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Failing entrepreneurial governance: From economic crisis to fiscal crisis in the city of Dongguan, China [☆]



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ABSTRACT

This paper analyzes the recent fiscal crisis among villages in the city of Dongguan. The city has been an exemplar of export-oriented growth in China. Rapid economic development has been attributed to local state entrepreneurial governance based on a close relationship between the local state and enterprises. However, this development approach has led to a severe fiscal crisis, especially at the village level, due to declining rental incomes, ineffective village governance and a heavy burden of public service expenditure following the global financial crisis. This paper examines the configuration of local governance and how an economic crisis has evolved into a public finance crisis in the city. Until now the limits of entrepreneurial governance have been understood only with regard to negative social impacts. This paper reveals the limits of a developmental approach.

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Introduction

The global financial crisis in 2008 triggered a series of chain reactions across the world. The impact of globalization on the local economy may be seen in the city of Dongguan, the heartland of export-oriented economies in the Pearl River Delta. Under the export-driven economy, the Pearl River Delta experienced export-driven urbanization, or so-called ‘exo-urbanization’ (Lin, 1997; Shen, Feng, & Wong, 2006; Sit & Yang, 1997), which transformed rural areas through bottom-up and spontaneous urbanization (McGee, Lin, Wang, Marton, & Wu, 2011; Shen, Wong, & Feng, 2002). The remarkable economic development of China’s rural areas has been attributed to a particular mode of ‘entrepreneurial governance’ based on the legacy of state socialism and the introduction of market mechanisms, known as ‘local state corporatism’. The concept was initially developed by Oi (1992, 1999), and it provides a powerful paradigm to explain Chinese rural takeoff. In large cities such as Beijing and Shanghai, the so-called ‘state entrepreneurialism’ became a powerful driver for the development of new towns and spatial restructuring (Wu & Phelps, 2011).

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The entrepreneurial state (Duckett, 1998) seems to be very effective in the Yangtze River delta and Shanghai (Chien, 2008, 2013; Wu, 2003) but its limitation has not been fully assessed (DiGaetano & Strom, 2003), in particular in the areas that experienced more bottom-up urbanization processes. While the process of economic restructuring had started before the global financial crisis (Ma & Wu, 2005), the crisis exacerbated the collapse of the rural economy, which had until then been based on rental incomes and was supported by the governance of local corporatism. Although the crisis had serious impacts on rural migrant workers, the implications for the Chinese city have so far not been fully examined.

This paper examines village debt in Dongguan after the global financial crisis. The remainder of the paper is organized as follows. Section ‘Theoretical frameworks: forms of entrepreneurial governance’ reviews the relevant theoretical framework, especially the concept of entrepreneurial governance. Section ‘Research methodology’ introduces the methodological issues of this study. Section ‘The development stage of entrepreneurial governance in Dongguan’ discusses the development of entrepreneurial governance in Dongguan. Section ‘The creation of an economic crisis – declining rental incomes’ discusses the local economic crisis after the global financial crisis. Section ‘Public service spending under entrepreneurial governance’ then examines public spending and village debts. Section ‘From an economic crisis to fiscal crisis: village debt’ discusses how the economic crisis has led to the fiscal crisis in Dongguan. Section ‘Conclusion’ concludes and reflects on the limit of entrepreneurial governance.

Theoretical frameworks: forms of entrepreneurial governance

In this section, the theoretical framework of entrepreneurial governance is presented. First, the concept is discussed with reference to the western literature; then, the study of rural China and the unique form of governance is reviewed. There are different manifestations of local governance, according to national different contexts: managerial, corporatist, pro-growth, and welfare governance models. The concept of entrepreneurial governance here refers to a specific form of network that combines the government with the local business community (Pierre, 1999). Local governance has different forms in different countries (DiGaetano & Strom, 2003). Political economic studies focus on the transformation of the state (Harvey, 1989) and urban entrepreneurialism (Jessop & Sum, 2000), and the pro-growth development politics known as the 'growth machine' (Logan & Molotch, 1987; Molotch, 1993). In studies of Chinese urban and rural development, there are two different but related kinds: one on urban entrepreneurialism and the other on rural 'local corporatism' (Oi, 1992). More recent development in local entrepreneurial governance has been highlighted by a wide ranging body of literature on urban China (Chien, 2008, 2013; Smart & Lin, 2007; Tao, Su, Liu, & Cao, 2010; Wu, 2003; Yang, 2007; Ye & Wu, 2014). But this body of literature is mainly developed in larger cities or the places with strong local states. This section will review these two bodies of literature.

