

# The Dilemma of Governmental Intervention in the Real Estate Sector in China: A Central-Local Government Relations Perspective

REN Zhe

Since 2002, the central government of the People's Republic of China (PRC) has issued numerous policies to suppress the price of real estate across the country. These policies, however, have shown little effectiveness at the local level. Why did the central government fail to suppress these high prices in the real estate sector?

Existing interpretations in the literature often put much emphasis on the responsibility of local governments for overheating in the real estate sector. Many studies point out that the financial dependence of local government on the real estate sector is the main reason. However, the conventional interpretations fail to clarify which level of local government should be responsible to the failure of policy implementation.

This paper presents two arguments. First, I argue that the financial dependence of grassroots local government on the real estate sector is the major reason for the failure of policy implementation. By analyzing the fiscal revenues of central, local and grassroots government from 2000 to 2004, this paper finds that the proportions of revenue from the real estate sector in local government is higher than in the central government, but lower than in grassroots government. Most taxes from the real estate sector become fiscal revenue of government at the grassroots level but not at the local level. This paper also insists that grassroots level government has no incentive to progress policy, as their fiscal revenues rely more on tax and expenses from the real estate sector, rather than on local and central government.

Second, I argue that state-owned companies are the major obstacle to the effectiveness of the policy and the existence of these companies undermines policy implementation initiated by the central government. The real estate companies are divided into three categories for analysis: central government-owned company, local government-owned company and private company. In this paper, I focus on three regions (Beijing, Shanghai, Guangdong) and analyze those companies which are ranked in "China's Real Estate Top 10" project. I demonstrate that half of them are state-owned companies. In the case study of Shanghai, for instance, I find that local government-owned companies play a decisive role in softening the intensity of policy implementation.

## Determinants of Intergovernmental Transfer and Redistribution of Subsidies in Inland China: Empirical Analysis Using County Data

KAJITANI Kai and HOSHINO Masashi

In this paper, we use county data for inland areas of China to investigate empirically the flow of subsidies among governments following the political regime change in the late 1990s. Additionally, we attempt an analysis of how the government's minority policy affects fiscal redistribution among counties.

Our focus on fiscal redistribution among counties was prompted by the following. First, most analyses to date have treated distribution among provinces; research using county data has been limited. Second, "fiscal distribution among areas" is carried out not only by the central government but also by various levels of local government, making it important to check that fiscal distribution is consistent among these various levels of government. Third, in order to identify factors that determine the total amount of subsidies, it is important to take notice of the characteristics of county economies, e.g. the range of minorities.

Our empirical analysis makes use of basic economic data from counties in 10 western provinces, plus Guaxi and Inner Mongolia. We chose the net fiscal transfer or fiscal subsidies as the dependent variable, and basic economic data or initial conditions in each county, e.g. per capita GDP or the ratio of minority people, as the independent variable.

Results of cross-sectional analysis using data from 1997, 2000 and 2003 show that the total amount of subsidies received by each county is closely related to the population and area of each county, which determines the number of bureaucrats in each county. This suggests that a considerable portion of the subsidies to each county is used to pay for the bureaucrats.

We also find that setting a dummy variable such as "minority autonomous region" has no significant effect on fiscal transfer or level of subsidy. This shows that the increase in subsidies to inland areas in recent years does not necessarily reflect a policy prejudiced against minority people.

Finally, we estimate and analyze the inequality of per capita GDP and the disposable income per capita among counties. We find that most of the inequality among counties can be explained by the inequality within each province. We also find that the inequality among provinces seems to be mitigated by fiscal transfer by the central government.

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SUMMARY

Technological Progress of the Chinese Software Industry:  
Changing Divisions of Work between  
Japanese and Chinese Firms

TAKAHASHI Mita

This paper discusses the recent transfer of technology to Chinese software firms from Japanese software development businesses. Studies of the Chinese software industry agree that its rapid expansion was promoted by strong domestic economic growth and the support of the Chinese government. The literature, however, overlooks an important point: offshore software development has helped China's software firms acquire advanced technology.

Our interviews revealed that, since the end of the 1990s, certain Chinese software firms have conducted not only coding and testing, but also design through offshore development. These firms had had difficulty in obtaining design skills by themselves. This fact suggests that technology transfer to Chinese software firms through offshore software development is an important factor in the rapid expansion of the industry. Based on this awareness, this paper focuses on the division of work between Japanese firms and Chinese firms and describes how technology transfer to Chinese software firms has occurred.

The conclusions are as follows. In the 1990s, Chinese software firms conducted coding and testing on offshore software developed in Japan. However, since the end of the 1990s, some Chinese software firms have not only conducted coding and testing, but also design. Chinese firms have thus acquired design skills through joint development with Japan. This fact means that offshore software development from Japan helped Chinese software firms acquire advanced technology.

The significance of this paper is that it focuses on the technological progress of the Chinese software industry from the viewpoint of the international division of work, which has been overlooked in previous studies. The entrusting of design to China is not now being implemented on a large scale, but there is a chance that it might grow in the future. This trend will accelerate technological progress in the Chinese software industry further.

