Investing in Rural China: Reinterpreting the local-global nexus

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Abstract

Liberal studies of international political economy argue foreign direct investment (FDI) in China has helped integrate the Chinese economy into global trade and commerce stimulating economic growth and shaping a market-oriented reform agenda. China’s utilization of FDI therefore supports liberal arguments that global capital flows promote the convergence of developing economies toward the liberal model. Less attention, however, has focussed on the role of global capital in rural China. This paper presents the results of field research and interviews from Hebei Province and analysis of local and central policy documents and secondary literature that capture the growing role of FDI in the modernization of Chinese agriculture. The paper identifies a series of rural institutions (land and local governance) and a variety of local actors that shape how FDI is utilised and constrain the impact it has on local development and institutional reform. This finding suggests the international political economy literature requires either a more nuanced understanding of the local-global nexus, the site where international forces meet local conditions, that can account for country and location specific differences in developing economies or a new approach that can better capture China’s practices of international political economy.

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Introduction

Of the key distinctions scholars have made in comparisons of economic development in East Asia is the utilization of foreign direct investment (FDI) during China’s rapid growth period (Naughton 1995, Naughton 2007). Economists have long posited a link between economic growth (Alfaroa et al. 2004, Li and Liu 2005), technology transfer (Borensztein, De Gregorio, and Lee 1998) and FDI utilization. China is seen as a good case of how developing countries can create employment opportunities, stimulate the growth of export industries and promote economic growth by opening to global capital flows (Grub and Lin 1991, Wei and Liu 2001, Tseng and Zebregs 2002, Brown 2008, Chen 2011). FDI flows are viewed as critical to the development of China’s manufacturing and high-tech industries (Liu 2002, Cheung and Lin 2004), a key feature in China’s economic transformation (Lardy 1995) and an integral part of the ‘China model’ (Zhao 2010, Breslin 2011).

FDI also played a key role stimulating institutional and regulatory reforms that enabled privatization and the expansion of China’s market-oriented economy (Huang 2003, Jiang 2004, Wang 2001). FDI flows spurred a need to clarify, standardize and reform domestic regulations, education, science and research, and to introduce new, innovative and efficient business practices to compete with foreign companies. This process complimented efforts at the international level to transform China’s ‘regulatory, institutional and normative’ regime for trade and investment, such as the change produced by China’s accession to the World Trade Organization that ‘made its foreign trade and investment regime far more liberalized and less opaque’ (Qin 2007). FDI is therefore central to the Chinese ‘economic miracle’ and a driving force behind key domestic reforms towards a market economy making the Chinese case a poster child for the liberal argument that global capital flows promote the convergence of developing economies toward the liberal model of political economy.
Many studies, however, point to on-going state intervention (Oi 1995, Knight 2014), state control of the commanding heights of the economy through state owned enterprises (SOEs) and a raft of policy, regulatory and even disciplinary systems in the Chinese Communist Party (CCP) that provide levers to control or shape economic activity and that co-opt actors in the non-state sector (Unger and Chan 1995, Dickson 2003). CCP officials vehemently deny China has become or is transitioning toward capitalism, instead employing the term ‘socialist market economy’ to conceptualise their politico-economic aspirations and distinguish contemporary China from both the world’s advanced economies and the previous planned economy era. The liberal response has been to conceptualise China’s political economy as ‘hybrid forms’ of organization and a ‘mixed economy’ during the transition to a market economy (Nee 1992) and to argue China is ‘growing out of the plan’ (Naughton 1995). The danger of the ‘transitional economy’ argument is, however, that all observations of deviations from a market or planned economy framework are relegated to a temporary form of political economy.

This paper argues such deviations should be taken seriously in the conceptualisation of Chinese political economy. There is a long tradition of this in the China literature. For example, Breslin shows how the first few decades of reform in China were informed by a ‘specific historical, political and social context’ and that key components of the reform process were the devolution of authority to local actors as well as broad acceptance of the agenda of international actors (Breslin 1996, 704). Breslin also points to some of the similarities China shares with the developmental states in East Asia but argues a lack of central control prevented the implementation of a strong national agenda for development. Since publication, a major recentralisation of authority over economic management has occurred. One example of this is the strengthening the Five Year Plan (FYP) system that has reconstituted the role of central authorities in economic planning. Such ‘substantive social and economic goals’ (Johnson 1982, Woo-Cumings 1999) fit the
definition of a developmental (or plan-rational) state and raise questions over the convergence thesis.