Entrepreneurial urban governance

In contrast to the limited number of studies on rural areas, the growth of Chinese cities has been under intensive study (Ma, 2002). Explanation is more aligned with the development of entrepreneurial urban governance, as described above. For example, Duckett (1998) discussed the driver of real estate and how this changed the nature of the local state in China. Echoing the thesis of the change from managerialism to entrepreneurialism in Western capitalism (Harvey, 1989), and the growth machine which describes an urban politics driven by locally bounded interests in property (Logan & Molotch, 1987; Molotch, 1993), researchers found the aggressive promotion of land and housing development (Hsing, 2006; Wu, 2003) and a politics characterized by growth-oriented coalitions between the local government and real estate developers (Duckett, 1998). For example, Tao et al. (2010) and Ye and Wu (2014) discussed how local government under fiscal incentives uses land development to promote economic competitiveness. This explanation mainly resorts to the notion of a 'land revenue regime' in which the local state aims to gain revenue from land and infrastructure development to make up the fiscal deficit under the tax-sharing system. The evidence of empirical research on land dynamics and urban expansion is strong (Ye & Wu, 2014). In the Yangtze River Delta, entrepreneurial governance is seen in administrative annexation by the central city to expand its jurisdiction and foster economic competitiveness (Zhang & Wu, 2006), while in the Pearl River Delta (PRD) the city of Guangzhou strove to improve its image and develop mega-projects to attract investment (Xu & Yeh, 2005). The export-oriented development model used in the PRD has confronted with serious problems since the implementation of industrial upgrading strategy designated by Guangdong Provincial government prior and after the 2008 global financial crisis. The failure of entrepreneurial governance has been demonstrated by the emerging tension between various levels of governments (Yang, 2012), which has triggered the fiscal crisis in Dongguan.

Local corporatism in rural China

From the studies of rural China, a specific form of entrepreneurial governance has been identified. It must be noted, however, that

rural development in China comprises different types. The Sunan model represents strong local collectivism (Chien, 2008; Shen & Ma, 2005; Wei, 2002), whereas Wenzhou has seen an entirely different model, which is more based on individual entrepreneurs and family businesses (Wei, Li, & Wang, 2007). The rural areas in the Pearl River Delta represent weaker local government (at the city and county levels), but stronger village governance based on family ties and clans (Lin, 1997, 2006; Shen et al., 2002). Overseas investment in Dongguan presents a characteristic of smaller investors than in Suzhou (Yang, 2007), reflecting the different development approaches: the former is more towards households and villages while the latter is organized by cities and counties.

For rural China, the concept of local state corporatism initially developed by Oi (1992, 1999) provides a powerful paradigm of explanation. It describes the close relations between the local state and enterprises. In fact, the local state, according to this explanation, uses financial resources to set up enterprises that are under its control so that it can benefit from the profit of these enterprises. The explanation was largely developed from the context of Chinese rural areas. The explanation is based on fiscal decentralization, which incentivized the local state in economic development (Walder, 1995). The local state (counties, towns, and villages) directly participated in local economic development. The local state at the county level uses its power to mobilize capital and resources to support rural industrialization. At the village level, the thesis of local state corporatism argues that because the village was not a layer of government it acted more like a firm in the local governance. The explanation points to the institutional source of rural industrialization in the role of the local state. In the Chinese context, the legitimacy of the state and its authoritarian tradition supported a strong state role. This state-centered explanation is, however, different from the market transition thesis (Lin, 1995). The latter believed that rural development benefited from market transition and therefore the role of the market was more important than that of the local state.

The gap in research on entrepreneurial governance in China

The thesis of entrepreneurial governance in general and local corporatism in particular attributes China's remarkable economic growth and urban transformation to the institutions of governance. For example, in rural areas, we see the development of specialized towns and tourism-driven growth (Qian, Feng, & Zhu, 2012). Entrepreneurial governance has been criticized for its negative impact on the livelihood of residents through demolition and displacement (Siu, 2007), environmental degradation, and excessive inter-city and inter-region competition and market disorder (Zhu & Hu, 2009). In the West, entrepreneurial governance has been criticized as the threat to the democratic process of decision making (MacLeod, 2011). But as a development approach, entrepreneurial governance has been regarded as powerful in terms of economic achievement. The *East Asian Miracle* described by The World Bank (1993) remains a myth about the combination of entrepreneurial governance and developmental state in the promotion of economic growth. The framework of the 'developmental state' (Woo-Cumings, 1999; Olds & Yeung, 2004) is extensively applied at the nation-state level. However, its operation at the local level is not studied in detail. The literature of entrepreneurial governance in China is more concerned with the city and its promotion strategy (e.g. Chien, 2008, 2013; Wu, 2003; Xu & Yeh, 2005; Zhu, 2004). The problem of entrepreneurial governance, especially at the lowest level of villages, has not been fully understood. The financial side has not been studied in the literature of entrepreneurial governance. In short, we have seen parallel development of two groups of literature: the one on economic decentralization and urban entrepreneurialism inspired by the Western studies

(Harvey, 1989; Jessop & Sum, 2000; Logan & Molotch, 1987; MacLeod, 2011), and the other initially developed in rural China as local corporatism (Oi, 1992, 1999) but has been further developed with a focus on property rights (Po, 2008) and local development (Wei et al., 2007) and incentives given to local government (Tao et al., 2010; Ye & Wu, 2014). It is thus very meaningful to return to rural China to re-examine this thesis and to interrogate the effectiveness of this approach of local entrepreneurialism.