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SUMMARY

Activities of Trade Unions and the Course Taken by  
the Vietnam General Confederation of Labour (VGCL)  
during the Earliest Phase of *Doi Moi*

FUJIKURA Tetsuo

The series of reforms in the earliest phase of *Doi Moi* (renewal) in Vietnam, carried out during the late 1980s and into the early 1990s, brought about drastic changes in the circumstances of

employed workers and trade unions. As a result of a restructuring of the workforce, 70,000 workers were laid off from state-owned enterprises or the public sector and many of these transferred to the private sector. At the same time, the basis of the organization of trade unions was greatly damaged and it became clear that trade unions would be unable to protect the rights and interests of workers until they changed their organization methods, which had almost entirely depended on government policy relative to employment and workers' livelihood. This paper focuses on the activities of trade unions conducted as a response to the conditions in those days and the course taken in the early 1990s by the Vietnam General Confederation of Labour (VGCL)—which was the only national trade union organization in Vietnam, and was under the control of the Vietnam Communist Party—and reviews these restrictions and historical significance.

In response to the conditions in the earliest phase of *Doi Moi*, trade unions conducted their own program independently of government policy. Their practical activities in the early 1990s made them highly conscious of their primary role to protect workers' rights and interests. This was an epoch-making event for the trade unions, which had acted as the authority to implement government policy and whose approach to the protection of workers' rights and interests had relied almost entirely on government policy. In addition, trade unions tried to diversify forms of organizing workers to strengthen their organizational basis. However, they could not obtain results in line with their expectations, especially in the private sector where the workforce increased rapidly.

On the other hand, the course that the VGCL decided on at the 7th National Congress of Trade Unions in 1993 did not directly reflect the achievement of trade unions, particularly for the fringe organizations. The VGCL's approach was highly regulated by the political circumstances of the early 1990s. The VGCL moderated its role of protecting workers' rights and interests and rather emphasized the path of socialism, leadership of the Communist Party and national unity of trade unions under the VGCL umbrella. Thus, in the early 1990s the VGCL gave priority to maintaining the regime although it is obvious that protecting workers' rights and interests is indispensable to trade unions.

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#### SUMMARY

## School Education and Social Integration in the 1950s in the People's Republic of China

OSAWA Hajime

This paper explores the various causes and mechanisms that were acting in the rapid expansion of school education in the 1950s in the People's Republic of China.

This paper proves that while the Chinese Communist Party (CCP) government encouraged educational aspiration, the Chinese people had different priorities: they opposed or adapted to government policy to maximize the benefits to them. The paper further clarifies how the school education system in the 1950s exhibited a contradictory relationship between state and society and functioned as a mechanism for social integration.

The factors promoting educational expansion were: (1) increasing production power, (2) an increasing number of students of worker-peasant origin who sympathized with Communism, and (3) the need for the CCP government to maintain political legitimacy through the school educa-

tion system. In addition, educational aspirations had risen and village people in particular had a strong motive to use the entrance into a middle school as an expression of social mobility. Thus, the expansion of school education grew from a coincidence between the interests of the CCP government and those of the people.

This expansion subsequently led to a change in education policy and an increase in the difficulty of entering middle school, resulting in social dissatisfaction. The CCP government attributed this to the rational educational philosophy that many people held, and started a labor education movement aimed at the reform of this philosophy.

However, this rational educational philosophy could not be converted by the movement and rational selection for school entrance could no longer be permitted by the CCP Government since it had a negative effect on ideological and higher education when the number of students fell. The CCP government responded to this by establishing an agricultural middle school system in 1957.

However, in practice, this system emphasized labor, and so the peasants lost interest when it was realized that “escape” from hard agricultural work and dirty village life through a middle school education was not possible. Eventually, the agricultural middle school system was abolished with the failure of the Great Leap Forward.

Other research has emphasized that the CCP government carried out a rapid physical form of social integration in the 1950s, and school education was regarded only as an ideological means of achieving this. This paper, however, points out that the school education system offered a non-physical form of social integration by advancing nation building through a certain fulfillment of the popular desire for social mobility. On the other hand, the Chinese school education system became a point of conflict between the state and the society, and a crossing point of the government’s expectations and the people’s desires.

## 編集後記

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## 「アジア研究」第55巻第1号

発行 2009年1月31日

発行者／アジア政経学会

（連絡先）〒112-8610 東京都文京区大塚2-1-1

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発行責任者／加藤弘之

編集責任者／高橋伸夫

制作協力／中西印刷株式会社

印刷所／中西印刷株式会社

*Aziya Kenkyu* (Asian Studies) is published quarterly in January, April, July, and October by the *Aziya Seikei Gakkai* (Japan Association for Asian Studies).

Editorial office: *Aziya Seikei Gakkai*, c/o Nobuo Takahashi, Keio University, 2-15-45 Mita, Minato-ku, Tokyo 108-8345, Japan

Subscription rates: ¥6,300 per year. Multiple-year subscriptions are available.

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