, see Maria Edin, 'Market Forces and Communist

and local governments competed to exceed the official requirement, producing a tremendously higher reduction rate of up to 74 percent in the first year of nationwide implementation.²³ Secondly, given the proliferation of fees and charges, central officials lamented that the central government could not be expected to underwrite local abuses and provide compensation for lost incomes.²⁴ Local officials were instead told to abolish all fees simply, except for those properly authorized, and to shed staff and cut expenses in order to make ends meet. The latent message is that local officials were the culprits of much excessive state extraction, through employing too many people and wasteful expenditures, if not sheer corruption. They were thus to clean up their own backyard under tightened rules. County governments were required, as a rule, to reduce their staff by 20 percent, and the more, the better.²⁵ Thirdly, despite the reluctance to underwrite *all* local fees, the loss of revenue from *legitimate* local fees abolished in the reform needed compensation, which was done through an upward adjustment of Agriculture Taxes and central transfer payments. Defining the boundary of legitimate fees was, however, highly contentious, given the complex context and trajectories wherein the fees had come into being historically, and problems in the national fiscal and tax system. Central subsidies rose from 1.1 billion yuan to Anhui Province in 2000 to 30 billion yuan nationwide in 2003, and over 50 billion yuan in 2004,²⁶ reflecting the scale of interest involved and the magnitude of tension between central and local actors on this issue.

Power: Local Political Institutions and Economic Development in China', doctoral dissertation at Uppsala University, Department of Government, 2000.

²³ Guangdong reportedly achieved the highest burden reduction rate amongst all provinces in 2003. See a report in *Guangzhou Daily*, 9 February 2004, 'Guangdong's peasants' burdens cut by 74%, topping the list in the country'.

²⁴ Author's interviews with central officials involved in the formulation and implementation of the reform package, Beijing, 2003-4.

²⁵ This is obtained from author's interviews with central officials on establishment control at Beijing, and with the 'targets' of the exercise, local officials at the township and county levels in Hubei and Anhui, 2003-4. The 20% figure is stated in Central Committee and State Council, 'An opinion on consolidating the establishment at the city/county/township levels', Document No. 30 (2000), 26 December 2000.

²⁶ These include 39.6 billion yuan of designated transfer payments announced in the 2004 Budget by Finance Minister Jin Renqing in March 2004 (http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/zhengfu/2004-03/18/content_1371660.htm, assessed on 7 September 2004), an additional 10 billion yuan of direct subsidies to grain growers, and additional subsidies (of unspecified amount subject to central-local negotiation) to selected provinces piloting the stepped up reduction/suspension of Agriculture Tax in 2004.

<p><i>Burden Reduction</i></p> <ol style="list-style-type: none"> 1. Abolition of township and village levies, and other administrative fees/charges 2. Abolition of Slaughter Tax (formerly charged to the slaughter of pigs but widely abused, with a fixed amount imposed indiscriminately on every rural household) 3. Phasing out (within 3 years) of corvee labor services 4. Adjustment to agricultural taxes: Effective tax rate to raise from 3% to 8.4%, (including a 1.4% surtax going to the village level) to compensate for the loss of revenue from abolition of the village/township levies 5. Increase of fiscal transfer payments to the townships from county, city, province and central coffers <p><i>Rationalization of tax/fiscal system</i></p> <ol style="list-style-type: none"> 6. Rationalizing tax collection in villages (Set up Agricultural Taxes Bureau as part of the County Finance Bureau to collect agricultural tax from peasants, rather than relying on township and village officials.) 7. Public finance and budget management reforms: enhancing transparency and external monitoring of revenue and expenditure 8. Township government administrative reforms: downsizing by a minimum of 20%, reducing bureaucracy and adjusting government functions to achieve slim government <p><i>Sustainability</i></p> <ol style="list-style-type: none"> 9. Adjusting expenditure responsibility between governments: education at village and township levels become the responsibility of county governments or above; township roads to be financed through the budget, making support from higher levels more possible. 10. Improving rural governance: strengthening the accountability mechanisms of township governments to the local population
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Figure 1. National reform measures 2000, classified by objectives

Sources: compiled from Central Document No. 7 (2000), and related documents

Figure 1 outlines the main reform measures in the 2000 reform package.

As the reform was implemented, doubts as to its sustainability grew. Despite the remarkable burden reduction rates, even some official reports have pointed to the reemergence of fees and charges under disguised forms, the difficulty to downsize local governments and reduce public spending, and the limited capacity of the central coffers to compensate for lost local revenues from the reform.²⁷ In a word, if the problem behind the reform is agency control, the impact of the reform measures has been less than conclusive.