Research methodology

This research is part of a larger research project commissioned by the municipality of Dongguan to examine economic restructuring and rural financial changes in Dongguan. The main project lasted two years from 2012 to 2013, involving 12 Professors and Associated Professors, 11 doctoral students, 33 Master's students, and 10 undergraduates. Extensive fieldwork was conducted at the city, town, village, and unit levels, including formal meetings, semi-structured interviews, and a questionnaire survey. In total the team visited 26 government departments, 12 towns and industrial parks, and 5 case villages. Data obtained from individual villages and units were compiled in the final report. This research project led to a major multi-volume report submitted to the government of Dongguan. Because the main project is an applied policy project that covers a wide range of policies, it is not possible to include detailed descriptive materials here. The current paper only reports key findings from the case villages in which the data were compiled from fieldwork in the villages. The focus of the paper is on the condition of village finance. The data are not typically available in statistical yearbooks, as the information is outside the scope of conventional city-based statistics. The paper aims to identify the scale of fiscal deficit and the composition of income and expenditure at the village level. The complex operation of village finance should be left to other studies in the future. Some quotations are used for the purpose of illustration rather than as systematic evidence.

The development stage of entrepreneurial governance in Dongguan

Dongguan represents a typical phenomenon of bottom-up urbanization in China. It shares some similarities with other regions such as southern Jiangsu (*sunan*) (Chien, 2008; Shen & Ma, 2005; Wei, 2002), such as 'urbanization from below', but has a more decentralized pattern of growth (Shen et al., 2002). There are four levels of governance: the municipality (city), towns, villages and units. A unique feature of governance in Dongguan is the absence of district or county, typically between the municipality (city) and street offices (in urban areas) or towns (in rural areas). To some extent, this represents a streamlined structure of governance, with development focusing on towns, villages, and units. The local governments at the town and village levels participate directly in economic development and form close coalitions with enterprises at their respective levels. This entrepreneurial governance is quite versatile and flexible, and has played an important role in local economic growth. In this section, we review the development stages of entrepreneurial governance.

Village local corporatism has experienced three stages of development. The first stage was from 1978 to 1995. In the first stage, Dongguan developed a village economy based on village enterprises that used spare village halls to attract inward investment. Due to geographical proximity to Hong Kong and extensive social ties, Dongguan pioneered the so-called 'three supplies and one compensation' (*sanlai yibu*), which literally refers to supplies of raw materials, equipment, and design from overseas, while villages

gain compensation for the use of local labor, land, and other logistical costs (Lin, 2006). This is essentially a low risk and low value-added processing economy, in which villages gain processing fees. In this period, the local economy grew at an annual growth rate of 25.6%. Dongguan was thus industrialized but the driving force of industrialization came from overseas investment.

The second stage ran from 1996 to 2007. This stage saw significant development of the rental economy. The municipal government promulgated a series of regulations on land administration, rural asset management, and rental housing management. Instead of using spare village halls, villages managed to obtain loans from banks to develop factory buildings to rent out to investors. At the same time, villagers expanded their housing to accommodate rural migrant workers and received significant rental income from housing. The rental economy occupied a significant proportion of village income, typically 70% (Dongguan Statistical Bureau, 2008). Another feature of this period was the development of specialized towns, for example, Houjie town specialized in shoe making, Humen in cloth, Chang'an in metal models, Dalang in the wool textile industry, and Dalingshan in furniture. In contrast, township and village enterprises (TVEs) declined because of the problem of ambiguous property rights leading to ineffective management. The profit rate of rural collectives declined from 5.9% in 1985 to only 1.5% in 2006 (*ibid.*). Most TVEs went bankrupt. In this stage, the average annual growth rate was still 21.7%. The second stage saw the strengthening of local governance. The city government strengthened land and rental management. The town government strove to attract inward investment. Industrial clusters and industrial parks started to appear, while TVEs collapsed (Lin, 2006). The village and unit levels experienced a boom in land development, either renting out the land to investors or borrowing loans to build standard factory buildings. The rental economy was the main feature of this period.

The third stage runs from 2008 to the present. In this stage, the rental economy began to experience severe financial difficulties. Influenced by the global financial crisis, the annual growth rate of the Dongguan economy fell to 8.5%. The export-oriented economy, which was heavily dependent on the input of land, labor and energy, reached its limit. This triggered a process of economic restructuring. The provincial government accordingly proposed to relocate migrant workers and industries to inner regions of the province, under the policy of so-called 'double relocations' (*shuang zhuanyi*). In addition, the provincial government developed a policy of regenerating old villages, old factories and old urban neighborhoods, or the so-called 'three olds regeneration' (*sanjiu gaizao*). The city government proposed to abolish units, consolidate villages and convert them into urban administrative units (street offices), and reform rural collective shareholder companies (Po, 2008). The city and town governments also raised the requirement for inward investment and promoted the development of industrial parks. The rental economy of villages and units was severely affected by the global financial crisis. With the collapse of factories and the decrease in the number of migrant workers, the demand for both industrial properties and housing declined. The rental economy encountered serious difficulties. Rents of factory buildings declined from 15 Yuan per square meter to about 6 Yuan per square meter, while the vacancy rate increased. This period is characterized by economic restructuring and changing governance. Village finance faced increasing debt and has found it difficult to fund public services. The city government strove to up-scale village governance to city and town levels.

