

CHANGING CENTRE-PROVINCE RELATIONS IN THE PEOPLE'S REPUBLIC
OF CHINA IN THE 1980s

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ABSTRACT

This thesis analyses the way in which the economic reforms implemented in the 1980s resulted in dramatic changes in the nature of centre-province relations in the People's Republic of China. I will argue that a lack of coordination between reforms in different areas of the Chinese economy distorted many of the initial aims of the reforms.

Although this lack of coordination can be partly blamed on the inherent difficulties of reforming a centrally planned and directed economic system, intra-elite conflict over the pace, scope and direction of reform also played a key role.

Such a process of reform generated important dysfunctional consequences - notably the extent to which the central authorities lost control over economic affairs in the provinces. However, it is important to note that although the centre lost an element of control, power did not gravitate to the provinces in an equable manner. Although it has never been possible to identify a model of centre-province relations that holds true for every province's relations with the centre, variations in provincial reliance on and responsiveness to the centre increased during the 1980s. The provinces of the south and south east (and in particular Guangdong and Fujian) were the main beneficiaries of the centre's loss of power, and utilised their new found strength to generate rapid economic growth. In the process, the whole concept of centre-province relations in China was altered to such an extent that it may be losing validity as a paradigm for analysing Chinese politics. At the very least, future analyses of provincial politics in the PRC must consider a twin set of imperatives; the political relationship between Beijing and lower level provincial authorities, and the economic relationship between economic cores and their peripheries.

NOTE ON TRANSLITERATION

This thesis uses the *pinyin* system of transliteration for all names, including those that are commonly known in their wade-giles (or other) transliteration in English. For example, I use Beijing instead of Peking, Guangzhou instead of Canton, Shanxi instead of Shansi, and so on. However, when directly quoting an author or when citing book and article titles, the author's original transliteration is used. Thus, although I use `Shanxi' in the text, the name will appear as `Shansi' in the footnotes and bibliography for Gillen's work on the province.

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ABBREVIATIONS

BBC SWB	British Broadcasting Corporation Summary of Word Broadcasts (Far East)
CC	Central Committee (of the Chinese Communist Party)
CCP	Chinese Communist Party
CDIC	Central Discipline Inspection Commission
CPPCC	Chinese People's Political Consultative Conference
CEH	Cultural, Educational and Health spending
FYP	Five Year Plan
GMD	Guomindang
GNP	Gross National Product
HEW	Health, Education and Welfare spending
NPC	National People's Congress
PB	Politburo (Political Bureau of the Central Committee)
PLA	People's Liberation Army
PRC	People's Republic of China
RMB	Renminbi Yuan
SC	State Council
SEZ	Special Economic Zone
SSB	State Statistical Bureau

INTRODUCTION

Introduction

The 1911 revolution succeeded because the Qing lost it. The Guomindang's (GMD) grip on power was inherently weak because they never really had it. The `it' in question is control over the provinces¹. Ever since the Emperor Qin Shi Huang Di unified China in the second century BC, Chinese rulers have grappled with the complex task of maintaining control over the nation. The collapse of central control in the late nineteenth and early twentieth centuries being only one of a number of periods when the Chinese state was characterised by disunity.

Faced with mounting domestic and foreign pressures, the Qing attempted to consolidate its position by devolving both military and political and economic power into the hands of local officials. But rather than shoring up the imperial system, these measures instead facilitated its demise. The Qing's continued inability to meet the many demands being placed upon it created a political vacuum at the centre. In this vacuum, power gravitated to the newly powerful provincial leaders. When the Qing proved unable and unwilling to reform itself, the provincial leaders took the initiative. In essence, the 1911 revolution marked the transition from *de facto* provincial independence to *de jure* independence - provinces simply announced that they no longer accepted the legitimacy of the Empire, and the Qing were helpless to do anything about it.

Subsequent events only served to exacerbate the crisis of central control. Yuan Shikai's attempt to build a new imperial system after 1912 ended in abject failure because the provinces refused to accept his authority. It took a further fifteen years before national government was re-established, but even then, the national government of the GMD was merely a facade. From the start of the Nanjing decade, the GMD's grip on national power was dependent on support from the warlords. Indeed, it was not GMD controlled forces that marched into Beijing at the end of the Northern Expedition, but the army of the powerful Shanxi Warlord, Yan Xishan.

In effect, the GMD at best only exercised direct control over two and a half provinces. And even this limited grip on power was slowly but steadily eaten away. The Japanese occupation of Manchuria was followed by the extension of their economic and military might in the north. In the south, Nanjing's control was debilitated by the rival nationalist government of Wang Jingwei in Guangzhou, and the Chinese Communist

Party's (CCP) nagging refusal to lie down and die. In much of the rest of the country, the warlords held sway, levying their own taxes and even implementing economic policies that ran counter to the interests of the Nanjing regime².

Japan's full scale invasion of China proper in 1937 further intensified the collapse of central control. With the Japanese controlling the eastern seaboard through the puppet regime of Wang Jingwei in Nanjing, the scope of GMD shifted to the area around the new capital in Chongqing. At first sight, this left three conflicting centres of power; the Japanese controlled GMD Nanjing government, Jiang Jieshi's GMD Chongqing government, and the increasingly popular CCP power base in Yanan. But even this tripartite division does not show the full extent of the diffusion of power. Despite the fact that Yanan was undoubtedly the centre of CCP activities, by the end of the war against Japan the communists controlled 19 separate base areas in as many provinces. To complicate matters even further, effective political control was absent in much of the area nominally under the jurisdiction of Nanjing.

So when the CCP came to power in 1949, the lessons of the importance of ensuring effective national control were evident. The CCP's rise to power had been facilitated by the collapse of central authority, and their future could not be assured if they did not move to establish control over the provinces. But establishing CCP officials in charge of provincial affairs was only the first step. The Qing dynasty finally lost power in 1911 because they had allowed too much power to slide into the hands of powerful local figures at the end of the nineteenth century. China's new leaders must have been aware of one crucial fact: the growth of provincialism and warlordism was a result of inefficient central government, and not its cause. Thus, although restoring central control was a relatively simple feat, maintaining it would be an entirely different matter.

The revolution was, in many ways, a revolution of the peripheries. The revolution had been fought and won away from Beijing, led by men from the provinces. For these leaders the evidence of the period of the revolutionary struggle was all too clear. If effective central control was not built by the CCP, then their tenure in power could not be guaranteed. But as became equally as clear in the early 1950s, over-centralised control produced almost as many problems as too lax central control. The burdens placed on the central planning organisations created inefficiency, inflexibility and bad planning. At the local level, insufficient attention was paid to flexibly implementing central orders in line with the specific needs of individual areas.

The problem then (or contradiction as Mao put it³) was not simply a matter of building central control, but one of building a system that allowed for local flexibility and initiative within an overall framework of central guidance, control and goal setting. This has proved to be an extremely difficult feat to accomplish. The priorities of central guidance and control have frequently conflicted with the priorities of local initiative and flexibility. On the one hand:

*"the absence of centralization will inevitably result in everybody going their own chaotic way"*⁴

while on the other:

*"If the power of decision is not decentralized and instead a rigid pattern is imposed across the board it will be impossible to suit measures to local conditions."*⁵

Despite an initial period of elite consensus during the process of recovery and rebuilding, agreement broke down as the leadership sought to define a distinct Chinese road to socialism. In addition, policy changes in the People's Republic of China (PRC) were characterised by periodic reactions to unwanted results of previous policies. As a result, policy tended to oscillate between centralisation and decentralisation depending on both the balance of power at the centre, and the contemporary political and economic problems.

But decentralisation policies were far from the only determinant of centre-province relations. The implementation of a planned economy gave the central authorities considerable power to shape the pattern of regional economic activity. Thus, both the general economic orientation of the state and the specific regional development strategy of the day were also key determinants of the relationship. As with decentralisation policies, regional development strategy was subject to change over the years. But despite the often radical changes in economic policy between 1949-76, the wider framework of a planned economy remained more or less intact.

With the death of Mao in 1976, and the Hua Guofeng's *de facto* removal from power two years later, what was already a complex relationship between centre and provinces became even more complicated and dynamic. The new leadership were committed to re-invigorating the economy to bring prosperity to the Chinese people. In order to facilitate this goal new decentralisation policies were pursued, and a new regional development strategy gradually emerged. But where this post-Mao approach differed from previous reversals in policy was in the accompanying changes in the basic

economic structure, as China slowly (and not so smoothly) dismantled the instruments of state planning and introduced a more market orientated system.

The aim of this thesis is to analyse how the post-Mao reforms altered the nature of centre-province relations in China. Although the process of reform is still far from over, this analysis will be limited to affairs in the 1980s, culminating with the attempt to re-impose more central economic control during 1988 and 1989. The failure of this strategy, and particularly the failure to control investment spending in the provinces, represents something of a watershed in post-Mao Chinese politics. Whilst the data and sources used are specific to the 1980s, the explanations and conclusions do have a wider application. One of the main factors influencing the evolution of policy in the 1980s was an inability to take the radical (and potentially painful) decisions that were needed to smooth out emerging economic irrationalities. The obstacles that prevented these decisions from being taken in the 1980s remain to be overcome in the Autumn of 1993. Identifying these problem areas helps contribute to a wider understanding of the political consequences of modernisation and transformation in a communist party state as well as informing the centre-province debate.

The remainder of this introduction is divided into two sections. In the first, the existing literature on centre-province relations will be reviewed by assessing the various explanations put forward to explain the relationship. As none of the existing approaches provide a total explanation of events in the 1980s, this section will also set down my interpretation of the relationship during this period in the 'no model model'. This interpretation will then be extended to a wider discussion of the impact of economic reform in the remaining section.

This will be followed in chapter one by the identification of the sources and strengths of both central authority over the provinces, and provincial independence from the centre. Particular attention will be paid to the problems posed for provincial leaders who can too easily be caught between conflicting provincial and central loyalties and responsibilities. Having discussed the role of provincial leaders in chapter one, attention will turn to the role of central leaders in the 1980s in chapter two. This assessment will form a wider appraisal of the role of intra-elite conflict in shaping the pattern of reform in the 1980s, and the resulting impact on centre-province relations. A detailed investigation of centre-province conflicts follows in chapter three, which will highlight three key areas of concern to be addressed in the remaining chapters - decentralisation policy, regional development strategy and centre-province financial relations.

Although chapters four to six are concerned with individual areas of policy change, underlying this analysis is the understanding that although individual reforms were important in themselves, the crucial factor is the way that reforms interacted with each other. Such an approach tends to place an emphasis on the defects rather than successes of the reform process. I acknowledge that in many ways (and in comparison to many other developing nations), China's economic reforms have been a considerable success. Nevertheless, the system defects that affected centre-province relations must be overcome if China is to achieve its true economic potential. If the obstacles to sustainable growth identified in this thesis can be overcome, then China will be well placed to build on the already considerable economic growth of the post-Mao era by generating a slower but more sustainable rate of economic modernisation.