In this context the developments in 2004 reflected a further attempt of the central government to push forward the reform agenda. In

²⁷ An example was a July 2004 report by the National Development and Reform Commission, which reported 20,000 cases of illegal rural fees, totaling over 400 million yuan, discovered during a national survey of rural fees in the first half of 2004. The survey focused on fees on education, marriage registration, fertility control and immunization of pigs, as reported in *China Youth Daily* (Beijing), 23 July 2004, assessed on 20 August 2004 at <http://www.ccrs.org.cn/NEWSgl/ReadNews.asp?NewsID=8374&BigClassID=8&SmallClassID=9&SpecialID=0>

a directive sealed in late 2003, the new central leadership under State President Hu Jintao and Premier Wen Jiabao announced plans to phase out the tax on agriculture in five years' time.²⁸ Officially, the decision was part of a larger drive to boost peasants' income, including measures such as 10 billion yuan of direct subsidies annually to grain-producers, business tax exemptions to small traders of agricultural produce, more public goods provision in the countryside, and stepped up assistance to agricultural production and rural industries.²⁹ Privately, central officials admitted that the impact on peasants' incomes of the tax adjustment and suspension *per se* was likely to be marginal,³⁰ and that the move was intended more to deprive local officials of a convenient 'vehicle' to append their 'illegal' extractions.³¹

We understand that abolishing the Agriculture Tax will create new problems in the future, not the least how to find a new tax for the rural economy. In fact research is being conducted on this latter question. But we cannot afford to wait to have everything ready. We need to find some means *now* to contain the (continuing) local practice of imposing abusive fees to peasants. Phasing out Agriculture Tax is one way towards this.

With the abolition of the only nationally endorsed tax on agriculture, it was hoped that any future illegitimate local extractions would become more visible, and thus more susceptible to external monitoring and control. This is a significant departure from the previous focus on reduction and rationalization of rural taxes, and reflects an emerging

²⁸ 'Opinions on policies to enhance the income growth of peasants', jointly issued by Chinese Communist Party Central Committee and State Council on the last day of 2003. The formulation and drafting process kicked off in a Politburo meeting in September 2003, producing the first draft in mid-November and the main contents nailed down by mid-December. See a report in *Liaowang* (Beijing), 13 January 2004, at http://news.xinhuanet.com/fortune/2004-01/13/content_1273182.htm, assessed on 6 September 2004.

²⁹ Total budgetary outlay from the central coffers to agriculture and rural areas was planned to increase by 20% in 2004 over 2003, to a total of around 150 billion yuan, as stated in Finance Minister's Budget Speech 2004 to the National People's Congress, March 2004. This purportedly would include the 10 billion yuan of direct subsidies to grain-growers, and the additional transfer payments to provinces compensating for lost revenue from stepped up reduction/suspension of Agriculture Tax. Ministry of Finance Notice No. 77 (2004), 'A notice on some issues on the further reduction of Agriculture Tax and suspension of Agriculture Tax collection in selected piloting provinces', 6 April 2004.

³⁰ The direct impact of the lowering of Agriculture Tax rate and the suspension of tax collection in selected provinces is estimated to lower total extraction by 11.8 billion yuan. See Finance Minister's Budget Speech 2004 to the National People's Congress, March 2004.

³¹ Author's interviews, Beijing, April 2004.

pessimism regarding the prospect of achieving control despite the reform, in light of the information asymmetry in favor of the locale.³² However, if agency control is so difficult, how may the new measure possibly achieve its intended objective? I put this question to a Beijing researcher and the response suggests a rather indirect linkage hinging upon, interestingly, peasants' activism.

When Agriculture Tax is eventually phased out in a few years' time, peasants would know that the central government no longer requires them to pay tax. Period! This would improve the transparency of the rural tax regime and enable the peasants to protest more effectively against any illegal fees when imposed, simply because local governments would have no vehicle to free ride.

As in the introduction of village elections in the 1990s, the central government is again counting upon bottom-up monitoring from the peasants themselves to address the agency problem at local levels. Whether peasant activism may work *for* the centre without having the central government's authority also challenged will need more observation, however. Recent studies on rural political agitation may have provided some consolation on this point, pointing out that the higher up the level of government the more trust it enjoyed from the peasants.³³ The same literature has, however, also warned of signs of trust on the wane.³⁴ In any event, there is evident discrepancy between the actual situation and the central formulation as suggested. For instance, the claim that peasants will not be paying any tax once the Agriculture Tax is dropped is plainly misplaced. Peasants have been paying and will continue to pay taxes imposed on transactions of agricultural products. When they engage in non-agricultural economic activities, such as transportation and trade, they will be liable to Value-added Tax and Business Tax. Peasants are also subject to income taxes as everyone else under the Income Tax Law. The No. 1 (2004) Directive offered some tax relief in these respects, including a

³² Author's interviews, Beijing, April 2004.