To sum up, the development of entrepreneurial governance in Dongguan has experienced three stages: the first stage is an initial industrialization with overseas investment. In this stage entrepreneurial governance supported low value-added industries. The second stage is the development of rental economies. With the

collapse of indigenous rural industries, the villages had to rely on the rental economy. Entrepreneurial governance was embodied in the formation of village collectives. The third stage is an economic crisis leading to a fiscal crisis in rural villages after the global financial crisis. The transformation of export-oriented production plus the decline of rental income seriously damaged the finance of the rural collectives that were the backbone of entrepreneurial governance. In the next three sections, we will follow this process to examine village debt problems.

The creation of an economic crisis – declining rental incomes

As an export-oriented economy, Dongguan heavily relied on rental income from industrial prosperities leased to overseas investors and private rentals for rural migrants. For more developed parts of Dongguan, rural industries have been developed. But in less developed areas, their economies almost exclusively depend on rental incomes. The income of rural collectives comes from the following sources: profit from village-owned enterprises, rental income from factory buildings, payments from contracting agricultural work to rural migrants from other regions, and housing rent from rural migrants. The major source is rental income from industrial properties. In 2011, property rents and management fees in Dongguan reached 9.672 billion Yuan, accounting for 70% of the rural collectives' income, while direct profit from rural industries was only 1.338 billion Yuan, accounting for 9% of the income of rural collectives (Dongguan Agricultural Bureau, 2012).

This study conducted a survey in four case villages. The result is presented in Table 1, which shows the distribution of village incomes. It can be seen that the income source varies. Some more developed villages own village enterprises and thus have direct income from these enterprises. Rental income occupies a relatively lower proportion. For example, Nance village of Humen receives 38.1% of income directly from production profits, 31.3% from rental income, and 3% from government subsidies (for example, the government's contribution towards the village land fund). Nance's condition is better because it receives more income from village industries. For less developed villages, rental income is the primary source of income. For example, for Chenwu and Chiling in Houjie town, rental incomes accounted for 86% and 82% respectively. For the poorest villages, such as Xiasha village in Shipai, they could not even gain sufficient rental income. Subsidies from upper level governments became an important source, accounting for 27.5% of income. From the table, it can also be seen that incomes from management fees and operational incomes are limited. They usually cover part of an operation but cannot fund the development cost. In other words, the development of infrastructure and services relies on cross-subsidies from renting out land and properties to investors and housing to the rural migrant population.

The villages in Dongguan began to experience an economic crisis because the rental economy was particularly vulnerable to economic restructuring and fluctuations. The rental economy accommodated smaller and more labor-intensive enterprises in the past, but recently these small enterprises have begun to move out under the pressure of rising labor costs and land prices. An official from the Bureau of Finance said, "Now the cost of building factories is higher, now the rental could not even cover the operational cost, because many factories relocated to elsewhere, and there are fewer demands for factory buildings" (Interview, 07 March, 2012). Over the past twenty years of economic development, investment from overseas has gradually raised its demand for space. Investors began to require a higher quality of space. The original development pattern was 'chaotic'; according to an official in the planning bureau (Interview, 07 March, 2012), "After

the development of factories, we built roads and electricity and water facilities, causing the mixture of villages and factories; the enterprises attracted by villages and units were quite low ranked." The rudimentary rural rental economy could not supply the new quality space. Because of the lack of coordination, space under village management became fragmented because many villages tried to develop their own rental housing and rental industrial properties. The village economy lacked the capacity to attract larger and more capital-intensive investment. Such a model of development depends upon small enterprises as the customers of their rental properties. Before the global financial crisis, Dongguan had already experienced a declining rental economy. The global financial crisis has accelerated the relocation of small labor-intensive enterprises and reduced rental incomes. Moreover, under the 'three supplies and one compensation' model (Sit & Yang, 1997), the villages only obtain processing fees. However, when smaller enterprises grow into larger ones, or larger enterprises that are wholly foreign-owned arrive, they stop paying fees to the local village, because they now pay industrial and commercial taxes to the city. Hence, the processes of economic restructuring and structural upgrading both had negative impacts on village income. After the global financial crisis in 2008, Dongguan eventually saw the creation of a rural economic crisis.

Public service spending under entrepreneurial governance

Although rental income has been declining in recent years in Dongguan, its public service spending has been increasing. In 2011, rural collectives spent 5.751 billion Yuan on public services, accounting for 58% of total expenditure (Dongguan Agricultural Bureau, 2012). Other expenditures were on public security, sanitation, and education, which are the major items in public service spending. Public security spending was 984 million Yuan, accounting for 10% of the total expenditure. The Party Secretary of a village in Zhongtang Town said, "Our village has to bear the salaries of nearly 300 staff, including 150 security guards and 40 office workers" (Interview, Party Secretary, 20 March 2012). It can be seen from these figures that the rural collectives bore significant public service spending.