Models of Centre-Province Relations

With the exception of the initial period of CCP rule in China, there has been little consensus among observers regarding the precise nature of the centre-province relationship in China. Divergent interpretations were in part brought about by the frequent oscillations in policy between 1949 and 1978. For example, the decentralisation measures of 1956-57 entailed an actual redistribution of power between centre and province, and forced some academics to reformulate their observations. But the different approaches also stem from divergent interpretations of the nature of the Chinese political system as a whole - if your basic assumption is that China is a totalitarian political system, then this view more or less defines your interpretation of centre-province relations. Thus, even when addressing the same time period armed with the same data, authors have reached conflicting conclusions.

There are perhaps six main interpretations of the centre-province relationship in China: the totalitarian model; the centralist model; the cellular model; decentralist models; the central cohesion model; and the bureaucratic model. Two important caveats must be made at this point. Firstly, with the exception of Donnithorne's cellular model, none of the other approaches claim to formally constitute a 'model' (indeed, the decentralist approach is really two 'models'). Secondly, the bureaucratic model was not specifically designed to address centre-province relations, but dealt with wider issues of policy making throughout the party-state machinery. Nevertheless, all six provide clear paradigms for analysing the centre-province relationship and share many of the characteristics of a formal model. As the following analysis will demonstrate, no one approach provides a totally satisfactory explanation of the situation in the 1980s. As

such, a seventh model is needed to explain the relationship, a model that I have called 'The No Model Model'.

(a) The Totalitarian Model

Of the four models, the Totalitarian Model has the least relevance for contemporary China. By general consensus, if this approach was ever applicable to the Chinese political system, it was only during the early 1950s. Preoccupation with the totalitarian approach was in part due to placing a Soviet studies perspective on Chinese politics at a time when the Chinese themselves were incorporating many features of the Soviet political system. Furthermore, there was a pressing strategic need for the CCP to assert strong control over society, with the threat of GMD insurgency in the south-west a real threat until 1951, and GMD forces regrouping on Taiwan.

The Totalitarian Model perceived provincial and regional level administrative units as nothing more than branch agencies of the centre. Their function was to carry out the policy initiatives of the centre to the letter. The system was built around a rigid hierarchical structure of power with orders flowing directly down, and information coming directly up. The essence of the Totalitarian Model was that all significant levers of power were controlled by central authorities. In short, the central elite had the power to shape national politics in the direction of its choosing.

With the decentralisation of control over light industrial production and accounting to the provinces in 1957-58, it became clear to China watchers that this perception of authority in China was no longer applicable. Indeed, the purges of Gao Gang and Rao Shushi in 1955 shed extreme doubt on whether the Chinese political system was ever 'totalitarian'⁶. At the very least, these purges indicated that the central authorities had by no means had it all their own way in controlling affairs in the regions.

Despite the evidence against the applicability of the Totalitarian Model, it was not abandoned by all scholars. Barnett⁷ came closest to the classical interpretation of totalitarianism. He claimed that despite organisational changes in the structure of power, the locus of political gravity remained in the centre - in short, a distinct chain of command running from the centre to the local levels continued to exist.

Crucial to this view is the idea that the centre controls the processes of decentralisation. Decentralisation is a sign of the centre's strength, rather than an indication of weakness. It retains overall control and can decentralise or recentralise as it sees fit. For example, although powers were decentralised to the provinces in 1956-

57, Barnett argued that the re-introduction of regional party bureaux in 1958 represented a significant recentralisation of power. Barnett did, however, acknowledge that there was a problem of the distribution of power and responsibility, and that centrifugal tendencies were at work. Similarly, Barnett viewed the purges of Gao and Rao as a sign of central strength. The very dismissal of such powerful regional leaders convinced Barnett that the centre had the power to deal with any centrifugal forces that emerged. In short, the main achievement of the CCP was the creation of a monolithic political structure with an extreme concentration of power at the centre.

However, there are a number of flaws in this view. Barnett defined politics as open political competition, and as there was none evident in China, then he concluded that 'politics' did not take place. But Barnett failed to look below the surface, where cases of political competition were all too clear. The unified face that the CCP presented to the outside world was merely a facade. To be fair to Barnett, Cadres, Bureaucracy and Political Power in Communist China was published in 1967. By 1971, he was admitting that changes had indeed taken place in the locus of decision making power in China:

*"central authorities now exercise considerably less authority and control over local areas than in the past."*⁸

and would presumably not perceive the totalitarian approach as a valid interpretation of the 1980s. Moreover, in his 1985 study of the foreign policy decision making process, Barnett had turned his attention to informal and cross organisational conflict in the decision making process⁹.

However the biggest flaw in Barnett's interpretation lies in his implied assumption that the centre was able to control events. I would argue that the decisions to decentralise or centralise did demonstrate that the centre retained a degree of power. But these decisions were reactive rather than agenda setting. Furthermore, in centralising power in the regional party bureaux, the centre merely exchanged one tier of local power for another even more powerful tier of local power. This was a sign of the centre's weakness rather than of its strength. It is important to remember that the purge of Gao Gang and Rao Shushi was only accomplished after they had been brought into positions of central authority and cut off from their regional power bases - a sign perhaps of the centre's power over central organisations and personnel, but not of their control over the entire national political system.

(b) The Centralist Model

The centralist approach was most clearly espoused by Franz Schurmann¹⁰ and later Nicholas Lardy¹¹. As with the Totalitarian Model, they argued that the decentralisation measures of 1957-58 did not fundamentally weaken the centre's grip on power. Although sharing some of the features of the totalitarian approach, this interpretation differs from it in two main ways.

Firstly, although acknowledging the overall dominance of central control, the centralists acknowledged that provinces and regions possessed a degree of flexibility and leeway in policy implementation. Secondly, and more importantly, whereas the totalitarian approach used a spatial notion of centrality, Schurmann in particular deployed a sectoral or societal approach. There could be no doubting the centrality of the *party* in Chinese society, and whether the party as a whole retained control was more important than notions of the geographical distribution of power within that central organisation.

Perhaps it is clearer to say that whereas the totalitarian approach emphasised the *centralisation* of political power, the centralist approach emphasised the *concentration* of power. This notion of the dispersal of power in the political system is very relevant for this study. As will be discussed in more detail in chapter four, the affect that decentralising decision making powers has is dependent on whom power is decentralised to. If power is only decentralised to lower level party and state officials - *administrative decentralisation* - then authority remains relatively concentrated as power remains vested in the hands of a relatively narrow party elite.

Decentralisation only results in a fundamental redistribution of power *market decentralisation* (rather than administrative decentralisation) is deployed. If economic decision making powers are granted to producers and managers rather than just to members of the party elite at lower levels of the administrative hierarchy, then power is truly diffused and dispersed. Party officials at various levels lose a degree of power as people outside the small party elite increase their ability to influence economic (if not political) policy and performance.

As Lardy and Schurmann would presumably accept, the applicability of the centralist model for contemporary China must be questionable given the introduction of market decentralisation in the 1980s. However, there are also flaws in the hypothesis that cast doubt on its suitability for explaining the pre-reform era. Although sub-national level leaders must be considered part of the elite, there is no certainty that provincial leaders always share the same goals and aspirations as their national level superiors. The

problem revolves around the issue of the level of coherence and unity *within* the party-state elite. Given the CCP's monopoly of power in China, it is unlikely that major debates will be played out anywhere other than within the party itself. The centralist model assumes a level of internal party unity that, as shall be demonstrated in chapter two, is all too often absent in China.

In short, although Lardy and Schurmann are correct in identifying that decentralisation of power does not necessarily entail a fundamental redistribution of power within society as a whole, the inherent assumption that provincial leaders are essentially central agents working in the provinces is flawed. The validity of this approach to centre-province relations in China rests on the role that provincial leaders play in the Chinese political system, an issue that will be dealt with in more detail in chapter one.

(c) The Cellular Model

The Cellular Model is identified with the work of Audrey Donnithorne¹². Perhaps the key to this approach is a concept of mutual dependency between centre and province. The provinces need the centre for central allocation of scarce investment funds for large scale and costly projects, and supplies of deficit goods and resources (ie: those goods in which the province is not self-sufficient). On the other hand, the centre needs the provinces for local control of the population, the collection of taxes and profits, and the provision of surplus goods.

There are two crucial elements in this balance of interests. Firstly, the centre's attempts to ensure an adequate supply of grain throughout the country. Winning the hearts and minds of the population and convincing them of the superiority of socialism is not an easy task at the best of times. If large sections of the population are starving, then convincing them that the socialist system is the best alternative becomes even more difficult. Secondly, central control of taxes and levies is the key to the balance of power between the centre and the provinces. The debate over whether the centre effectively controls the fiscal system or not is at the heart of the conflict between those who espouse the centralist approach and Donnithorne's concept of a cellular economy. Of particular importance is the debate between Donnithorne and Lardy that was fought out in the pages of The China Quarterly between 1972 and 1976¹³. This debate will be discussed in detail in chapter six.

Whereas Lardy and Schurmann argue that the centre controlled the process of centralisation and decentralisation, Donnithorne sees the central authorities' policies as

essentially reactive. For example, the devolution of powers in 1957-58 merely marked the official recognition of what had become a *de facto* situation. But although the decentralisation of power could not be prevented, it was not necessarily resisted in Beijing. Donnithorne argues that Mao in particular was wary of building a centralised planning empire in Beijing on the Soviet Gosplan lines. As such, a strong provincial and regional power structure could act as a brake on the tendency for post-revolutionary states to slide into a "dictatorship of the bureaucracy":

*"it has not been within the power of Peking to prevent this organizational disintegration, but at the same time, it is a state of affairs that Mao, at least, much prefers to the development of bureaucratic socialism after the Soviet model."*¹⁴

Such a desire to see a provincial check and balance on central bureaucratic control was in keeping with Mao's ideological commitment to preventing the routinisation and bureaucratic ossification of the revolution. But it also fulfilled more immediate political aims. By placing more power in the hands of provincial leaders, the authority of leaders in the central party-state planning apparatus who opposed Mao's policies was reduced. Using decentralisation to undermine the power of centrally based critics performed similar functions in the 1980s.

Of crucial importance to Donnithorne's approach is the distinctive role of provincial leaders. She asserts that a provincial leader's primary identification is with the interests and problems of the area under their control. As provincial leaders are important contributors to the formulation of national policy in the CCP Central Committee (CC), the Politburo (PB) and in *ad hoc* meetings between central and provincial leaders, their power to influence the decision making process based on the interests of their own region impinges on the whole political system.