Such debates direct us to look more closely at the role of FDI in the development of the Chinese economy and transformation of political economy. A key weakness of the literature on FDI in China is the urban and industrial bias. Few studies mention FDI outside these urban sectors and we have a very limited understanding of state policy, central and local, on FDI in the agricultural sector, the institutions that shape the utilization of FDI or even the data that describes FDI flows into China's rural economy.

Other studies question orthodox interpretations of the role of FDI in developing countries (Lall and Narula 2004) and the role of FDI in agricultural development. In advanced economies like Canada, FDI from the United States supports agricultural trade promotion (Furtan and Holzman 2004). In countries such as Australia and New Zealand, FDI is actively sort to promote the development of value-added exports. In Asia, increased demand for high-value food commodities from domestic consumers combined with trade liberalization and market reforms have 'allowed more foreign direct investment in developing countries, introducing more competition in food processing and retailing sectors, as well as allowing more foreign companies to organize production for export' (Gulati et al. 2007, 92). FDI in the agricultural sector of developing countries brings opportunities for employment, technology transfer and new agricultural practices but it also raises concerns over unclear land rights, land grabs and transparency of land transfer, environmental degradation and large-scale social impact (Hallman 2011). Studies therefore show FDI in the agricultural sector of developing countries can support development but if managed poorly can also create social, economic and even political challenges.

Moreover, while the internationalization of China’s trade has been linked to rural development and liberalization of the economy, studies have yet to determine a link for
FDI. David Zweig, for example, shows how ‘China’s open policy affected the domestic political economy, opportunity structures, and the nature of political conflict and competition within China’ and argues ‘the decision to promote exports from township and village enterprises (TVEs) generated new opportunities, inequalities, and political competition on rural policy’ (Zweig 1991). Rozelle et al. (1999), however, point to a low uptake of FDI in Chinese agriculture and argue it is ‘surprising that China has not put more effort into attracting foreign direct investment or technology transfers in the agricultural sector’. Their study points to a number of ‘marketing, regulatory and intellectual property rights (IPR) barriers’ that prevent a more vigorous uptake of FDI in Chinese agriculture (Rozelle, Pray, and Huang 1999, 32) suggesting FDI is treated differently in the agricultural sector.

Attention has understandably been focused on China’s urban and industrial revolution during the reform and opening era but agricultural transformation is also key to successful structural transformation of the Chinese economy (Young 2013a). Over the last few decades a ‘hidden agricultural revolution’ has occurred with a ‘switch from grain production to more and more higher-value agricultural products like meat-poultry-fish, milk-eggs, and fruits and higher grade vegetables ... driven by a revolution in the food consumption patterns of the Chinese people that came with rising incomes mainly from nonagricultural development’ (Huang 2016, 339).

What role FDI has played in this ‘revolution’ and the way agricultural production is governed remains understudied. What is known, is that domestic capital in China now plays an important role in the development and functioning of the agricultural sector. This has ‘given rise to a variety of local patterns in how family producers interact with agro-capital’ (Zhang 2013:5) suggesting the contestation of a variety of commercial, collective, cooperative and household models of political economy. Finally, because the institutions and political economy of rural China differ from the liberal
conceptualization of political economy in advanced economies as well as the institutions of urban China (Whyte 2010) we cannot assume FDI in the agricultural sector is playing the same role as previous studies have shown for urban China.

The article proceeds with an overview of investment in rural China that shows the relatively small amounts of FDI directed toward the agricultural sector and an increase in the utilization of FDI in the years following agricultural tax reform and the introduction of policy to ‘modernize’ and ‘professionalize’ the sector. This is framed within a broad trend of the capitalization of agricultural activities. This is followed by analysis of the governance of FDI in the rural sector that shows how central and local government efforts are driving a major reconstitution of the role of capital in the sector but this is heavily shaped by a desire to channel investment toward elite-led development and industrialization goals. This also illustrates how the distinct nature of rural institutions shapes the uptake and use of FDI differently to what we have seen in urban China.

