



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

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