³³ Lianjiang Li, 'Political Trust in Rural China', *Modern China*, 30, 2 (April 2004), 228–58; Lianjiang Li and Kevin O'Brien, 'Villagers and popular resistance in contemporary China', *Modern China*, 22, Jan (1996), 28–61; Kevin O'Brien, 'Collective Action in the Chinese Countryside', *China Journal*, 48 (July 2002), 139–54; Bernstein and Lu, *Taxation Without Representation in Contemporary Rural China*; and Jonathan Unger, *The Transformation of Rural China* (Armonk, New York: M. E. Sharpe, 2002), 215.

³⁴ For example, Li, 'Political Trust', 248–9 and the literature cited therein.

moratorium of personal income tax for peasants,³⁵ but the rules are complex and subject to abuse.³⁶ A provincial fiscal official involved in reform implementation dismissed the exemptions as ‘cosmetic’, since as a matter of practice no personal income tax had been collected from peasants before, though the tax theoretically also applied to peasants.³⁷

Despite the latest developments, exempting the peasants from paying tax permanently has never been the intention. Chen Xiwen, Vice-Director of State Council Development Research Center, had said in a press interview he did not agree with the suggestion from some quarters that peasants be totally exempted from tax, and that the challenge was instead to design an adequate tax system for the countryside.³⁸ Indeed, proposals on alternative tax plans were mooted before the 2004 plan to phase out Agriculture Tax was finalized.³⁹ A total exemption was apparently regarded inequitable as a matter of principle, since ‘everyone should share the responsibility to contribute to the national coffers’.⁴⁰

An agency definition of the problem prescribes solutions in a carrot-and-stick mode. Two kinds of capacity are critical in this regard: (1) the centre’s fiscal capacity to provide sufficient cash in transfer payments; and (2) the capacity of the local governments to find sufficient alternative employment opportunities for their cadres and population. There has been some limited optimism on the first, which underlines the 2004 plan to phase out Agriculture Tax. It was felt that Agriculture Tax accounted for an only negligible share of the rising

³⁵ Other reliefs are (1) exempting peasants’ turnover of sales of agricultural produce of less than 5000 yuan per month (or 200 yuan daily) from value-added tax; and (2) exempting ‘mobile’ rural petty traders without a fixed trading venue from registration with the tax authorities. See National Taxation Bureau Document No. 13 (2004), ‘A notice on further implementing the tax relief policy to enhance peasant income growth’, 20 January 2004, full text at <http://www.chinatax.gov.cn/view.jsp?code=200402101421438335>, assessed on 5 September 2004.

³⁶ A second notice was issued in March to launch a nationwide examination to monitor the implementation, suggesting the complexities and difficulties in implementation. See <http://www.chinatax.gov.cn/view.jsp?code=200404131640496998>.

³⁷ Author’s interviews, Wuhan, 2004.

³⁸ Chen proceeded on elaborating some of his ideas of the new system in the interview, as reported in *Zhongguo Paodao Zhoukan*, assessed at <http://www.mlcool.com/html/ns001679.htm>, on 14 August 2003.

³⁹ One such proposal is in Li Zhengzhong, ‘Tiaozheng guomin jingji shuoru fengpei guanxi, zhuanjian xindi nongmin shuifei fudan jidu’ (Adjust redistributive relations in national income, Create a new tax system for peasants), *China Rural Economy*, 2 (2003), 35–40.

⁴⁰ Author’s interviews, Beijing, April 2004.

total national revenue, so that China could now afford to stop ‘taxing agriculture’.⁴¹ The problem of this line of thinking is that Agriculture Tax *per se* has never been the root of excessive rural extraction. It is tenuous to assume that the bulk of problematic fees that previously ‘traveled’ on the back of Agriculture Tax would disappear together with the phasing out of the Tax, rather than finding other vehicles to free ride on. At the same time, the lack of alternative employment opportunities remains a problem in most parts of China, where a job in the local government still gives a handsome pay and substantial job security, not to say a ‘license’ to get rich through malicious use of state power.

A Non-Dualistic Reconceptualization: Differentiated Roles

Not only is the solution in the dualistic account intractable, it also rests on slippery assumptions of what causes the problem. Local actors play a far more complex role than the conventional image of trouble-makers sabotaging reform as assumed in the dualistic account. This section visits a couple of features in the reform package and their development processes to elucidate this observation, and to specify the differentiated roles of central and local actors in the rural tax reform. Through the identification of these specific roles *qua* co-participants we point to the ways whereby the reform may be improved.