The final section concludes by arguing it is time to think seriously about a new way of framing the global-local nexus, one that takes seriously the institutional and normative differences present in large developing countries such as China. The central finding of the paper is that the governance of FDI in rural China has liberalised but remains heavily shaped by the developmental goals and interests of central and local officials. The local-global nexus is not only a site where liberal values are transmitted and transform the institutional framework of a developing country’s agricultural sector, it is also a site where existing goals and strategies adapt to global norms and practices.
FDI in Rural China

Studies of Chinese agriculture have shown clear increases in the prevalence of domestic capital in the Chinese agricultural sector (see Zhang 2013). We see a similar but more muted trend in the uptake of FDI in the agricultural sector. Table 1 shows the growth of FDI in China matched by the growth in FDI utilized in the agricultural sector. The proportion of Chinese FDI destined for the agricultural sector has remained small compared to the manufacturing and services sectors (secondary and tertiary sectors) but has grown faster relative to total FDI in China over the last 15 years.

Table 1: Use of FDI in the Agricultural Sector (1997-2013)

<table>
<thead>
<tr>
<th>Year</th>
<th>China Utilized FDI (1 billion USD)</th>
<th>China Agriculture Utilized FDI (1 billion USD)</th>
<th>Proportion of Total FDI Utilized in Agriculture (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>45.463</td>
<td>0.628</td>
<td>1.38</td>
</tr>
<tr>
<td>1998</td>
<td>45.257</td>
<td>0.628</td>
<td>1.39</td>
</tr>
<tr>
<td>1999</td>
<td>40.319</td>
<td>0.710</td>
<td>1.76</td>
</tr>
<tr>
<td>2000</td>
<td>40.715</td>
<td>0.676</td>
<td>1.66</td>
</tr>
<tr>
<td>2001</td>
<td>46.878</td>
<td>0.899</td>
<td>1.91</td>
</tr>
<tr>
<td>2002</td>
<td>52.743</td>
<td>1.028</td>
<td>1.95</td>
</tr>
<tr>
<td>2003</td>
<td>53.505</td>
<td>1.001</td>
<td>1.87</td>
</tr>
<tr>
<td>2004</td>
<td>60.63</td>
<td>1.114</td>
<td>1.84</td>
</tr>
<tr>
<td>2005</td>
<td>60.325</td>
<td>0.718</td>
<td>1.19</td>
</tr>
<tr>
<td>2006</td>
<td>63.021</td>
<td>0.599</td>
<td>0.95</td>
</tr>
<tr>
<td>2007</td>
<td>74.768</td>
<td>0.924</td>
<td>1.24</td>
</tr>
<tr>
<td>2008</td>
<td>92.395</td>
<td>1.191</td>
<td>1.29</td>
</tr>
<tr>
<td>2009</td>
<td>90.033</td>
<td>1.429</td>
<td>1.59</td>
</tr>
<tr>
<td>2010</td>
<td>105.735</td>
<td>1.912</td>
<td>1.81</td>
</tr>
<tr>
<td>2011</td>
<td>116.011</td>
<td>2.009</td>
<td>1.73</td>
</tr>
<tr>
<td>2012</td>
<td>111.716</td>
<td>2.062</td>
<td>1.85</td>
</tr>
<tr>
<td>2013</td>
<td>117.586</td>
<td>1.800</td>
<td>1.53</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of China (note: 1997 contracted agricultural value only)

There is also regional disparity in the utilization of agricultural FDI in China. Table 2 shows that nearly a third of all FDI in the agricultural sector in 2010 and 2011 was found in projects in Jiangsu Province. Developed eastern provinces therefore dominate the utilization of FDI in a similar manner to how most urban FDI over the reform and opening period has been utilized in the open coastal cities and special economic zones.
and provinces on the rapidly developing and now in many places developed eastern provinces and cities.