In particular, Donnithorne argues that provinces have considerable power in three key spheres: firstly, through their control of marginal transfers to the central authorities; secondly, through provincial leaders' participation in the national decision making process; and thirdly, by taking important policy decisions in the provinces themselves.

The notion of a 'cellular economy' was borne out of the regional self-sufficiency strategy of the Cultural Revolution (see chapter five). With every region striving to provide for its own internal needs, economic activity became dominated by a number of self-contained cells rather than a single national market. Whilst accepting this interpretation of the Chinese economy in the 1970s, Donnithorne argued that objective

economic laws meant that some provinces naturally in a position to exert influence over weaker neighbouring 'hinterlands'. Increased inter-provincial trade based on the principles of comparative advantage would mean that in the long run, rather than China having 29 provincial economic cells, it would have a smaller number of larger cellular units formed by increased contacts between a strong central place and its local hinterland.

Donnithorne's concept of a relationship between centre and provinces based on mutual dependency does provide a useful framework for analysing the relationship. According to Goodman, this mutual dependency means that despite the growing economic power of southern provinces in the 1980s, the political disintegration of China is out of the question¹⁵. Goodman argues that even the richest and most independent provinces depend on the centre for certain functions. Even though central planning and state regulation are rapidly declining in importance, the Chinese state will slowly but surely take on more market regulatory functions such as controlling the money supply, manipulating the fiscal system and so on.

Furthermore, Donnithorne's assertion that the centre's policies towards the provinces are largely reactive correspond with my findings on central policy in the 1980s. Rather than being in control of events as proponents of the centralist and totalitarian approaches suggest, the centre has in fact lagged behind changes at lower levels, and been forced to respond to *de facto* situations by making them *de jure*.

However, the cellular model is not sufficient in itself to explain what is a complex relationship. Firstly, the assertion that provincial leaders are primarily representatives of their locality neglects the different stances and alignments of provincial leaders - a flaw that the cellular model shares with the centralist approach, albeit from different perspectives. Secondly, Donnithorne's view of China as a cellular system was designed to explain the relationship that prevailed during the Cultural Revolution. Although it may have been a useful paradigm for assessing events at that time, changes in the structure of the Chinese economic system in the 1980s clearly warrant new perspectives.

(d) Decentralist Models

For proponents of a decentralist approach, the political initiative is placed more completely in the hands of provinces or regions than Donnithorne suggests. For decentralists, the very notion of the centre is the key to the relationship between the

centre and the provinces. Due to the nature of the Chinese revolution - a revolution of the peripheries - the concept of a distinct central authority that exists on a separate plain to provincial politics is misleading. For Whitson¹⁶, the centre is nothing more than the physical centre. It is the site of an amalgam of representatives of provinces and regions who fight the corner of their home or host locality. Whitney¹⁷ has a different view of the centre, but also asserts that power lies in the provinces. For Whitney, the centre is merely a judge or an arbitrator which attempts to balance the various and competing demands of representatives of local interests.

(i) Whitson's Field Army Hypothesis

Although both Whitson and Whitney propose that the Chinese political system is characterised by a high degree of decentralised control, there are important differences in the two approaches. The key to Whitson's interpretation is his concentration on Field Army loyalty. Political power since 1949 must be seen in terms of competition between representatives of the five Field Armies of the People's Liberation Army (PLA). The base areas in which the Field Armies were located in October 1949 have remained the locus of power ever since. Representatives of the Field Armies who became central leaders after 1949 struggle to manipulate resources to the benefit of their base areas. These provincial agents at the centre also try to ensure that representatives of *their* Field Army are promoted to leadership positions at the centre to create powerful Field Army blocs within the central elites.

Whitson presents three competing interpretations of the Field Armies' role in Chinese politics. The first hypothesis, which he rejects, is based on a patron-client relationship where members are personally loyal to the top man in the group - what he terms the "Warlord Hypothesis". This view is taken to be too simplistic, as it does not explain the strong horizontal loyalty ties between members of a group.

The second hypothesis, which he also rejects, is termed the "Monolithic Dictatorship Hypothesis". This suggests that Mao Zedong personally handed down orders to his loyal military subordinates who then carried them out to the letter. Whitson argues that:

*"The evidence of Mao's personal frustration suffered at the hands of either his commanders, or the Party - or both at the same time - is too convincing to support such a thesis."*¹⁸

The third hypothesis, which Whitson favours, is termed the "Balance of Power Hypothesis". This suggests that there is a balance of power between the various groups

at the centre representing their host or base Field Army. Decision making is heavily influenced by the attempts by these leaders to preserve their (and their Field Armies') share of power, influence and prestige within the political system. Over time, the locus of power changed as the Chinese political system evolved. For example, the split with the Soviet Union and the fall of Peng Dehuai seriously damaged the power base of the First Field Army. Furthermore, when Field Army representatives are promoted to the centre and take on new responsibilities, their priorities are liable to be changed:

*"It is obvious that personal loyalties have changing priorities and are subject to erosion and redefinition, especially as immediate circumstances challenge their continuing validity and their significance for the survival of the individual and his most cherished possessions."*¹⁹

Despite these new priorities, for Whitson the crucial imperative in decision making remains rivalry between these competing regionally based representatives in the centre:

*"In brief, then, it is suggested that Party-military personal relations coalesced into five major sub-elites whose continuing informal bonds have remained a significant factor, first, in deciding key Party as well as military personnel assignments and, second, in reaching compromises on national policy and regional policy implementation."*²⁰

Whitson's thesis is well argued, and its significance should not be understated. Its particular importance for this thesis is that it highlights the concept that there is not a single common relationship between the centre and all provinces. Rather than a single line of authority emanating from the centre, there are a number of lines of authority linking certain individuals at the centre with certain individuals in China's provinces, a concept that will be analysed in more detail in both chapters one and two.

Furthermore, Whitson's thesis brings into focus the question of horizontal ties between provincial leaders. The relationship between centre and province should not be seen in terms of a simple vertical relationship. There is no necessary conflict between the centre and the provinces *per se*. Where conflict emerges, it is between competing groups comprising of individuals at both central and provincial level in alliance. Whitson therefore provides a useful framework for analysing factional conflict in the PRC as cutting across both institutional and hierarchical relationships.

It could be argued that Whitson's Field Army loyalty thesis will become less useful as the old guard of revolutionary leaders leave the political arena through either

retirement or death. As the new generation of leaders came into politics after the seizure of power in 1949, why should they have any Field Army loyalties? Although it is probable that such ties will become less important, I do not believe that they will disappear entirely. It is likely that the new generation of leaders have become socialised into the old way of doing things. Their identification with old leaders and the cultural roots of the *guanxi* system will combine to mean that personal loyalty relationships will continue to impact on the Chinese political system for many years to come.

Having said that, I believe that Whitson's approach is not entirely satisfactory for explaining the centre-province relationship in contemporary China. New challenges and conflicts have emerged since 1949, and particularly in the 1980s, that have led to changes in the nature of intra-elite conflict. As such, Whitney's hypothesis must be viewed as being only one component in a more complex centre-province relationship.

(ii) Whitney's "Provincial Power" Hypothesis

For Whitney, the locus of power is more firmly embedded in administrative echelons. Even when large regions formed the immediate sub-provincial level of administration, Whitney argues that the real locus of power lay in the provinces:

*"All the evidence from the 1950s points to the fact that it is the provincial governments which hold the real political power and which form the fundamental planning units for economic development."*²¹

He argues that China is a land that is deeply divided by separate local cultures and traditions. Given this situation, it is almost impossible for a central authority to control the nation with an iron fist.

Strong centrifugal tendencies are at work that will always tend to pull power away from the centre, a situation that has rankled with national leaders throughout the ages:

*"Because of this tension between the centralizing predilections of the rulers and the decentralizing dictates of the environment, the perennial problem of Chinese rulers has been to prevent power from slipping from centre to the periphery."*²²

If a central authority tries to pull power back from the provinces, it will soon find that it is swamped by the enormous volume of work that has to be taken on. The only policy that would restore effective government would be to decentralise decision making, but this would result in usurpation of central power by the provinces.

Whitney argues that the problem of local power has been particularly acute in the PRC because the CCP determined to build their new order around existing traditional

patterns of social behaviour. This proved self defeating because provincial traditions and loyalties soon re-emerged after 1949 to obstruct the effective creation and implementation of national policy. For Whitney, the move back to large regions in the form of the regional party bureaux in the 1960s was a failed attempt by the centre to control the provinces. Rather than facilitating central control, these supra-provincial organisations eventually became powerful tools for provincial expression. In particular, powerful provinces within the regions (for example, Sichuan in the southwest) came to dominate the area, and used the regional bureaux as a lever over the central authorities.

Finally, Whitson argues that the extent of provincial control was so great that it provided one of the impulses for the launching of the Cultural Revolution:

*"it appears that prior to the Cultural Revolution political and economic power had already gravitated in too great a measure to the provincial governments, and part of the drive of the Red Guards has been aimed at destroying those provincial, bureaucratic and party organs that had been siphoning off the centre's authority."*²³

Whitney's hypothesis brings to light the question of the relative strength and independence of provinces within any given region. The ability of one province to dominate other provinces within a region indicates that not all provinces have the same ability (or even desire) to attain equal degrees of independence from the centre. As a result, rather than just emphasising the degree of provincial autonomy, it is essential to analyse the variations that exist within provincial relations with the centre. There is not one single relationship that applies to the centre's relationship with every province. For example, the provincial strength of Sichuan in the southwest should be analysed in light of the relative weakness of Guizhou. Although Whitney may be correct in asserting that the provinces do have a great deal of autonomy, and that the central authorities will soon become swamped by administrative burdens if they try to control too many provincial affairs from Beijing, it is important to take this analysis one stage further (perhaps to de-construct it) to assess what factors affect a province's potential to assert control over their own affairs.

(e) The Central Cohesion Model

According to advocates of this model, it is impossible to discover where the locus of power lies in the Chinese political system. The best that we can hope to achieve is an understanding of where the locus of power lies **at any given time**. The situation is

dynamic and fluid, with the most important determining factor being the extent of central cohesion and unity.