Abolishing all fees? The centre’s role of defining parameters

The single most important measure in the ‘tax-for-fee’ reform, given its primary objective of reducing rural state extraction, is arguably the requirement that *all* rural administrative fees be abolished. Central

⁴¹ Taking Agriculture Tax and Special Product Tax together, tax revenues dropped from the high point of 4.23% of total national budgetary revenue in 1996 (31.3 billion out of 740.8 billion yuan), to 2.57% in 1999, 2.23% in 2000, 1.75% in 2001, and 2.23% in 2002. In absolute terms, total national budgetary revenue increased by 155% between 1996 and 2002, to nearly 1900 billion yuan, whilst tax revenue from agricultural products stagnated, even decreasing by almost 9% from 1996 to 2001 before seeing a rise in 2002, when many provinces started implementing the tax-for-fee reform and thus channeling formerly extrabudgetary fee revenue to tax revenues. See *China Finance Yearbook 2003*, 338, 344. For an example of an analysis of the ‘affordability’ of phasing out Agriculture Tax, see Chen’s interview, footnote 38.

Document No. 7 of 2000, announcing the launch of national test-point in Anhui Province, states that ‘all kinds of administrative fees, charges and government funds that targeted specifically peasants’ have to go.⁴² The situation turned out to be less clear cut, however. In a follow-up directive, the Ministry of Finance added that when announcing to the public their fee-clean-up exercise, provinces needed to specify the administrative fees and charges to be abolished, ‘those to be *retained*’ (emphasis added), and at what level and scope.⁴³ The implied message is that provinces could retain some fees after screening, rather than have the fees all removed. Field interviews with a provincial fiscal official also highlight the existence of ambiguities.

The key concept, ‘administrative fees specifically targeting peasants’ (*shenong shoufei*), is poorly defined and its boundary unclear. This has brought some awkward results. On the one hand new rural fees have been tightly controlled since reform: from 2002 the central government has centralized authority to promulgate new fees under this category, and so far has not approved any. At the same time many fees not captured in the official scope of ‘peasants’ burden’ are still collected in the villages. The pretext is that these fees do not ‘target’ *specifically* at peasants, but are paid likewise by urban dwellers. Examples are education-related fees and charges (school tuition fees, fees for books and stationary, school meal expenses, etc.), road maintenance fees, license fees for motor bikes, etc. (Author’s interviews, Wuhan, 2004)

A loophole has thus enabled existing fees payable by peasants to continue, and even new fees to be imposed, as long as they can escape central scrutiny, or are defined out of the official scope of control. A handbook of ‘rural administrative fees’ of a province contains a list of 30 fees collected by at least 9 government departments.⁴⁴

⁴² Central Document No. 7 (2000), Section 3, clause (1), gives a list of : (1) the 5 township ‘coordination’ (*tongchou*) fees, (2) the 3 village ‘retention’ (*tiliu*) fees, (3) education levies and surcharges, and (4) all other kinds of administrative fees, charges and government funds that targeted specifically peasants. The first 3 categories had been introduced incrementally since 1980s, with central endorsement, to supplement the inadequate budgetary funds at township and village levels. The fourth was a diverse group with origins at central/provincial/local levels.

⁴³ Ministry of Finance Notice No. 10 (2000), ‘On the subject of peasant-related fees in the regions piloting the rural fee-to-tax reform’, 4 July 2000. In addition to administrative fees, the notice also elaborates guidelines on the imposition of user charges, which are supposedly market-regulated and do *not* form part of government revenue. In practice the boundary is ambiguous and abuses abound.

⁴⁴ The list was contained in a tiny pamphlet supposedly sent to villagers with the title, ‘The Second Open Letter to Peasant Friends in Hubei’, by Hubei Party Committee and the Provincial Government, dated 23 October 2002. The 9 departments are: agriculture, forestry, public security, education, family planning, land,

Some examples are: license and inspection fees for tractors and agricultural mechanics, various permits and licenses for, say, the ‘use of waters’, fishing boats and ‘special’ fishing rights, immunization fees for poultry and farm animals, hunting fee, logging permit, residents’ identity cards, education fees, school boarding and meal charges, fertility control, fees on outgoing migrant workers, and irrigation and flood control water charges. If the reform objective was to abolish ‘unwarranted’, or ‘illegitimate’, fees, rather than *all* administrative fees as originally stated, then the critical question was how to draw the line. In this regard, it is telling that this important task—differentiating illegitimate from legitimate fees—was simply left to provincial governments. There was no guideline on how to conduct screening, nor was there requirement to report to central government the screening result.

What followed was much as expected. Facing intense pressure to find monies to pay for expenses, many local governments made cosmetic changes only, collecting the fees still in disguised forms. One disguise was user charges. In theory these charges were costs of services rendered and purchased in a market situation, and were thus radically different from administrative fees, which had a fiscal nature. In practice the ‘users’ often had no free choice as to whether they wanted the service, to the extent that payments might be ‘assigned’ without any services provided.⁴⁵

Despite repeated warnings of abuse, until 2003 there had been few new substantive measures.⁴⁶ In May 2003 provincial governments were, for the first time, asked to report to the State Council the fees they had abolished, and retained, and told the criteria in the screening exercise.⁴⁷ All fees that had not been previously approved by the central or provincial governments prior to the reform needed to go. So was the case for fees which had exceeded the originally approved levels.

construction, civil affairs, and water. The list was confirmed to be still up-to-date in 2004. Author’s interviews, Wuhan, 2004.