Rural collectives undertook the costs of road construction, schools, environmental protection, public security, education, sanitation, family planning, social security, and support for veterans and the families of deceased military persons. These costs accounted for 44% of the net income of rural collectives between 2004 and 2007. In Humen Town, the pressure on village finance is very high; according to the head of a village in the town, "I was the head of the enterprise office. In the 1990s, there were only three to four staff in the office. But now there are more than ten people. The payment for security is over 2 million Yuan, and the sanitation cost increased from about 100,000 to 900,000 Yuan. The cost is really high because under each branch of the upper government we have to deploy staff to cope with their requirement" (Interview, 22 March 2012). The problem is that the city has not developed a public welfare system along with economic development, but still relies on income drawn from the contributions of rural collectives. The increase in public spending, however, did not slow down. In 2011, spending on public services at the village and unit levels increased by 34.3% compared with 2008. However, net income grew by only 1.7% in the same period. Spending on public services increased from 56% of net income to 73% of net income, jeopardizing the upgrading of rural economies and their future capacity for providing public services to residents.

To understand the significant role of village collectives in public service spending, one must examine the configuration of village governance. The organizational structure of village governance is

Table 1
The income composition of case villages in 2011 (unit: million Yuan). Source: field investigation.

Category	Nance village in Humen town		Chenwu village in Houjie town		Chiling village in Houjie town		Xiasha village in Shipai town	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Direct income from enterprises	57.94	38.11	0.00	0.00	3.70	3.34	0.00	0.00
Rental properties	47.51	31.25	37.81	85.97	91.68	82.86	2.28	33.53
Management income	29.66	19.51	3.09	7.03	0.08	0.07	0.88	12.94
Contracting out of agriculture	0.00	0.00	0.00	0.00	2.64	2.39	0.00	0.00
Other operational income	10.81	7.11	1.72	3.91	9.71	8.78	0.40	5.88
Income from school	2.50	1.64	0.00	0.00	0.00	0.00	0.21	3.09
Public security management fee	0.25	0.16	0.02	0.05	0.33	0.30	0.46	6.76
Sanitation management fee	1.21	0.80	1.34	3.05	0.20	0.18	0.70	10.29
All levels of subsidies	2.15	1.41	0.00	0.00	2.30	2.08	1.87	27.50
Total	152.03	100.00	43.98	100.00	110.64	100.00	6.80	100.00

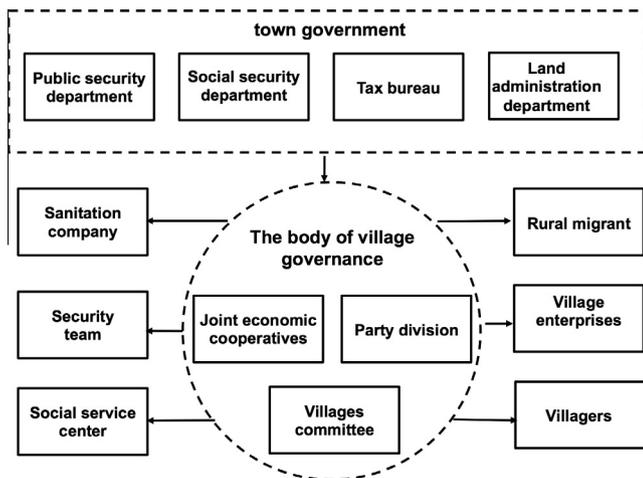


Fig. 1. The structure of village governance.

characterized by the so-called ‘one group of cadres but three branches’ (*yitao renma, sankuai paizi*), which consists of the “villagers’ committee”, the party division, and the village collectives. While the village collectives have some autonomy in economic decision-making, they have to bear the cost of social expenditure. According to the party secretary of BL town¹, “The management of village collectives is actually under the villagers’ committee. So the head of the villagers’ committee needs to look after both enterprises and the communities. The shareholders’ committee actually could not monitor the operation of the enterprises effectively” (interview, 19 March, 2012). In order to respond to the requests of various government departments at the upper level, the village had to set up a dozen divisions following the structure of the upper government. This has increased administration costs (Fig. 1). Ironically, the original purpose was to reduce the burden of welfare expenditure under entrepreneurial governance. Economic devolution and governance decentralization have led to the shift of the burden to the bottom level of government. Through the creation of entrepreneurial governance, the government downloaded the responsibility for welfare provision to the village.

According to the Chinese Constitution, the villagers’ committee is not a level of government but rather a mass organization (Lieberthal, 2005) under the principles of “self-management, self-education and self-services.” But they have now become de facto the lowest administrative unit. Under entrepreneurial governance, the state and enterprises at the lowest level of governance form a close relationship. In the process of rapid urbanization, the villages

have to take responsibility for developing infrastructure, providing services, and managing security to cope with the increasing number of migrants in the village.

Interestingly, the increase in public service expenditure has also been driven by the recent ‘democratization’ of governance and village elections. In order to get elected, village cadres promise more dividends to villagers during elections. The result is increasing dividends, regardless of the performance of village collectives. The second largest item in village collectives’ expenditure was dividends for shareholders, which reached 3.563 billion Yuan, accounting for 38% of total expenditure. The administrative reorganization of village governance did not enhance the performance of rural enterprises but rather had a detrimental effect on their viability. In order to fulfill the promise of increasing dividends, some villages even borrow money. The village collective has company status and therefore can borrow money based on the expected rental income from the banks.