For Solinger, the cohesion of the central elites is crucial for any study of Chinese spatial politics. She argues that when the centre is coherent and fulfilling its paternalistic functions, then the localities are happy to submit to central power. But if the central authorities fail to provide these paternalistic functions, then the localities turn inwards and steadily distance themselves from the centre:

*"Thus, my thesis goes, Chinese local systems and local bureaucrats are at once orientated toward the state, that is the motherland or fatherland, the guojia, the nation family, comfortable with dependence on the center when the center can provide parenting, but also long-schooled in the tactics of encapsulation, of self-reliance, when the need arises."*²⁴

Solinger uses the metaphor of a family to describe the nature of the relationship. The child (the locality) obtains from the parent (the centre) whatever it can. It schemes to get away with anything that it can keep secret from the parent, and is poised to leap out of control if the parent's authority declines. Crucial to this concept is the notion of intense competition between provinces (sibling rivalry). The localities compete with each other for bigger shares of the centre's cake, while at the same time attempting to limit the transfer of their prized resources to be distributed to other areas.

The relationship is one built on confidence. As long as the provinces are confident that the centre can provide what it needs, then there is no need for them to challenge the centre's authority. If they lose confidence, however, then they will turn inwards. For Donnithorne, the worst thing that the centre can do under such circumstances is to decentralise power in an attempt to rebuild legitimacy. If the centre devolves power when it is weak, then the provinces will quickly move to expand the scope of their powers beyond the intended limits of the centre. As a result, the centre will be further weakened, probably beyond the point at which it would be able to turn the situation round.

This concept is a useful analytical paradigm for assessing the collapse of central power during the last desperate years of the Qing Dynasty. It is also of use for the study of spatial politics in the PRC. The extent of divisions within the elites since 1949 has created a situation where central policy is often not clear. At times, the various lines being espoused by competing individuals and groups at the centre have come into open conflict. When there is a power vacuum at the centre, or when there is no clarity in

central policy, then the ability for provinces to interpret policy in a manner that suits them is increased.

The unity and cohesion of the central elites obviously has an important impact on provincial leaders. When policy is changing rapidly at the centre, it is difficult for provincial leaders to stay in step with these fluctuations, while at the same time ensuring that the day to day administration of their locality continues. As shall be shown in chapter one, to come down too strongly in favour of one direction of policy can be dangerous if the central line then swings in another direction. When central directives are ill-defined, ambiguous, or even incomprehensible, then the dangers for political leaders are magnified. This was a particularly potent factor during the chaotic years of the Cultural Revolution, when, as Forster notes:

*"the principal dilemma of the time was how to keep in step with the center by implementing a set of ill-defined, almost incomprehensible directives."*²⁵

I share Solinger's stress on the importance of central cohesion for an understanding of centre-province relations. Furthermore, I agree that the situation is a fluid one, and simple all embracing explanations of the centre-province relations probably provide more problems than they solve. To fully understand the implications of Solinger's hypothesis, it is essential to study the role of provincial leaders in the political administrative system in more detail. Such an analysis follows in the second half of chapter one.

(f) The Bureaucratic Model

The Bureaucratic Model is exemplified in Lieberthal and Oksenberg's²⁶ and Lieberthal and Lampton (eds.)²⁷ studies of policy making in China, which reveal a complex situation of bargaining and negotiation between bureaucratic institutions at various levels. Decisions are made only after a series of often lengthy bargaining processes between bureaucratic structures at the centre and those in the localities. Each will have its own preferred options and policies, and in the end, consensus has to be found by each side giving and taking.

It is difficult to talk of centre-province conflict because it is difficult to identify a single provincial interest. Individuals from specific bureaucratic agencies within a province have bureaucratic interests which they wish to pursue and defend, rather than a common provincial interest. As such, in central negotiations with a province, the

central agents may find that there are a number of often conflicting claims and preferred policies being articulated by different provincial bureaucrats.

What is good for one administrative agency in a province may not be good for another. For example, mining authorities in Shanxi may encourage increased mining activity, but the provincial transport authorities may balk at the idea of having to solve the problem of moving even more coal on the province's already stretched road and rail system²⁸. Furthermore, at different layers or levels of the sub-national level bureaucracy, even specifically "local" interests may not coincide. Just as what is good for the nation as a whole may not coincide with what is good for an individual province, so what is good for the province as a whole may not be good for a county or a township.

Lieberthal and Oksenberg are entirely correct to bring attention to the question of sub-provincial needs and interests. When analysing the question of decentralisation in China, many authors have concentrated on the power of the provinces (see Whitney's "provincial power hypothesis" above). However, it should be remembered that even provincial level administration represents a **relatively** high degree of centralisation. Sichuan province alone has a population of more than 100 million²⁹, greater than only a handful of the world's nation states. Even an average sized province such as Shanxi has a population and physical size in excess of some European nations³⁰. As a result, the same factors that influence centre-province relations are also applicable to a province's relations with subordinate administrative levels. Furthermore, the introduction of market decentralisation in the 1980s further complicated the relationship between the centre, provinces and enterprises. Although the reforms were intended to reduce administrative controls on enterprise managers, as will be demonstrated in chapter four, the reality is rather more complex.

Lieberthal and Oksenberg conclude that the locus of power is firmly in the hands of neither the centre nor the localities. There is a fluid and complex bargaining system that entails much horse-trading and concessions by both sides. Due to the nature of this bargaining process, decision making at the centre lacks cohesion and coherence. In the search to reach consensus, different bureaucratic agencies make concessions and deals that may conflict with each other's aims and strategies - and the greater the number of policy changes being implemented at any one time, the more likely it is that conflicts will arise.

These findings have important implications for the study of centre-province relations in contemporary China. The resulting lack of coordination between reforms in different

areas had a profound impact on China's economic evolution in the 1980s. Far too often, reforms in one sphere conflicted with the aims and goals of other reforms. The interaction of reform policies created outcomes that deviated from the intended consequence of each of the individual reforms. Policy makers were thus forced to implement short term remedial policies - policies which often generated new problems of their own.

Such a lack of coordination between reform policies had a profound impact on the nature of centre-province relations in the PRC in the 1980s. But to fully understand the changes that took place in the decade of reform, a deeper analysis which addresses the causes, as well as the symptoms, of the problems must be made. The following section will attempt to make such an analysis whilst also addressing the failings of the various models outlined above.

(g) The 'No Model' Model

Each of the above interpretations provides important insights into the nature of the power relationship between the centre and the provinces in the PRC. But no one model is sufficient, on its own, to explain the nature and evolution of centre-province relations in the 1980s. Indeed, as both the central cohesion and bureaucratic models demonstrate, the relationship is too complex and fluid to define a single model that is applicable to the centre's relationship with all provinces at all times.

This claim rests on two issues. Firstly, can and do all provinces have the same relationship with the central authorities? Secondly, when conflict exists, is it between a group called "centre" and a group called "province", or between groups of individuals with conflicting goals aims and strategies at various levels of the party-state hierarchy? On the first issue, I would argue that there is strong evidence to suggest that not every province is either willing or able to aspire to (or achieve) the same level of political independence from the centre. Rather than searching for a centre-province relationship, what should be analysed is not a centre-province relationship, but centre-provinces relationships. Furthermore, given this diversity of relationships, province-province relationships became an important consideration in the notion of the locus of decision making power in China. These two factors are both crucial for an understanding of the nature of China's regional development in the 1980s.

For example, on the question of the willingness of provinces to aspire to greater power, it is notable that at the Eight Party Congress of 1956, only six provincial

leaders spoke out in favour of increased power for the provinces. Furthermore, only one leader actively supported Mao's proposals at this time, which entailed an increased role for provincial leaders. Of course, this meekness of most provincial leaders may have been driven by a desire to keep in line with the priorities of the central government. Even if this is true, then it would indicate that many leaders did not feel in a position to actively tout for more power for their own hands.

A further example comes from the decentralisation of powers to provinces in 1957-58. Provinces were not treated as a single and coherent group during this period and equal powers were not granted to all provinces. Economically undeveloped areas like Yunnan, Guizhou and Ningxia were not granted as much local autonomy as the more economically developed areas.

The search for an explanation of conflict between centre and province that defines a single relationship between the centre and all the provinces is flawed in its conception. The question should not be what is the relationship, but how many relationships are there? As Lieberthal and Oksenberg note:

*"With such diversity [between provinces], generalities about provinces and their relations with the Center are not easily made. In fact, every province has a distinctive relationship with the centre."*³¹

But perhaps even this suggestion - that there are thirty relationships - is on the low side. Just as it is folly to perceive the central elites as a unified, cohesive and coherent group, so it is naive to expect provincial leadership organs to represent a unified, cohesive and coherent group. At the very least, as an analysis of the top levels of authority at provincial levels in the 1980s shows, that there is a balance between those leaders who have been appointed from the centre and who have previously worked in central organs, and those leaders who are either provincial natives, or who have considerable experience of working within that province³². This reflects the centre's attempt to ensure that central orders and initiatives are followed at the provincial level, but in a way that allows the specific conditions of each province to be taken into account by skilled and expert administrators.

This brings us to the second issue, that of whether there is conflict between a group called "centre" and a group called "provinces". That conflict exists in the Chinese political system is indisputable. Indeed, one of the most astounding features of Chinese communist politics has been the failure on so many issues at so many times for the decision making elites to achieve consensus. But due to the nature of the Chinese

revolution, these competing groups do not divide along administrative or organisational lines. Where conflict emerges, it is not between the party and the army, or between the centre and the provinces, but between groups whose membership cuts across these various divisions.

Conflicts and divisions in the central decision making elites are mirrored in conflicts throughout the political administrative machinery. Links between central leaders and their clients or colleagues in the provinces have been most clearly observable after the purge of the central patron. For example, Ma Guishu in Tibet was one of numerous leaders in the localities purged during the Cultural Revolution for being an associate of Mao's opponents in Beijing - a "*black hand painted by Peng Zhen*".

Such an alliance between individuals at the centre and individuals in the provinces does not necessarily represent a formal or cognisant political relationship. It may simply be the case that the interests of certain groups at the centre coincide with the interests of certain provinces or provincial leaders. This is particularly pertinent when policy changes are being considered. If, for example, there is a move to shift the emphasis in development away from heavy to light industry, this will impair the power, influence and importance of both central heavy industrial ministries, and provinces that have major heavy industrial centres. In such a circumstance, it is likely that the interests of the two will coincide to form a group that will lobby for the retention of the *status quo*.

Similarly, if provincial leaders have gained power and influence by stressing radical leftist policies, then, they will have much in common with leftist leaders at the centre. If those leftist leaders at the centre find their positions under threat and their political survival is at stake, then the urgency for them and like minded individuals in the provinces to join in a coalition is increased. Thus, I believe that the search for a model to explain centre province relations in China is all but self defeating. It is made difficult by the variations in provincial power (and the potential to achieve autonomy) and this complexity is compounded by the nature of political conflict and intra-elite group formation in the PRC.