⁴⁵ For reports on the resurgence of rural fees after reform, see for instance <http://www.ccrs.org.cn/newsgl/ReadNews.asp?NewsID=3986>, and <http://www.aweb.com.cn/2003/7/8/20037883858.htm>, assessed on 14 September 2003.

⁴⁶ The urgency of abolishing rural fees and stamping out abuses was a common theme in various central documents issued since 2000.

⁴⁷ State Council Notice No. 50 (2003), ‘On Approving a notice by the Ministry of Agriculture, etc. on the issue of reducing peasants’ burden’, 29 May 2003.

The requirement to report is a small improvement. At least provinces had to make known the fees they abolished, and those they continued to charge. It was, however, uncertain how effective transparency alone could be in containing abuse. Added to the doubt is the observation that the screening criteria belatedly outlined, upon examination, merely reiterated preexisting rules governing the approval of fees before 'tax-for-fee' reform. Many provincial governments also simply relayed the central notice to subordinate governments for implementation, without elaborating on details as to how the 'clean-up' exercise should be conducted.⁴⁸ The author's field research in Hubei Province, central China, observes that some provincial and local departments have introduced new fees and made changes to existing fee levels without going through the 'proper' channels.⁴⁹

The issue here is not whether or not provincial governments should play a part in screening decisions. China's continental size and diversity necessitates decentralization in policy formulation, a feature which is squarely recognized in the reform documents. Central Document No. 7 (2000) explicitly states, 'Due to diverse local conditions in our large country, the rural 'tax-for-fee' reform requires not only a unified national policy, but a mechanism of decentralized decision-making to cater for local conditions'.⁵⁰ Nevertheless, what is required is some clear specification regarding boundaries, operative principles, and the interface between the local role and that of the central government. In other words, given the need for a local role, *how* the central and local actors share the job of distinguishing legitimate from illegitimate fees needs to be better delineated.

In view of the immense fiscal pressure for local governments to raise revenue, the central government should have prescribed definitively the parameters for the screening exercise, and demand timely reports to monitor compliance. Most preexisting fees had formerly been endorsed or approved by provincial governments prior to reform, so that a mechanism of external monitoring from outside

⁴⁸ This is the observation obtained from a search through internet of provincial responses. For a typical example, see a notice by the Beijing Municipal Government issued on 2 July 2003, assessed at <http://www.china.org.cn> on 22 August 2003.

⁴⁹ All alteration of fee levels should be approved by the Provincial Fiscal Bureau and Price Bureau. Yet in practice the departments often made their own decisions. Author's interviews, Wuhan, 2004.

⁵⁰ The reference to decentralized decisions is found towards the end of the first major section of the Document, which addresses the 'significance' of the reform.

the province was necessary to make provincial screening not a reiteration of previous *provincial* decisions. Defining the parameters and strengthening external monitoring from the centre will not reduce provinces to passive agents. Provincial authorities would still be required to come up with details of the exercise, day-to-day monitoring of the implementation by subprovincial authorities, as well as providing feedback to central authorities for future policy adjustments. What is important is that the centre should not, in the name of decentralization, abrogate responsibility which only the centre is capable of fulfilling. By making the necessary hard decisions, the central government will prepare the ground for collaborative local decisions, and better reform results are likely to follow.

Agricultural taxes: Provinces as reformers

A reform that seeks to end excessive and arbitrary state extraction demands that an alternative, more reasonable, system be put in place, in addition to slashing the unjustified items. In this regard the agricultural taxes were designed to perform this role, until the latest twist in 2004 as noted above.⁵¹ Here we focus on one part of the original, pre-2004, plan—the reform of the Agricultural Special Products Tax—to show that provinces were actively involved in the reformulation of the rural tax regime.⁵²

Agricultural Special Products Tax was first enacted in 1994 as a special variant of the Agriculture Tax to enable local governments to impose differentiated, and higher, tax rates on more profitable agricultural products such as tea, tobacco, fruit, flowers and aquatic products.⁵³ The intention was to rationalize the incentive structures of

⁵¹ The Agriculture Tax Regulation 1958 specifies the tax rates for various provinces and a national average of 15.5% and has remained in force nominally until fee-to-tax reform sets in. The effective tax rates have seen a continuous decline to some 2.9% by year 2000, due to a combination of factors. See He Kaiyin and Sun Li, eds., *Zhongguo Nongcun Shuifei Gaige Chutan* (A Preliminary Analysis of the Tax and Fees Reform in Chinese Villages), Beijing: Zhongguo Zhigong chubanshe, 2000, 131–2.