The expenditure of the rural collective economy is mainly on local public welfare and the direct operational costs of rural enterprises. We have studied village finance in detail through fieldwork. To take the example of Nance village of Humen, about 35.5% of expenditure was for the construction of factory buildings and maintenance, while 34.2% was used for providing local welfare, including security guards, garbage collection, and school buses, and 7.7% was allocated as dividends for shareholders. Other costs included payments for social insurance, public security fees to the government, land use fees paid to the land administration bureau, and industrial and commercial taxes to the tax bureau. Table 2 shows the detailed composition of expenditure in selected villages interviewed in our study.

From Table 2, it can be seen that some villages bear very high social expenditure; for example, for the poorer village, Xiasha in Shipai town, 55.7% of expenditure was on public services. The village has an income of 6.8 million Yuan, but spent 8.0 million Yuan in 2011, creating a deficit of 1.2 million Yuan. Compared with other villages, this is a relatively poor village, which bears a much higher burden of public service spending. Because of the close connection between the local state and enterprises, rural enterprises could not operate as fully independent agents and were subject to ‘predatory’ claims from the collective governance body (So, 2007). Our study reveals that entrepreneurial governance has not developed a proper funding source for public services and has thus laid down the foundation of the predatory’ behavior of the local state. The governance of the village cannot effectively resist the demand for increasing dividends and spending in services regardless of the viability of the collectives. Just like large cities that use land development as a source to fund infrastructure development and fill the gap of fiscal gap (Tao et al., 2010), villages used their land assets and rental properties to borrow money from the bank, creating a hidden risk for public finance.

¹ The name of the town is kept anonymous.

Table 2
The composition of expenditure in case villages in 2011 (unit: million Yuan). Source: field investigation.

Category Million yuan	Nance village in Humen town		Chenwu village in Houjie town		Chiling village in Houjie town		Xiasha village in Shipai town	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Direct operational cost	51.39	35.53	0.00	0.00	0.37	0.32	0.00	0.00
Cost on rental properties	9.19	6.35	7.76	19.52	40.93	35.19	1.19	14.86
Tax	1.59	1.10	0.36	0.91	1.72	1.48	0.02	0.25
Management fees	7.42	5.13	4.30	11.82	9.39	8.07	1.58	19.73
Other operational cost	13.05	9.02	7.50	18.87	17.55	15.09	0.34	4.24
Public services	49.40	34.15	13.95	35.09	28.09	24.15	4.46	55.68
Remuneration for cadres	1.43	0.99	1.00	2.52	1.14	0.98	0.42	5.24
Dividend for villager shareholder	11.17	7.72	4.88	12.28	17.12	14.72	0.00	0.00
Total	144.64	100.00	39.75	100.00	116.31	100.00	8.01	100.00

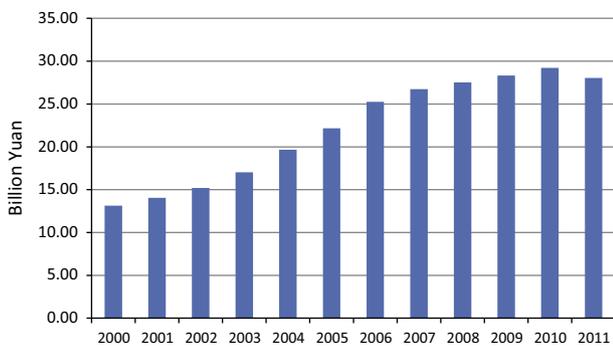


Fig. 2. The accumulation of village debt in Dongguan, 2000–2011. Source: Dongguan Agricultural Bureau (2012).

From an economic crisis to fiscal crisis: village debt

There are four levels of governance in Dongguan: municipality, towns, villages and units (natural villages); the debt issue in

Dongguan mainly occurs at the village and unit levels. This is because the municipality of Dongguan is relatively weak, lacks the capacity for organizing large development projects, and therefore does not incur large quantities of borrowing. This was quite different from the cities of Suzhou (Yang & Wang, 2008) and Kunshan (Chien, 2008, 2013) and Wuxi in southern Jiangsu, where the municipalities organize large-scale land development to accommodate foreign investment. The Sino-Singapore Industrial Park and Suzhou new district are typical mega urban projects (Yang & Wang, 2008). On the other hand, Dongguan managed to download responsibility for social services to the villages and thereby reduced its financial burden. As a result, villages bear an excessive burden of social services and incur debts when income declines.

To understand the structure of villages and units, it is useful to distinguish these two levels and their corresponding economic entities. In Dongguan, there were 557 ‘joint economic co-operatives’ (JECs) (*jingji lianhe she*) at the village level in 2011 (Dongguan Statistical Bureau, 2012). As suggested by the name, these JECs are joined with 2526 ‘economic co-operatives’ (ECs) at the unit (*zu*) level. The unit is a natural village representing the