The Political Consequences of Economic Change

Even if the totalitarian, centralist, decentralist and cellular models had been suitable for analysing centre-province relations at one time, they have now all been overtaken by events. The relationship between any one province and the centre is shaped by the way in which a number of variables interact at any one time. A change in any one of the

central variables will result in a shift in the relationship between a province and the centre. In the 1980s, dramatic changes occurred in virtually every sphere of the Chinese economy. More powers were decentralised, regional development policy changed, centre-province fiscal relations were reformed, China opened to the west, and market forces began to take over from administrative controls in regulating the economy. As a result, frameworks of analysis that may have had some applicability to studying centre-province relations prior to 1978 need to be replaced by new paradigms that take into account the radical changes that occurred during the 1980s.

Table One divides the variables affecting centre-province relations into "provincial variables" and "central variables". Identifying these variables is not an easy task, not least because it is difficult to isolate variables that are not in themselves a product of the interaction of other variables. For example, the level of development of a province's infrastructural base is shaped by the legacy of pre-1949 policies, regional development priorities, national defence considerations, the location of raw material supplies and so on. Nevertheless, attempting to analyse the impact of the interaction of these variables on economic modernisation and centre-province relations in the 1980s is essentially what this thesis is all about.

When analysing the reforms in China in the 1980s, uninformed western observers often refer to the lack of political reform to accompany economic reform in China. These observations stem from an incomplete or extremely narrow concept of what constitutes political reform. Political reform is too often equated with changes in human rights policy and democratisation of the political system. Although these are obviously areas of great interest and importance, the absence of specific political liberalisation does not preclude the existence of any political reform.

It is difficult, if not completely impossible, to separate political reform from economic reform in a communist party state. Indeed, the economic orientation of any state is a key component of that nation's political and social systems. In China and other communist party states, controlling the economic system for the benefit of the proletariat was one of the theoretical lynchpins of the political system. Any reform of the existing economic system designed to defend the interests of the Chinese proletariat - and one on which much time, effort, capital and human suffering was expending to create and maintain - clearly has a political significance. Given the great pains that the CCP had gone to to justify the old system and to laud its achievements, the political implications of deciding to abandon it are even more obvious. At the very least, allowing the domestic market and the wider international economy to influence economics in China necessitated tortuous (and less than convincing) ideological justifications of how the new policies could contribute to the creation of a socialist society, and thus defend the interests of the proletariat.

Furthermore, and more pertinent for this study, the economic and political systems were intertwined to serve more practical and pragmatic functions. As will be discussed in detail in chapter one, exercising control over key economic functions is one of the centre's key levers of control over the provinces. Any change in this economic relationship between centre and province also entails a shift in the political relationship between the two. In addition to influencing the bipartisan relationship between centre and province, administrative decentralisation can also lead to a more complex and multi-levelled realignment of province-province relations.

Although decentralisation of power within the administrative system can lead to a significant realignment of relationships, it only directly affects the relatively small sector of the population that colonise the party state administrative system. As noted in the discussion of Centralist Models of centre-province relations above, economic change results in more fundamental political reform when "market decentralisation" takes place. The greater role assigned to market forces in regulating economic activity

entails a decentralisation of decision making powers to producers and managers. Although party supervision of major economic actors and decision makers is retained through the nomenclature system³³, a degree of decision making authority is transferred away from traditional power holders to wider sectors of the population. In combination with the policy of opening to the outside world, some of the decision making power that party-state officials lost even found its way out of China altogether. By the end of the 1980s, Japanese investment fund managers and even Taiwanese entrepreneurs were in a position to influence the nature of Chinese economic development. As the geographical pattern of foreign investment was far from even, this had an important impact on the spatial wave of modernisation in China.

The strategy adopted by the CCP to generate economic modernisation in the 1980s was a mix of administrative decentralisation and partial market decentralisation. In combination, they resulted in a elemental shift in both the balance of power and the locus of power in the PRC. Reforms weakened the old lines of command of central planning without effectively strengthening market control mechanisms. As a result, although the benefits of market reforms were felt in China, they were prevented from achieving their true potential. For example, although inter-provincial trade did increase, formidable obstacles remained for the establishment of a truly national (and rational) internal market.

The 1980s witnessed the birth pangs of a new economic system in China. A fundamental change in the role of the provinces and their relationships with Beijing was an inevitable consequence of this process. With the gradual transition from a state-planned economy to one where market forces played an ever increasingly important role, we witnessed the start of the transition from the old system based on the vertical political relationship between centre and province to a new system increasingly based on horizontal economic ties between economic cores and their peripheries. But because of the only partial nature of the move from plan to market, the transition from old to new relationships was incomplete. As a result, new core-periphery relationships had to be formed whilst the old centre-province relations were still in existence, a situation that caused a third type of relationship that was a distorted amalgam of the other two.

Given the complexities of reforming such a vast economic entity as China, the old system could not simply be swept away overnight. With new economic forms being grafted onto existing patterns, it was inevitable that some problems would emerge.

One of the most glaring of these problems was the centre's loss of control over the economic affairs in some provinces. As will be shown in chapter three, concern with (and criticism of) the growth in provincial autonomy was a constant feature of central leadership speeches and communiques throughout the 1980s. Although some leaders did complain about the loss of power in itself, this was not the primary cause of concern. Indeed, leaders such as Zhao Ziyang had actually advocated the decentralisation of power. More important was the resulting distortions that occurred in the national economy, most clearly evidenced by the growth in capital construction spending that the central authorities tried (and failed) to control throughout the 1980s.

This unplanned growth in capital construction investment was a symptom of the underlying cause of most of China's economic problems during the decade. Far too often in the 1980s, reforms in one sphere undermined the rationale of reforms in other areas. For example, the reform of the system of remitting profits to the centre was at odds with earlier changes in centre-province revenue sharing arrangements³⁴. Problems of coordination were intensified as the full impact of apparently non-spatial policies emerged - most notably the dismantling of central pricing and allocation controls and the introduction of more market mechanisms.

Some of the blame for the lack of coordination between reforms in different areas must be placed on a lack of expertise and knowledge regarding the cumulative impact of those reforms. To be fair, identifying the consequences of the interaction of reforms in various areas is not an easy process, and by virtually any standards of comparison, Chinese reforms were far more successful than any comparable reform programme. But equally important in shaping the evolution of the reform process (and the consequent lack of coordination) was the nature of elite conflict in the PRC.

This problem of elite conflict has two main thrusts. Firstly, the incremental and reactive nature of the reform process in the 1980s was in part due to considerations of elite consensus. Even if a single and comprehensive reform programme had existed (and the evidence is that it did not), it is unlikely that reformers could have gained sufficiently support from more conservative central leaders to get their package adopted. As shall be shown in chapter two, although the post-1978 leadership agreed that they wanted to reform the old system, consensus was lacking on the pace, scope and ultimate goals of reforms. As such, reformist leaders were forced to take a step-by step approach to minimise opposition to their reforms. Furthermore, when problems arose (as was inevitable in the process of transformation) immediate remedial action had to be taken

to prevent opposition from conservative leaders putting a brake on the whole momentum of reform.

Secondly, in reaction to the above, economic reforms were at times based on what was best from elite conflict considerations, rather than on what was best for the economy. For example, You Ji argues that in 1984, what was needed from a position of economic rationality was to push ahead with price reform³⁵. But due to the strength of opposition in the central elites to such a move, a policy of devolving further powers to provinces was instead chosen. This policy meant that the powers of conservative leaders at the centre were undermined as much of their decision making power was transferred to lower levels. This move may have been entirely rational from the viewpoint of expanding the reform coalition in the provinces and reducing the authority of conservative central leaders, but was irrational in terms of the economic situation at the time.

It should be noted that even reform minded leaders were concerned with the growth of local power and its impact on economic development throughout the 1980s. In this respect it is valid to refer to "the centre's" (rather than individual central leaders') concern about the loss of central power relative to the provinces. However, within "the centre" there were often wide differences of opinion over both specific points of concern, and over what should be done to remedy the problems.

So when a World Bank study in 1990 argued that the loss of central control in the 1980s was:

*"a matter of deliberate choice and not inadvertent. The Centre cannot, therefore, chafe over the loss of fiscal resources."*³⁶

it was misguided in its analysis. The people who were chafing at the loss of fiscal resources were not always the same people who had advocated the policies that had led to the loss of central fiscal resources. On the contrary, those policies had, at times, been pursued specifically to undermine the power of less reform minded central leaders. When central leaders articulated criticism against provinces and provincial leaders in the 1980s, these comments should not be taken as representing the opinion of the central leadership as a whole.

Thus, the inevitable problems of transition were compounded by the nature of political conflict within the Chinese elite. However it must also be noted that some of the problems relating to centre-province relations were a result of deliberate policy

initiatives. For example, the existence of different pricing mechanisms for raw materials and other commodities meant that different parts of the country were forced to play by different economic rules. Although there were structural (not to mention political) impediments to completely abolishing administrative controls over pricing and allocation, it is inconceivable that there was not also an element of strategy here in the form of subsidising the expansion of China's light and consumer goods industries. A clearer example is provided by an analysis of changing financial relations between centre and provinces. The three municipalities of Beijing, Shanghai and Tianjin, so crucial to the economic growth and stability of China, remained under much firmer central guidance and direction than provinces such as Guangdong and Fujian. As a consequence, the spatial impact of the market was distorted and the economic power of the south and south-east (particularly relative to Shanghai) was artificially enhanced.

Under the state planning system, the concentration of economic decision making power in the central party-state political machinery meant that Beijing was both the political and economic centre of China (although various attempts to decentralise elements of power and the regional self-sufficiency policy of the Cultural Revolution meant that the concentration of power in Beijing was far from total). By reforming the economic system in the 1980s, the central political machinery in Beijing abandoned a significant degree of its power. The long term survival of the CCP (and some would argue, the integrity of the Chinese state) depends to a large extent on what the recipients of this devolved power decide to do with it. On the evidence from the 1980s that will be presented in this thesis, the forces that work to keep China together appear to be stronger than those that presage disintegration. But the type of China that will emerge from the reform process, and in particular the way that different parts of the country relate to each other, is still very much open to question.

CHAPTER ONE: THE STRENGTHS AND WEAKNESSES OF CENTRE AND PROVINCES

1.1 Introduction

The 1980s witnessed great changes in the nature of centre-province relationships in China. But as the discussion of the 'no model model' in the Introduction implies, these changes did not affect all provinces in an equable manner. Although there was a significant shift in the balance of power from the centre to the provinces in general, this shift was neither total nor even. We are confronted with a situation at the end of the decade where the centre still retained significant forces of control, integration and national cohesion, but at the same time its position had been greatly weakened *vis-a-vis* the strength of some provinces.