⁵² The regime consisted of three components: (1) a raise of tax rate from a *de facto* national average of 3% to a cap of 7%; (2) provincial discretion on taxes on ‘special products’; and (3) up to 20% of local surcharge on agricultural tax to compensate for the abolition of traditional village levies. See Central Document No. 7 (2000), section 3.

⁵³ State Council Document No. 143, ‘A regulation on the imposition of Agriculture Tax on agricultural special products’, 30 January 1994.

the production of various agricultural products, and to give adequate protection to grain production, as the more lowly-priced grain would then be taxed differently (with a lower effective tax rate) from the more pricy 'special products'. The implementation of the tax had caused much controversy, however, with many complaints of abuse and double taxing, the clearing of which formed part of the reform program. In particular, Central Document No. 7 (2000) conferred on provincial governments a new discretion on *whether* or not the Special Products Tax was to be imposed at all:

...Regarding taxing agricultural special products..., provincial governments may decide to collect Agricultural Tax or the Agricultural Special Products Tax. The provincial governments may also decide to collect *only* the Special Products Tax in areas where most outputs produced are in fact special products, and collect only the Agriculture Tax in other areas (where there is a mix of 'regular' agricultural products and special products).... (Clause (5), Section 3)

The meaning of this provision requires some elaboration. First, it is a clear departure from preexisting regulations on the Agricultural Special Product Tax, which prescribed that in places where Agriculture Tax normally applied (meaning: had historically been collected) but actually grew special products, the products should be taxed on the basis of Agriculture Tax, *plus* the difference between calculated tax returns of the Special Product Tax and that of the Agriculture Tax.⁵⁴ The new provision quoted above thus appears to give provincial governments a seemingly free hand to decide *which* of the two kinds of agricultural taxes would be collected from special products, irrespective of the differences in tax returns as a result of their choice one way or the other.

However, this large room for provincial discretion is somehow circumscribed by the second statement in the quote, which states that 'in those areas where most outputs are in fact special products', provincial governments 'may decide to collect the Special Products Tax', and to collect the (regular) Agriculture Tax in 'other areas'.

⁵⁴ Ministry of Finance Notice No. 94, 'On the details of implementation of the Agricultural Special Products Tax', 24 March 1994, clause 8. The phrase 'where Agriculture Tax normally applies' implies the existence of areas where the Tax does not normally apply. This usually refers to newly formed land or peripheral pieces of land newly brought under cultivation, and have yet to be brought under the tax system, or areas that for various reasons are excluded from agricultural taxes. Agricultural produce from these lands goes untaxed.

Provinces were hence given advice, if not an instruction, as to how they may exercise their discretion.

The importance of such fine distinction of the boundary of local discretion is made evident when we examine local implementation. In well off southern Guangdong, south China, local officials at Shunde District decided in 2002 that Shunde would only apply the regular Agriculture Tax although Shunde grew only ‘special products’,⁵⁵ so that Shunde’s peasants could receive a smaller tax bill.⁵⁶ A local official so described the rationale of this decision.

A few years back we had very high yield in our main produce—eels, which commanded a very good price. Since then the price had come down considerably. However, under the national (tax-for-fee) reform policy, we need to assess current taxable value of output in accordance with the historical average output value of 1993–98. Given the high value achieved then, this places our peasants in a disadvantaged position. If we taxed our products by the higher Special Products Tax, and based our calculation of taxable value on the market situation of the earlier period, our people would pay even more than before the reform, not less. This would not be acceptable to our people and also squarely contradict the spirit of the reform. (Author’s interviews, 2003)

In a follow-up interview, it was confirmed that taxing special products with the lower tax rate of the Agriculture Tax was locally initiated.

Initially we proposed to the provincial government that we should scrap the Special Products Tax altogether. This was rejected since such a move was considered not in line with central policy. Then we came to the current proposition, that when *choosing a specific tax rate* for our agricultural product, we would opt for the one which is lower. This enabled us to follow the spirit of the central policy of relieving peasants’ burden, and the provincial government agreed.

What is worth noting is that strictly speaking, Shunde’s formulation was not in line with the specific provisions in Central Document No. 7. As noted previously, the central government had attached strings to new freedoms given to provinces regarding the *choice of taxes* (not tax

⁵⁵ Shunde City Government Notice No. 35 (2002), ‘The implementation plan of rural tax for fee reform in Shunde’, section 2, clause (5). Fish and flowers were two major agricultural products in Shunde.