Table 2: Regional Utilization of Agricultural FDI (%)

<table>
<thead>
<tr>
<th>Province/City</th>
<th>Proportion of Projects</th>
<th>Proportion of Amount</th>
<th>Province/City</th>
<th>Proportion of Projects</th>
<th>Proportion of Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jiangsu</td>
<td>27.9</td>
<td>39.4</td>
<td>Jiangsu</td>
<td>27.9</td>
<td>29.3</td>
</tr>
<tr>
<td>Shandong</td>
<td>6.4</td>
<td>6.6</td>
<td>Liaoning</td>
<td>3.7</td>
<td>13.6</td>
</tr>
<tr>
<td>Fujian</td>
<td>8.5</td>
<td>6.0</td>
<td>Shandong</td>
<td>7.6</td>
<td>9.9</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>10.5</td>
<td>5.5</td>
<td>Guangdong</td>
<td>13.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Hunan</td>
<td>4.5</td>
<td>5.0</td>
<td>Zhejiang</td>
<td>2.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Guangdong</td>
<td>9.0</td>
<td>5.0</td>
<td>Heilongjiang</td>
<td>1.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Guangxi</td>
<td>1.3</td>
<td>4.6</td>
<td>Fujian</td>
<td>8.0</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: 2013 China Foreign Direct Investment Report

There are many reasons for the relatively small proportion of FDI in the agricultural sector in China: first, the issue of the commercial viability of FDI in the agricultural sector compared to other sectors; second, Central Government control of FDI in the sector has only recently being relaxed from prohibiting FDI to actively seeking FDI in the sector; third, the role of local government seeking employment and tax generating activities in their province; finally, some insecurity of investment due to the institutional structure of local governance in rural China. However, as the above statistics show, FDI in agriculture, while remaining a small proportion, is growing faster than non-agricultural FDI. With this in mind, we can begin to analyse whether the utilization of FDI has, as the convergence argument illustrates above, shaped the institutions and governance of rural China toward the liberal model.

**FDI, Local Governance and the Land System**

A central tenant of institutional economics is the security of private property rights ensures the functioning of a capitalist economy by providing certainty and protection for investors. Based on the convergence thesis presented at the beginning of the article we would expect, therefore, that the advent of FDI in the agricultural sector would
require the liberalization of the rural land system, the shift toward private property rights, and the clarification of local governance structures.

China’s rural land tenure system has been characterised by small farming plots since the early 1980s. With the exception of Town and Village Enterprises (乡镇企业 TVEs) and the activities of the collective as part of the Agricultural Dual Operation System (农业双层经营体制 ADOS), the vast majority of China’s rural land was contracted to the household in small plots through the Household Contract Responsibility System (家庭联产承包责任制 HCRS). The HCRS and ADOS were set up to develop household farming with collective oversight. Land use and management rights are contracted from the collective to individual families (HCRS) with some ongoing collective management, guidance and infrastructure investment by the collective (ADOS).

A series of issues have, however, plagued the agricultural sector since the late 1980s and early 1990s. These are related to industrialization and urbanization trends and a previously heavy taxation/fees policy. The first issue involved the increasing prevalence of rural to urban migration. Not only did rural people leave the land and enter the cities they also left the land and entered non-agricultural work in rural areas. This coupled with a series of fees and taxes, being tied to state contracts and suffering from a lack of capital, meant agriculture became a non-profitable enterprise. Tax reform in the early 2000s eased this problem but agriculture remained underperforming from the perspective of local people. These issues, along with the need to develop an efficient, safe and diversified agricultural sector to feed increasingly demanding urban consumers, formed the background in which agriculture began to be commercialized allowing FDI to enter the sector.

As Peter Ho argues, this occurred within an institutional and governance system characterised by a high degree of ‘institutional ambiguity’ (Ho 2005). For example,
2008 survey carried out by scholars at Renmin University (Ye 2009) found that when people in rural areas were asked who owns 'housing land' (宅基地), 22.8% responded it was 'state land' (国有的), 4.2% believed it was the 'village and town collective' (乡镇集体的), 18.6% believed it was the 'village collective' (村集体的) and 52.4% believed it was 'they who owned it' (自己的). Similarly, when investors seek security of property rights for investments in farmland in rural China they must negotiate a variety of levels of ownership rights, including the ambiguity of ownership (local government, the collective, village and township governance) as well as the interests of individual families and community groups. This has led to a investors seeking the security of local government relations in rural areas to facilitate and secure their investment strategies.