In this chapter, I will examine the sources of power of both central and provincial leaders, and identify areas where the relative strengths of centre and provinces changed in the 1980s. Although this discussion will deal with general trends and shifts in the balance of power, the second half of this chapter will explore provincial variations in levels of autonomy in detail. The issues here are "desire" and "ability" - not only are there variations in provincial leaders' desires to attain autonomy, but neither do all provinces have the same ability to act independently of Beijing.

Almost all Chinese leaders at both provincial and central level are members of a relatively small party elite. As party members, all leaders are supposed to share a common aspiration to achieve the goals and targets of the party. They should also adhere to the Leninist principles of party organisation that binds subordinate levels of administration to the decisions of higher levels. Although free and frank discussion is encouraged during the policy decision making process, once a decision has been reached, then all levels of the party should fall in line and unite behind the new policy line. Adherence to the principles of democratic centralism should assure a compliant and responsive local leadership at all levels.

Yet from the beginning of the PRC ensuring provincial compliance with central directives has been problematic. The purge of Gao Gang and Rao Shushi in 1955 was at least in part caused by fears of regional independence from central control. But in the 1980s, provincial non-compliance with central directives reached new heights. By the end of the 1980s, the centre's control over some provinces was weaker than at any other time since the establishment of the PRC.

The issue of central and provincial strengths and weaknesses is inextricably linked with control over personnel. Indeed, appointments, transfers and dismissals of leaders is the most direct central instrument for controlling the provinces. Although the overriding importance of leadership and personnel will be reflected in the focus of this chapter, other instruments (control of propaganda, control of economic resources etc) will not be ignored. Lieberthal and Oksenberg have identified five main sources of central power³⁷. In addition to control over provincial appointments, these are the tripartite division of provincial power; control over mobile military units for use in the last resort; control of propaganda and media apparatus; and control over key economic resources. Although this analysis provides a useful starting point for an examination of sources of central control over provincial leaders, I have enlarged the number of instruments by addressing such features as the nomenklatura system and formal internal party-state control mechanisms. On the basis of the analysis in this chapter, we will gain a better understanding of the uneven shift in centre-province relations during the 1980s.

1.2 Sources and Strengths of Central Control

(a) Appointments and Dismissals

One of the main tools at the centre's disposal for controlling the provinces, and one which has been frequently utilised, is the ability to appoint and remove provincial leaders. The frequency of the use of provincial leadership changes makes it, in the eyes of some, the main evidence for the characterisation of China as a centralised political system. For example, Falkenheim argues that:

*"The case [for provincial autonomy] is difficult to make in the face of the clear ability of the central government historically to exact compliance of provincial leaders when desired and to remove them from office when deemed necessary."*³⁸

However, in some ways the extent of the use of purges to control provincial leaders can be seen as a sign of central weakness and failure. It is a course of action that demonstrates that 'normal' (if they can be called that) control mechanisms have failed to work - a local leader cannot be controlled, and must therefore be removed. With the seldom used exception of military action against a province or provincial leaders, the removal of a provincial leader is often the last resort.

Within the general scope of control over appointments and dismissals there is considerable diversity in the strength of the 'punishment' meted out against errant

provincial leaders. At one extreme, a provincial leader may be purged. At the other, he may simply be transferred to work in another province or agency to drive a wedge between the leader and his local power base.

It is important to remember that what happens to a provincial leader in the short run may not be a true reflection of his long term prospects. One of the tactics available to the central authorities is to cut the leader off from his power base by 'kicking him upstairs'. Provincial leaders can be promoted to central leadership positions, and then once under direct central scrutiny (and after a suitable period) be dismissed from office. The hope is that the local supporters can hardly complain if their local hero has been recognised by the central elites. This option was used by the CCP elites in the 1950s as a method of getting Gao Gang and Rao Shushi away from their local power bases before dismissing them. It also appears to have been the chosen tactic for removing Ye Xuanping from his powerbase in Guangdong in 1989. But as we shall see below, in Ye's case, this strategy was far from a total success.

Central control over provincial appointments causes particular problems for provincial leaders during times when the central elites themselves are divided over policy. Keeping in step with changes in central directions (and personnel) is a fact of political life for Chinese provincial leaders. It is also an extremely difficult process. An analysis of the conflicts that accompanied the Great Leap Forward provides a particularly good example. Teiwes notes that from late 1957 to 59, purges affected leading personnel in twelve provinces³⁹. In eight cases, charges of localism or local nationalism were made against provincial leaders. Perhaps more importantly, in most cases leaders were charged with practising 'rightist deviationism'. Leaders who had demonstrated excessive caution during the launching of the Great Leap Forward (ie: those who had not been carried along by the wave of zealous communisation) came under particular strong attack and were purged.

However, during 1960-61 when the folly of the Great leap was becoming clear with the human suffering of the great famine, provincial leaders were purged in six provinces for showing excessive enthusiasm in the implementation of Great Leap policies⁴⁰. Notably, the provinces of Gansu, Shandong, Qinghai, Anhui and Henan suffered from purges of leaders for both rightist and leftist deviations within the space of four years. As Teiwes comments:

*"Thus, provincial leaders fell for both rightist and leftist deviations. The men in charge of China's provinces had to cope with shifting national policy, and some were unable to navigate successfully in the rapidly changing situation."*⁴¹

The decade of the Cultural Revolution was also a precarious time for provincial leaders. Few survived all of waves of purges that took place during the chaotic period from 1966-1969. However, many of those purged leaders who had escaped with their lives returned to power as the initial radicalism was tempered by more practical considerations. According to Scalapino:

*"over 20 percent of the provincial full secretaries as of the end of 1975 could be considered rehabilitated party cadres, many of them individuals whose careers had seemed ended."*⁴²

Goodman calculates that in September 1975, 84% of provincial leadership cadres were serving in the same province where they had been provincial level cadres at the start of 1966 (although not always holding their pre-purge portfolio)⁴³.

Thus, in the pre-reform era, provincial purges were more often a consequence of leadership conflicts that cut across the centre-province divide rather than a result of a direct centre-province conflict. Dominant forces in the central elites attempted to create a responsive leadership echelon in the provinces. When the balance shifted at the centre, the consequences for provincial leaders were far reaching.

This feature of provincial leadership selection continued with the overthrow of the Maoist left after 1976. Officially, the aim of the wide-ranging provincial leadership changes of 1983 and 1985 was to streamline provincial leadership structures. Starting in 1983, the 295 party secretaries and deputy secretaries were reduced to 146 (74 incumbents, 72 new appointments), and the 371 governors and vice governors reduced to 176 (65 incumbents, 111 new appointments)⁴⁴.

These changes did achieve their stated goals - provincial administrations became less unwieldy, and variations in the size of provincial leaderships were evened out. But they also achieved other political ends. As deB Mills notes:

*"[another] goal of the reform, and one accomplished with an even greater degree of success, was removal of those incumbents who were old, uneducated, or politically suspect."*⁴⁵

In all, 72% of incumbents were removed from power during the leadership changes with only 307 out of 1082 secretaries, governors and vice governors, and Chairmen and Vice-Chairmen keeping their jobs. Streamlining the provincial leadership provided

an excellent opportunity to rid (as far as possible) provincial leadership echelons of remnants of the Maoist/Cultural Revolution left.

It is clear that the provincial leadership changes of 1983 are only the tip of a very large iceberg⁴⁶. The period from 1978-86 saw continued large scale changes in provincial leadership echelons, and the desire to rid the political system of the Maoist left provides only a partial exposition of these changes. The new post-Mao (perhaps more correctly, post-Hua) leadership could not simply go back to the situation of 1956 before Mao's radical interventions sent China's political and economic evolution down a number of blind alleys. It was initially advantageous for the leadership to look back to 1956 to gain support from as broad an anti-Maoist coalition as possible. But after this initial phase, new directions had to be followed and new policies put into place.

Having restored the anti-Maoists to power in the provinces in the first instance, subsequent waves of leadership changes saw the gradual attempt to install a forward looking provincial leadership stratum that were in tune with the priorities of reformist central leaders. Table 1.1 shows the extent of leadership changes in China's provinces between 1976-86. The figures represent the number of new appointees in every year. Where an individual was promoted to a new position from holding the position on an acting basis, it is counted as one new appointment. Where an individual has held more than one position in one year (ie: promoted from Deputy or Vice Leadership), it is counted as two appointments. As the table is broken down into government and party positions, if an individual was newly appointed to both party and state positions in the same year, this counts as two appointments in the figure for total appointments. Figures for secretaries includes secretaries, deputy secretaries, secretary generals and deputy secretary generals of provincial level units.

The figures for governors includes governors and vice-governors. As provincial level government institutions were only reconstituted during 1979-80, it would be meaningless to include figures for new appointments before 1981, as all positions were held by new appointees.

Table 1.1
New Provincial Appointments, 1978-1986

Year	Secretaries	Governors	Total

1978	100		
1979	110		
1980	52		
1981	78	63	141
1982	50	42	92
1983	114	120	234
1984	39	10	49
1985	102	60	162
1986	26	24	51

At first sight, the figures for government officials appear very low compared to party leaders. However, given that they mark a high degree of leadership instability considering that Provincial People's Governments were only re-introduced in 1979 and 80, one of the most remarkable features of provincial leadership in the post-Mao era was the insecurity of tenure of the founding governors of 1979-80. Of the 29 Governor level appointments made in 1979-80, none were still holding the position after the 1985 round of changes, and only Chen Lei in Heilongjiang and Ismail Amat in Xinjiang remained in place during the 1981 and 1983 changes. In no less than 16 cases, the founding governors had been replaced by the end of 1981. Of the total of 340 individuals who were reported as holding governor or vice-governor positions during 1979-80, only 37 (10.8%) were still in those positions at the end of 1983.

It is very important to note that these provincial leadership changes were not evenly spread across all provinces. Table 1.2 shows the number of new appointments by province over the years 1979-86 (again excluding the new government appointments of 1979-80). Party appointments for each year are given first. The range of new appointments goes from 19 in Guangxi to 49 in Qinghai.

Although total figures do give some indication of provincial leadership stability in general, a note of caution should be entered here. A large number of changes in any single year can distort the total for the period as a whole. For example, Beijing has a total of 40 new appointees which places it above average instability. But a quarter of these new appointments were to party positions in 1978. It is particularly notable that Beijing's leadership survived relatively unscathed from the 1983 round of changes, and totally unscathed from the 1985 round. I would surmise that the importance of Beijing meant that it was one of the first provinces to be subject to the central leadership's desires to create a compliant and responsive leadership, which reduced the need for more wide-scale changes later.

In short, the 1980s (and particularly the period up to 1986) saw provincial dismissals and appointments on a massive scale. In fact the period from 1978 to 1986 saw a greater proportion of leadership changes per year (with the exception of 1980) than in any year of the Cultural Revolution⁴⁷. As such, this instrument clearly remains the dominant mechanism for building and maintaining a supportive provincial leadership echelon, and a powerful sanction against errant provincial leaders.