⁵⁶ Aquatic products and flowers attracted a flat tax rate of 8% under the Agricultural Special Products Tax, whilst the upper ceiling of Agriculture Tax (regular) was only 7%. When 20% local surcharge was added, the difference would be 9.6% versus 8.4%.

rates) to be applied. The expressed guideline was that ‘in areas where most agricultural outputs are in fact special products’, provincial governments may ‘decide to collect only the Special Products Tax’, and ‘collect only the Agriculture Tax in other areas’. This means that Shunde should have collected special products tax instead, since most, if not all, agricultural products in Shunde were special products. But certainly Shunde’s peasants would become worse off after reform if this provision had been strictly implemented. The central guideline was formulated on the basis of rationalizing the *overlap* of the two kinds of agricultural taxes, the rationality of each of the two taken for granted. To rescue the spirit of the central policy some subtle twist of policy was made locally to fill in the gap, as in this case.

Guangdong in 2002 moved cautiously to camouflage its local adaptation of central policy. A clear break was left to Anhui Province, which announced in late March 2003 that with immediate effect *all* agricultural products would be taxed by a rate of no higher than 7%, effectively making the Special Products Tax redundant in the province.⁵⁷ Four days after Anhui’s announcement, Premier Wen Jiabao conferred his *post hoc* endorsement in a national meeting,

The abolition of the Agricultural Special Products Tax should become the next major move in the rural tax reform. By now most regions have attained the conditions to contemplate the abolition of the tax. For these regions, this tax may now be abolished. For the minority of regions which cannot do it as yet, the objective is to reduce its scope of application, lower its tax rates, so as to pave way the for its eventual abolition.⁵⁸

This endorsement was formalized in a joint notice by the Ministry of Finance and the National Taxation Bureau two months later. Provincial governments were explicitly empowered to decide whether to retain or abolish the Agricultural Special Products in their jurisdictions, and the tax rates to be applied to those former ‘special products’, so long as total tax burden would not go up as a result.⁵⁹

⁵⁷ One exception is tobacco, the tax rate of which remains 20%. Anhui Provincial Government Notice, ‘On the pilot scheme of shifting the Special Products Tax to Agriculture Tax’, 31 March 2003.

⁵⁸ ‘Wen Jiabo emphasized to continue the rural ‘tax-for-fee’ reform’, 3 April 2003, Xinhua News, assessed on 5 August 2003 at http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/newscenter/2003-04/03/content_814822.htm.

⁵⁹ Ministry of Finance and National Taxation Bureau Notice No. 136, ‘On a few issues relating to the Agricultural Special Products Tax in rural ‘tax-for-fee’ reform areas’, 10 June 2003.

Anhui was, once again, therefore, a pioneer of central policy. One month after the new central regulation, in July 2003, Guangdong Provincial Government followed suit and suspended the Special Products Tax in its new reform plan, which also suspended the 20% surcharge to Agriculture Tax, and lowered the rate of Agriculture Tax to 6%, from the national ceiling of 7%.⁶⁰ A new baseline was hence drawn, culminating in the wholesale downward adjustment of the Agriculture Tax and abolition of the Special Products Tax nationally in 2004.

Conclusion

In an attempt to transcend the longstanding debate between the 'top-down' and 'bottom-up' approaches to policy making and implementation, Richard Matland put forward his 'ambiguity-conflict model' to distinguish circumstances whereby one approach rather than the other applies.⁶¹ In his model, the amount of ambiguity in the policy (goals, means, issues, etc.), and of conflict in the political context is instrumental. The top-down model applies in situations of low ambiguity and low political conflict, and bottom-up model in the case of high ambiguity and high conflict. The key is the identification of specific contexts, since it is quite out of the question that either approach is totally wrong. Likewise, as Margaret Archer argues over the structure-agency question, common sense experience tells us that the Individual account or the Collectivist account cannot be all right, and the other all wrong. Both structure and agency are relevant, and they interpenetrate and interact. The challenge is to specify the details *how* structure and agency interpenetrate and interact without mingling their boundaries, or defining away one or the other.⁶² This paper seeks to meet this challenge somewhat in the context of

⁶⁰ 'The rural 'tax-for-fee' reform plan in Guangdong', *Guangzhou Daily*, 7 July 2003.

⁶¹ Richard E. Matland, 'Synthesizing the implementation literature: The ambiguity-conflict model of policy implementation', *Journal of Public Administration Research and Policy*, 5 (April 1995), 145-74. For a similar, but weaker, attempt in the Chinese context, see Kevin J. O'Brien and Lianjiang Li, 'Selective policy implementation in rural China', *Comparative Politics*, 31, 2 (January 1999), 167-86.

⁶² Margaret Archer reviews the Individual account, the Collectivist account and the Structuration Theory, which conflate the structure-agency relation in different directions in *Realist Social Theory*. For a similar argument against conflation, without using the language, see Robert Grafstein, 'The problem of institutional constraint', *Journal of Politics*, 50, 3 (August 1988).

central–local politics—through delineating the specific differentiated roles of the central and local actors.⁶³ As co-makers of policy, the roles of central and local officials are not interchangeable but possess clear boundaries.