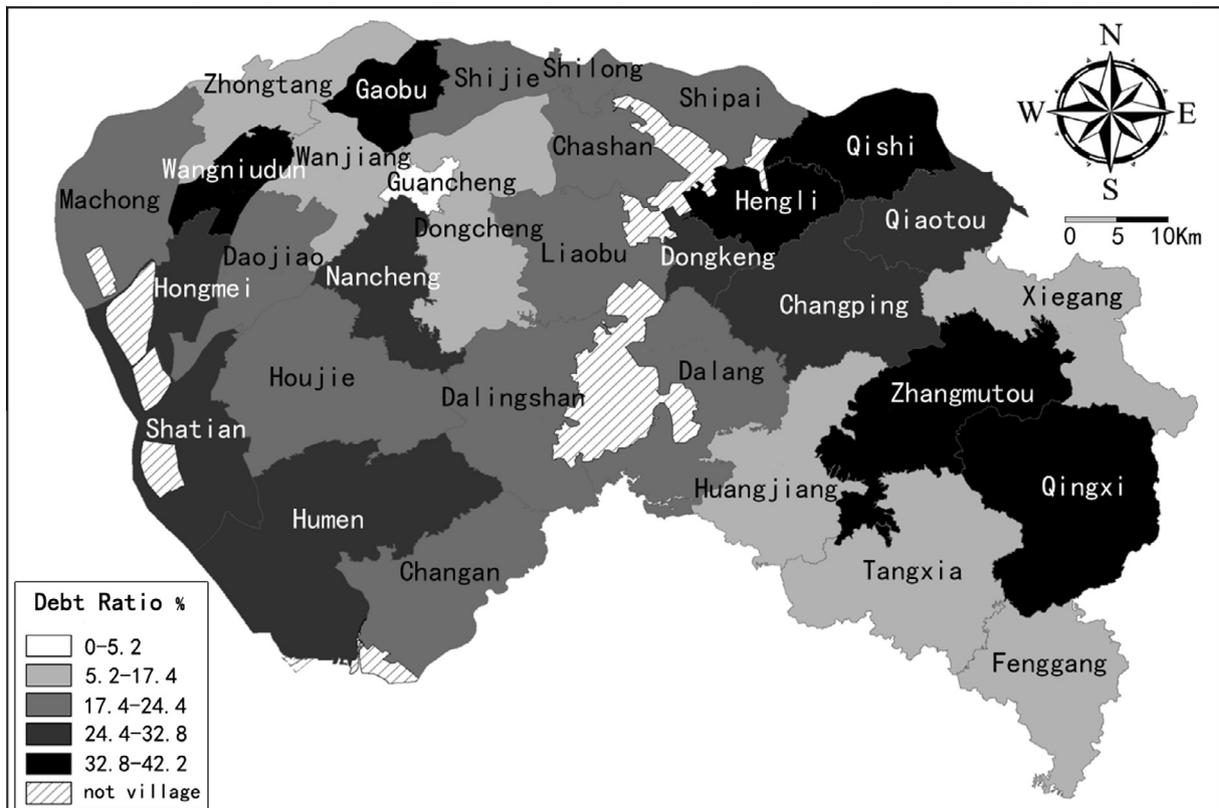


Fig. 3. The spatial distribution of village debt in Dongguan, 2011. Source: Dongguan Agricultural Bureau (2012).

Table 3
The asset values in Nance village of Humen town, 2002–2011 (in '000 Yuan). Source: field investigation.

Year	Nanchongkou	Sanjiang	Yuantou	Baxingfang	Xincun	Pinggang	Xidou	Chongyuan
2002	270	170	110	660	730	1000	580	70
2003	650	110	40	100	900	813	670	900
2004	520	15	36	20	1094	319	949	977
2005	220	−480	−130	−850	885	318	112	234
2006	−20	−1030	20	−740	−408	−946	−174	−172
2007	42	94	340	−698	−493	1537	2972	−974
2008	−83	−623	60	−703	−275	1322	832	−3852
2009	−692	−626	48	−175	−200	−40	−2250	−2650
2010	−380	−817	−261	−519	−480	−990	−930	−2860
2011	−430	−370	−440	−580	−860	−720	−700	−3320

physical cluster of rural households. In the socialist period, this was the smallest level corresponding to the 'production unit'. At the unit level, there is no formal administrative structure. Several natural villages can form an 'administrative village', which bears some administrative functions to manage social services. In Guangdong, the administrative village is often simply referred to as the 'village'. In this paper, JECs and ECs are also referred to as 'rural collectives' because they represent the collective economy of the rural area. The financial problem discussed in this paper mainly refers to these levels. Although the town is the lowest administrative level and the village is not a level of government according to the Chinese Constitution, the village is a de facto layer of government in reality because of the degree of formalization and its administrative duties.

As discussed earlier, despite rapid growth in the 1980s and 1990s, village debt has become a serious problem in Dongguan. The problem started in 2000. Total debt at the village and unit levels increased from 1.31 billion Yuan in 2000 to 2.80 billion Yuan in 2011 (Dongguan Agricultural Bureau, 2012) (see Fig. 2). Accompanying the fast growth of village assets was the accumulation of debt. In the period from 2000 to 2011, the average annual rate of debt increase was 7.1%. The rapid growth of village debt was in fact already occurring in 2004, at a rate of 15%. But in the same year village assets also increased by 15.5% (*ibid.*). As a result, the debt issue did not present as a serious problem at that time. In other words, the rapid growth of the rural economy in the 2000s was driven by village debt. This is a quite striking finding of our field research. At the village level alone (excluding the unit), about 60% of rural collectives saw their expenditure exceeding their income. The deficit increased by 11.4% to 868 million Yuan in 2011. This figure represents an increase of 5.14 times from 2000.