Having said that, the central authorities have not had it all their own way in the 1980s. In April 1991, Guangdong Governor Ye Xuanping, who had been flouting central directives regarding economic retrenchment, was "promoted" to Vice Chairman of the politically impotent Chinese People's Political Consultative Conference (CPPCC). But at the time of writing, Ye has still not attended one CPPCC session in Beijing, and is reported to still be living in the Governor's mansion in Guangzhou and continuing to influence politics in Guangdong. The failure to accept a purge is not an entirely new feature - not every provincial leader happily accepted the verdict of the Cultural Revolution. Nevertheless, Ye's actions represent an important signal that even the most extreme use of central control mechanisms over provincial leaders were not entirely successful during the 1980s.

(b) Structural Divisions of Provincial Power

Another sources of power related to the centre's control over provincial personnel appointments is in the structural division of power at provincial level between party, government and military authorities. In this section I will deal with the division of power between party and government leaders, and leave the issue of provincial military commands to the discussion on control of local military units in section 1.1(f) below.

Lieberthal and Oksenberg argue that central leaders are not reliant on relations with a single formal channel of power between centre and province. For example, if a provincial governor is being obstructive or unsympathetic, then the centre can use the provincial party leader as a check and balance on the governor's authority. Although Lieberthal and Oksenberg are correct in pointing out the importance of the division of power in the provinces, their observations need to be qualified. Concentrating on the division of power between different bureaucratic structures - party, government and army - is in some ways misleading, not least because it is not always easy to make simple and clear cut divisions between the three branches of authority. Rather than emphasising structural divisions of power, it is perhaps more pertinent to assert that central leaders may have different relations with different provincial leaders within, as well as across, provincial leadership structures.

Despite the professed aim of the post-Mao leadership to separate the party from the state, holding dual positions of authority remains a feature of provincial politics in China. For example, in 1989 (the last year of this study), only two provincial level government leaders did not simultaneously serve as Deputy Secretaries of the local provincial party committee. These were Song Ruixiang in Qinghai, and Li Ruihuan in Tianjin. Li is only absent from the list because he also held the top (rather than second) party position in Tianjin.

Such an overlapping of provincial leadership positions strengthens the centre's control over provincial governors in two ways. Firstly, it reinforces the inbuilt checks and balances within the provincial leadership elites that Lieberthal and Oksenberg identify, and provides the centre with more than one channel of access to provincial leadership levels. Secondly, provincial governors are subjected to dual channels of command - to higher levels of the state administration, and higher levels of the party administration. As a result, they are more firmly tied to party organisation, supervision and discipline than would otherwise be the case.

(c) The Nomenklatura System

The issue of control over personnel does not stop at the provincial leadership level. Through the nomenklatura⁴⁸ system the party vets the appointment of personnel at all levels - not only within the party-state administrative machinery, but also to leading positions throughout society. For example, senior appointments in the banking sector, the educational establishment, the media, economic enterprises and so on, are all subject to control through the nomenklatura system. For Burns, this makes the nomenklatura system the key to party control within China:

"For students of Chinese politics, the nomenklatura system is significant because it is the instrument of party control of leadership selection in institutions throughout the country." (original emphasis)⁴⁹

While this is true, a distinction must be made between party control and central control. The nomenklatura system in China was originally designed to ensure both party control, and control of higher units on lower levels of administration. Appointments had to be vetted by the two tiers of administration above the level of the appointment. For example, an appointment at the immediate sub-provincial level of authority was subject to approval both by the provincial party committee, and the Central Committee in Beijing. This provided the central leadership with a check on the power of appointment of provincial party leaders.

However, Burns notes that the theoretical power of the CC over sub-provincial level appointments could not always be exercised. The sheer number of appointments that fell in the remit of the CC was so large that they were forced to depend on guidance and advice from the provinces. He argues that in most cases, CC approval of sub-provincial level appointments was merely a rubber stamping exercise, and some local authorities did not even bother seeking CC approval before naming appointments⁵⁰. The only time that the CC made real decisions was in "*exceptional circumstances*" such as when the provincial party authorities could not agree on who to recommend for a specific appointment⁵¹.

But even this relatively weak central control over sub-provincial leadership level appointments was decreased during the 1980s. From 1984, the CC gave up its rights to vet appointments to sub-provincial leadership levels and devolved its vetting authority to provincial level party committees⁵². Although this may have only made *de jure* what had become the *de facto* position, it nevertheless represented a reduction in the power of the centre at the provinces' gain. This move was particularly significant when combined with the decentralisation of decision making powers throughout the political-economic system. It meant that control over key personnel appointments at provincial level that impacted on local economic development (for example, in the banking sector) was now firmly in the hands of the provinces.

(d) Central Party and State Discipline Mechanisms

The decrease in central party authority that resulted from the decentralisation of nomenklatura control was theoretically offset by an increase in the scope of the Central

Discipline Inspection Commission's (CDIC) authority. The CDIC and Provincial Discipline Inspection Commissions would act as an inner-party watch-dog to ensure that provincial and lower level authorities did not abuse their new powers in the appointment of personnel.

As shall be seen in chapter three, a number of senior provincial figures did lose their jobs as a result of inner-party investigation in the late 1980s. In 1985-86, 74 provincial ranked officials were given various degrees of punishment after CDIC investigations (although the only top provincial leader out of these 74 was Ni Xiance from Jiangxi whose "crimes" included moral degeneration")⁵³. However, patronage and outright corruption were far from eradicated and became a target of intense public criticism in the late 1980s. Indeed, Burns notes that rather than going all out to stop patronage, the central authorities tacitly accepted it as inevitable and only acted to prevent its worst excesses⁵⁴. As such, although the CDIC was a relatively powerful central control mechanism, its true strength remained more potential than real.

The centre does possess other formal means of controlling provincial and lower level leaders. As mentioned in the introduction to this chapter, all party members are subject to the disciplines of democratic centralism which binds the minority to the will of the majority, and lower levels to the decisions of higher levels of administration. Article 10 of the CCP constitution states that:

*"the minority is subordinate to the majority, the lower Party organisations are subordinate to the higher Party organisations, and all the constituent organisations and members of the Party are subordinate to the National Congress and the Central Committee of the Party."*⁵⁵

Although provincial leaders are allowed to take local considerations into account in the implementation of policy, this freedom is strictly limited and in no circumstances should provincial leaders (or other party members) air their grievances with the centre in public:

*"Lower Party organisations must firmly implement the decisions of higher Party organisations. If lower organisations consider that any decision of higher organisations do not suit actual conditions in their localities or departments, they may request modification. If the higher organisation insist on their original decisions, the lower organisations must carry out such decisions and refrain from publicly voicing their differences."*⁵⁶

The party constitution also legislates for leading party members' or party core groups (*dangzu*) to exist within all levels of the state administration⁵⁷. They are charged with

ensuring that party policy is correctly interpreted and administered within the state sector. Although a plan to eliminate these party core groups was announced at the Thirteenth Party Congress in October 1987, their abolition has been slow in coming. Provincial government personnel in Shanxi Province in 1989 admitted that the process had been put on hold, and that they could not envisage their disappearance "*in the foreseeable future*"⁵⁸.

In addition to formal or structural control mechanisms, central authorities can call on a number of *ad hoc* arrangements to keep a check on provincial activities. Central work teams can be (and were) dispatched by a variety of central agencies to check on affairs if a province or provinces appear to be getting out of hand. For example, 30 work teams were jointly sent by the State Council (SC) and the CDIC to provincial capitals in 1983 to ensure that new regulations on the allocation of key materials were being implemented⁵⁹. Similarly, in the autumn of 1988, work teams were sent to the provinces from the Price Committee of the State Administration of Commodity Prices⁶⁰, from the fiscal inspectorate of the SC, and from the newly formed Central Credit and Loan Review Office⁶¹. The Price Committee work teams were given the power to sit in on any meetings at provincial levels that they deemed necessary in the course of their investigations.

Another of the centre's *ad hoc* control mechanisms, and one that was widely used throughout the 1980s, is calling provincial leaders to Beijing to attend special national conferences. These meetings are used by central leaders to reinforce central policies and to warn provincial leaders of the consequences of defying the centre. The special meetings are in addition to the annual plenary sessions of the National People's Congress (NPC) and the CC which also act as a vehicle for articulating central priorities and goals. However, as shall be shown in chapter three, the problem for central leaders is that although provincial leaders may say one thing when they are in Beijing, what they do once they have returned home may be an entirely different matter.

(e) Propaganda and Media

Another means at the centre's disposal to control provincial leaders is through propaganda and media apparatus. If the need arises, these can be mobilised to criticise leaders in the provinces. Such criticisms can take one of two forms - through editorials and comments in official party and government controlled publications, and through the reporting and dissemination of central leader's speeches, comments and theoretical

works. One of the features of Chinese politics in the 1980s was the sheer number of criticisms of provincial authorities for going their own way and ignoring central directives (see chapter three for details).

Such criticisms vary in both strength, and in whether the target of the comments is made explicit or not. It is relatively rare for individuals, or even individual provinces, to be mentioned by name in these attacks. Indeed, a *Xinhua* report from January 1990 attacking the Chairman of Hubei Provincial People's Congress, Huang Zhizhen, was recalled and only subsequently reported in the Chinese press after references to specific names had been removed⁶². The explicitly identification of a province (even more rarely, a specific provincial leader) as the target for criticism is therefore an indication of the strength of the attack. Even the suffix 'including province x' at the end of a general criticism of 'localities and departments at all levels' represents a relatively specific and strong attack on the named province. Furthermore, the strength and severity of these criticisms varies depending on their origin. For example, comments by a central leader at a high profile national level congress or meetings carry more weight than an authored piece by a journalist in a national publication.

Media and propaganda organs were almost constantly utilised in the fight against 'localism' throughout the 1980s. But the continual use of this control mechanism can be seen as an indication of its lack of force rather than of its strength. If it was an effective mechanism for controlling the provinces, then it follows that it would not need to be utilised as often as it was. Rather than being a powerful tool for controlling the provinces, control over media and propaganda appears to be more useful for justifying the use of other control mechanisms such as the removal of a provincial leader. The media was twice utilised in the 1980s to explain why the centre had felt it necessary to remove leaders in Hainan. But even then, the acceptance of the centre's actions by the local population appears to be dependent on more than just the official explanation of the purge. In the case of the dismissal of Governor Liang Xiang in 1989, official claims that Liang's dismissal had nothing to do with his close personal relationship with Zhao Ziyang⁶³ seems only to have confirmed the belief that this was exactly the cause of Liang's purge.