Discussion in the paper brings home two major messages. The first confirms the basic framework of the non-dualistic account: that the rural ‘tax-for-fee’ reform was a central–local ‘joint-venture’. Local processes in reform implementation went far beyond the ‘shirking’ behaviour depicted in the principal-agent framework.⁶⁴ In the case of agricultural taxes, local actions did not sabotage the central objective of reform, but supplemented, and even led, central policy in its fine print. The fact that local actions sometimes also contravened central directives suggests the obsolete nature of central policy, and the *need* for a local role in the ongoing process of policy formulation. As noted over Agricultural Special Product Tax, local initiatives met almost instant central endorsement and helped make new national policy, vindicating the collaborative status of local actions in the national reform.

A second observation is that central actors have *not* played a sufficiently active role in the reform process. With the primary reform objective seen as capping local state extraction, and local officials criticized as the culprit, one would expect the central government to keep a tight rein over reform plans and implementation. This paper finds that this was not the case. In critical junctures of, say, what fees may be retained and how much tax was to be collected, the central government had left key decisions to provincial and local levels. Parameters remained under-defined, however, and monitoring was weak. Political rhetoric on reform urgency was not complemented by a similar vigilance in the design of detailed mechanisms to ensure effective implementation.

The emergent picture is an image of central and local actors as co-participants in the reform decision and implementation processes, but where each has its obliged roles to fulfil. Two sets of roles are identified

⁶³ Another attempt to meet the theoretical challenge is made in the context of the local political economy of Tianjin, in Linda Chelan Li and Hongyan Qin, ‘Sorting out the details: Structure, agency and interactions in China’s local political economy’, paper presented at the 2004 Annual Conference of the British International Association, December 2004, Warwick, U.K.

⁶⁴ See John Brehm and Scott Gates, *Working, Shirking, Sabotage: Bureaucratic Response to a Democratic Public*, (Ann Arbor: The University of Michigan Press, 1997), for an example of implementation studies employing the principal-agent framework outside the China context.

in this paper. The first pair sees the instrumental role of provincial and local actors in refining and redefining national policy, and the parallel enabling role of the central government, which facilitates the active role of the local actors. Upon closer examination there are two strands in this role of local actor in decision-making. In the first strand, local actions fill in details of policy during reform implementation, as diverse local situations logically dictate. The local adaptations buttress national policy and are very much expected in any account of policy making. This first genre of local decision-making *qua implementation* may develop into a second strand—local role *qua decision-makers*, when the local content illuminates major weaknesses in the national policy, or when feedback from local experimentation suggests a more desirable, and alternative, direction of change nationally. Parallel to this latter, and more substantive, strand of local role, the central government needs to recognize the legitimacy of pluralities within the general confines of national policy, and be ready to incorporate local contents and experience to improve further national policy itself. Whilst both central and local actors are all active agents, the emphasis here is placed more on the actions of the local, with the central taking up a largely enabling role.

The second set of differentiated roles focuses more on the central government. Central actors have a responsibility in (re)defining the major parameters of behaviour, and specifying the new rules of the game, given the chosen goal and the historical context in which the desired change is being sought. It is insufficient for the central actors to announce the reform objectives, only to leave the specific mechanisms as to how to get there entirely to the provincial and local actors, on the pretext that all details are ‘routine’ implementation matters. Discussion on China’s rural tax reform in this paper shows that central actors could not assume local officials would ‘auto-pilot’ and work out the details independently, especially if local officials themselves are part of the problem to be addressed. Given what is noted above on the local role in decision-making, the challenge is, obviously, to figure out how much, and which part, of the details the central needs to decide itself and how much, and what, it may comfortably leave for the local levels to ‘fill the gap’. The answer to this critical decision is necessarily context-specific, depending on the substantive issues being pursued, the goal chosen, and the historical baseline situation. The important principle is, however, that this decision—of how much and what to decide itself and what and how much to delegate—lies squarely with the central actor. In other words, the central government needs to

accept *explicitly* a *responsibility* to make this judgment, applies itself to make the best possible judgment, and be ready to revise it whenever necessary.

The central actor is thus obliged to define the goal of action, delineate the ground rules of behaviour, and to design means to monitor implementation. It is the duty of the central actor to make sure that the parameters it has laid down are fit, taking into account of, and despite, possible adaptations at the local level. In other words, the national parameters prevailing at any point of time should *enable* as well as *regulate* collaborative local actions, including actions seeking improvements of the parameters themselves. The two sets of roles hence interact and support one another in actual operation, whilst being analytically distinct with obvious boundaries.⁶⁵

⁶⁵ For more on this point, see Li and Qin, 'Sorting out the details'.