In terms of the spatial distribution of debt, the pattern is uneven. The poorer villages incur more serious debt problems, and as discussed earlier they are more dependent upon rental income without their own industrial capacities. Fig. 3 shows the ratio of village debt to its asset value. The figure shows an aggregated level of debt ratio by the towns. It can be seen that the central area of Dongguan shows a lower debt ratio because it is relatively well developed. The higher debt ratio is seen in the towns adjacent to Shenzhen, such as Zhangmutou and Qingxi, perhaps reflecting an earlier stage of industrialization. During that time, investors were smaller, and when the land was used up development was pushed more towards the inner region. The figure also shows that village debt is a widespread problem, not limited to one or two towns in Dongguan.

To investigate the situation of debt at the unit level, we selected Nance village in Humen town for an in-depth study. The village is actually a better-off case in Dongguan. From Table 3, we can see that the asset values of units were all positive. In 2005, three units in Nance village saw their debt exceeding their assets, causing negative equity. But the debt issue became more serious. By 2010, all the units in the village of Nance had negative asset values. The unit

of Chongyuan had the most serious debt problem, with debt exceeding assets by more than 3.3 million Yuan. The lowest debt was in Sanjiang, but it still owed 370,000 Yuan in 2011.

In sum, the figure and table both show that village debt has become a serious problem and is widespread across villages in the municipal region of Dongguan.

Conclusion

This paper reveals an alarming problem—village debt—in a fast-growing industrializing region of China. Against the background of remarkable economic growth is the accumulation of debt. The crisis experienced in Dongguan after the global financial crisis in 2008 initially appeared as an economic crisis, but then became a fiscal crisis. The crisis has its structural causes in entrepreneurial governance. The fiscal crisis at the village level is less well known and has not been fully understood in the literature of Chinese urban development (Duckett, 1998; Hsing, 2006; Oi, 1992, 1999; Po, 2008; Wu, Xu, & Yeh, 2007). In the literature of entrepreneurial governance (Harvey, 1989; Jessop & Sum, 2000; Logan & Molotch, 1987; MacLeod, 2011), the critique is mainly about the negative social impact, the dominance of capital in the direction of development and the weakening of democratic politics. This paper reveals the problematic side of entrepreneurial governance as a development approach. Under entrepreneurial governance, rural collectives borrowed money from the bank for rental development as well as the provision of public services. The enterprise plays a significant role in local governance. The tight association of enterprises and the state in rural village governance is a feature of this entrepreneurial governance, while in more advanced western economies entrepreneurial governance is less directly seen as the combination of state and market but rather as public and private partnership (Jessop & Sum, 2000; MacLeod, 2011). However, although the borrower is not strictly a level of government, because of this unique combination of rural collectives and government, failing rural enterprises transformed an economic crisis into a fiscal crisis, which will have severe impacts on public services if these enterprises go bankrupt. Village debt exposes the limits of 'entrepreneurial governance' because the state does not provide public services through public finance. In essence, under entrepreneurial governance, the government downloaded responsibility for welfare provision to villages for them to fund their public services. While policy makers attributed economic success to entrepreneurial governance, this paper shows that there is a severe local fiscal crisis. One original finding from this study is that the entrepreneurial local state not only restrains the provision of social welfare but also is not very successful as a development model because it is susceptible to the impact and financial risk of economic restructuring.

This study has important policy implications. The government of Guangdong did not attribute the fiscal crisis to entrepreneurial

governance but rather pragmatically the 'burden of welfare'. The former provincial party secretary Wang Yang referred to the financial crisis of Dongguan as the replication of the Greek crisis in China. He said, "[If the village in Dongguan] continues to borrow money to provide promised 'welfare', it will become Dongguan's Greece" (news.gd.sina.com.cn, 7 March 2012). But examining village debt shows that Dongguan did not replicate a welfare state model. The development of the Pearl River Delta to some extent exemplifies the feature of the Chinese market-oriented approach in which the local state formed close relations with market agents. The welfare system has not been developed despite phenomenal economic growth. The landscape of the Pearl River Delta after three decades of economic development essentially remained the same, as 'manufacturing towns' (Eng, 1997) characterized by local capitalism and deprivation of social welfare (Smart & Lin, 2007; Smart & Smart, 1991, 2001). The crisis is not due to the welfare cost of migrant workers. As shown in this paper, the privileged 'rural rentier class' managed to capture the dividends of rural collectives. This study shows that the fiscal crisis is derived from entrepreneurial governance, represented in rural areas in the early development stage as 'local state corporatism' (Oi, 1992, 1999) and later more widespread urban entrepreneurialism (Chien, 2013; Wu & Phelps, 2011; Wu et al., 2007). This study suggests that village debt is precisely an outcome of entrepreneurial governance rather than 'excessive welfare'. The tension between different levels of government has intensified this crisis (Yang, 2012). Therefore, to tackle the fiscal crisis, the government has to develop proper public finances beyond dependence on rental economies and using the income of rural collectives to fund public services.

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