During fieldwork interviews in Hebei Province between 2013 and 2015 I encountered a variety of actors that had the ability to shape how FDI was utilised in rural areas. At one level the Central Government policy had a clear and direct influence on how FDI was utilised in local agricultural production. Central policy provides the stability of a regulatory system that either encourages or prohibits FDI in the agricultural sector. In recent years, central authorities have relaxed prohibitions and actively sort FDI to promote 'modernization' (现代化), 'industrialization' (工业化), 'commercialization' (商业化), 'standardization' (标准化), 'increased efficiency' (高效率) and to try to achieve 'food security' (粮食安全) and 'food safety' (食品安全). These central-led policies have changed the environment for investors in the agricultural sector. In some cases, the central government has facilitated their entry into local areas.

Local officials on the other hand have a complicated role. They seek FDI to promote development but also try to shape where that FDI goes. On more than one occasion when speaking with local officials the message was that FDI is best directed into processing facilities which can promote employment and industrialization of the urban
areas of rural China, as well as not being tax-free, or that investment should focus on the transfer of technology and management skills to promote the development of industries such as the dairy industry which has been plagued by a series of scandals and underperformance.

Moreover, below the formal structures of government lie the collective and the household. Land and local residency rights are strongly linked to the use of household land which remains administrated by the village collective. Here, the collective and individual households seek leases with foreign investors via the local government that do not permanently remove their rights to the land. These 'land transfers' (土地转流) provide rents for local people which can increase over time but without removing the long-term security of rural land that many rural people still view as their ultimate social security. These leases to commercial and foreign investors have created much debate in China about how to evolve the land and governance systems. However, as with the hukou system, to date policy and regulatory reform has only partially reformed the land system and stopped well short of providing private property rights for commercial activities in the agricultural sector.

In summary, this section has shown on the one hand there is a clear liberalization of regulation to encourage FDI into the agricultural sector in China, especially at the Central Government level. On the other hand, however, this liberalization is shaped by existing institutions such as the land system and by the activities of a variety of local actors suggesting a linear or convergence thesis remains misleading in the case of FDI in the agricultural sector.


**Discussion**

This study has explored the role of FDI in the ‘modernization’ of rural China and the Chinese agricultural sector. It has found that FDI has increased in line with efforts to transform the sector. Relative to other sectors in China, FDI in agriculture remains small, but relative to levels of FDI in the 1990s, FDI levels have grown rapidly and faster than other types of FDI. As with the transformation of the manufacturing and service sectors, the central government have viewed capital flows from abroad as an important source of not only capital to develop the sector but also as a source of technological and operational expertise and a means of training the agricultural workforce.

However, as the above sections show, the institutions that shape the utilization of FDI in rural China have not converged on the liberal model of political economy. The land system in rural China and the complexity of governance in rural areas has meant that foreign investors must negotiate with a number of actors, seek the security of temporary leases and rely on local government to bundle leases and transfer them for temporary rent. At one level, we could argue this is a major reason FDI in the agricultural sector remains low. At another level, it shows a fundamental difference in Chinese approaches to the utilization of FDI in rural areas.

The institutions of rural China and the motivations and actions of local officials, the collective and households can be neatly summarized as developmentalist. At no time during my fieldwork in rural China did I encounter farmers or local officials who viewed the agricultural sector as purely a commercial sector as it is often conceptualised in the liberal view of the sector. Undoubtedly, the drive towards marketization and commercialization is paramount in the minds of a number of local government actors but the rationale behind this drive is never purely profit driven. FDI is always conceived of as either a positive or negative based on whether it could provide new opportunities
to promote agricultural development, production, processing and improved agricultural facilities in local areas.

When seeking an understanding of the local-global nexus in rural China, then, it is important to not assume that the influence of FDI on China’s political economy is unidirectional. While clearly, FDI and domestic capital have created the need to reform land and governance systems in rural areas, these reforms have not simply replicated the system of liberal political economy in the now advanced market economies. Local interests in China have shown agency maintaining existing but modified institutional structures and directing FDI in rural China towards activities that promote technology transfer, employment opportunities and the overall development of the agricultural sector.
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