In addition, the media was also used in an evangelical manner. Calls for unity and adherence to the party's goals were a feature of (particularly but not exclusively) the Beijing media in the 1980s. This passage from a 1987 *Lilun Xinxibao* editorial is typical of the genre:

*"The crucial factor is people's unity. To achieve unity, we must have a firm faith. We can unite the people only through faith. Our faith was in communism during the struggles of the past several decades. It should be the common faith of millions upon millions united as one. With this faith, we can overcome any difficulty and setback."*⁶⁴

The efficacy of this method of ensuring adherence to the centre must, at the very least, be questionable.

(f) Central Control Over Key Economic Resources

The centre's control over the allocation of key economic resources, particularly capital, energy supplies, and transport and communications facilities, is one of its most powerful resources for exerting influence on the provinces. It is also the area where the centre's strength was most greatly diminished by the reforms in the 1980s. Indeed, I believe that the changing economic orientation of the Chinese state is the key to understanding the changing nature of centre-province relationships in post-Mao China. The expansion of the market, increased access to overseas investors and trade partners, and the shift from central grants to bank loans as a key source of investment capital all increased the ability of provinces to gain access to key resources independent of the central planning apparatus. In addition, reforms to the fiscal system and the revenue sharing arrangements between centre and provinces enhanced the financial autonomy of some provinces, most notably Guangdong and Fujian.

The extent to which the centre has ever been in total control of the (re)distribution of provincial income in China has been a matter of great debate (see the analysis of Donnithorne and Lardy's disagreements over fiscal decentralisation in section 6.2). However, even those authors who argued that the centre was in control in the pre-reform era would have to accept that the reforms of the 1980s severely diminished the centre's ability to control the allocation of resources within the Chinese economy. Byrd⁶⁵ goes as far as to suggest that so many resources are now available through the non-state sector that the planning and allocatory functions of the state can no longer regulate the economy. Byrd's assertion that all province's are in a position to get what they need on the market goes too far. However it is correct to say that central control over the allocation of key economic resources was a much weaker tool of central control in the 1980s (particularly in the latter half of the decade) than during the 1949-78 period.

Nevertheless, the centre retained the ability to, at the very least, influence local economic decision making through its allocation of coal and other energy resources in particular. In addition, on a number of occasions during the 1980s, central authorities forced the provinces to either 'lend' the centre finances by buying a stipulated amount of central government bonds, or to directly contribute more funds for central coffers.

In short, although control over marginal transfers and allocation of key economic resources remained an important instrument of central control in the 1980s, its strength and efficacy was greatly diminished (although this shift in power was not evenly spread across all provinces). When, after the September 1988 Third Plenum of the 13th Central Committee, the centre tried to reinstate controls over key industrial inputs, its initiatives at best only met with only limited success. In some cases, they were simply ignored. Identifying and explaining the loss of central control over economic affairs will form a significant proportion of this thesis. Chapter three traces the decline in central power in the 1980s and a deeper analysis of fiscal reforms, decentralisation, and regional development policy will be given in chapters four to six.

(g) Control of Military Forces

The use of military force to punish or remove provincial leaders is the ultimate sanction available to the centre. Such a use of force will only occur when other control mechanisms have failed to achieve the centre's aims. Indeed, it is not stretching a point too far to suggest that military action against provincial leaders can be seen as a recognition of the breakdown of the Chinese political system.

Direct military intervention in the PRC has been limited to the chaotic period of the Cultural Revolution. The military attack on Wuhan in July 1967 is the most extreme example of central use of force against provincial leaders. However, military units of the 8341 unit - Mao's "Palace Guards" - were also used to seal off the Beijing Party headquarters during the initial confused days of the Cultural revolution. Furthermore, as Forster notes in his study of Zhejiang, military units were also dispatched to resolve political conflicts in the provinces during the most chaotic days of the Cultural Revolution⁶⁶.

Although actual military action against a provincial leader can only be viewed as a potentially damaging last resort, the question of control over the military is an important part of the centre-province equation. The extent to which the party controls the gun in the PRC is an extremely complex, much debated and contentious question. To fully expand on all the issues in this area would fill the pages of more than one

thesis. For the purposes of this study, it must suffice to limit the analysis to the relationship between control over the military and centre-province relations.

The evidence of the history of the PRC suggests that although the centre may not have total control over the military the least we can say is that the military remains much more a force for cohesion than disintegration. The primary focus of identity and loyalty of the military is not the province where they are located. Notwithstanding the geographical distribution of PLA forces across China, the PLA emerged as a relatively autonomous actor in provincial politics. The financial, logistics and promotional structures of the PLA all encourage loyalty (or at least acquiescence to) central military organisations rather than local party-state authority. The increased professionalisation of the military in the 1980s may well reinforce these instincts. With promotion to high position reserved for graduates of military academies, socialisation into military behaviour and identification with the PLA as an institution will outweigh loyalty to the host locality.

As with control over provincial leaders, control over appointments and dismissals provides the centre with considerable leverage over the military regional commands. Senior personnel appointments are made by the General Political Department of the PLA in conjunction with the Central Military Commission (ie: not subject to provincial fiat). Through the various shuffling of regional military personnel in the 1980s⁶⁷, military regional commands evolved into conglomerates of leaders from varieties of regional backgrounds, but with common military backgrounds and loyalties. On an operational level, the Military Region's ability to mobilise troops is, formally at least, restricted by formal channels of military command that require the prior approval of the Central Military Commission, and the cooperation of the Ministry of Railways⁶⁸.

The potential for a realignment of military loyalties in some areas in the future cannot be totally dismissed.

There are some indications that the focus of loyalty was slightly blurred in the 1980s. As shall be shown in chapter three, there were one or two instances in the 1980s when military units were used by provincial authorities to defend provincial economic interests.

But in contrast, local authorities were increasingly bold in their dealings with local military forces, and at times acted in a manner more likely to alienate local military forces than to woo them. A 1988 *Jiefangjunbao* article complained that localities were using their allocatory powers to force military units into providing funds for local

projects. It claimed that over RMB 70 million had been paid by military units to local authorities after threats that non-compliance would result in the removal of water and electricity supplies to military camps⁶⁹.

Another factor to be considered is that military forces also provide economic functions. With the fear of military engagement with one or both of the superpowers now all but gone, military factories are increasingly turning to civilian production. Coal wagons used by Shanxi Province to trade coal on an (at best) semi-legal basis were produced and supplied by a military enterprise in Hubei⁷⁰. In addition, military construction corps were deployed by some local authorities to aid in the rapid expansion of construction projects in the 1980s.

This evidence suggests that the PLA's growing economic imperatives may lead to local military units identifying themselves with and supporting local economic priorities. However, another potential outcome must also be considered. A Shenyang aircraft plant started to produce refrigerators and television sets alongside Jian-8 fighter planes⁷¹. Rather than complementing local civilian economic activity, this may result in conflict with civilian producers competing for scarce raw materials (particularly energy) and markets. As Swaine has noted, despite common geographical boundaries, the interests of party and army at local level often pull in different directions⁷².

Peter Kien-Hong Yu argues that there are factors that do suggest that some MR commanders may become tolerant of (if not actively supporting) regionalist tendencies⁷³. These range from the prospect of forging relations with foreigners and overseas Chinese to the desire for MR commanders to be big fishes in smaller "regional" pools. But Yu's analysis is concerned with future prospects rather than recent history. The post-Mao leadership has gone to great lengths to ensure the maintenance of control over the military, and despite some isolated indications of a shift in the focus of some military officials' loyalty, there is certainly no suggestion in this thesis that the military in the 1980s was a force for regionalism and fragmentation rather than one of control, unity and cohesion.

1.3 Sources and Strengths of Provincial Autonomy

The above analysis of the sources of central control contains within it the starting point for an exposition of the growing strengths of sources of provincial autonomy in the 1980s. For example, the 1984 reform of the nomenklatura system enhanced the power of provincial leaders to appoint local personnel at the expense of the centre.

This is not to say that all of the power that the centre lost was directly gained by the provinces. The aim of the market decentralisation measures of the 1980s was to give more power to managers and producers and not to merely transfer power from the centre to the provinces. Nevertheless, as shall be shown in more detail in chapter four, some of this power did become lodged at provincial level. In combination with administrative decentralisation, market reforms also acted to enhance the ability of some provincial leaders to act independently of the central authorities. Rather than simply re-iterate the sources of central control that were weakened at the province's expense in the 1980s, this section will instead focus on other sources of provincial autonomy.

(a) Provincial Leaders as Central Leaders

Although this chapter concentrates on the sources and strengths of provincial and central leaders, the division between the two groups of leaders is not always clear cut. All provincial leaders are part of the central elite to a lesser or greater extent. This dual role can take on a number of different forms. At the highest level, some provincial leaders serve simultaneously as members of China's highest decision making organs. For example, during 1989, Li Ruihuan was on the Standing Committee of the PB whilst concurrently holding the positions of Mayor and first Party Secretary in Tianjin. How he found the time to carry out all his duties is another question altogether.

Provincial leaders also participate in national level decision making forums such as the NPC and the CCP CC. Although the decision making power of these bodies may be more apparent than real, they nevertheless give provincial leaders an institutional basis for participation in national level politics. In the 1980s, NPC sessions did see some frank and open discussions by provincial leaders of policy issues. As shall be shown in chapter three, these tended to revolve around pleading special circumstances, and airing grievances against the quasi-independent economic policies of the rich "Gold Coast" provinces.

In addition to participating as members of the NPC or CC, provincial leaders will be also be consulted in *ad hoc* and informal ways during the decision formulation process. Provincial leaders will be invited to special work conferences where provincial interests are aired and taken into consideration although the emphasis is usually on explaining new policy directions. Informal bilateral relations will also take place between central leaders and provincial leaders who stand to be specifically affected by new policies.

Perhaps the clearest indication of the power of provincial leaders in the policy formulation process is the debate over the substance of the Eighth Five Year Plan (FYP) in 1990. Central attempts to revise the fiscal system were resisted by provincial leaders. Premier Li Peng failed to convince the provincial leaders in either formal NPC sessions or in two special meetings of provincial leaders in September and November. The proposals finally went to a plenary session of the CC where an uneasy compromise was reached that essentially left the conflict unresolved⁷⁴.

In addition to these formal cross-overs between provincial and central power, there are a number of informal channels open to provincial leaders to influence the central decision making apparatus. Bending the ear of a sympathetic central leader is a method of influencing decision making in every political system, and China is no exception. Furthermore, as shown in the Introduction, writers such as Whitson⁷⁵ and Whitney⁷⁶ argue that Chinese decision making is dominated by competing provincial or regional interests. They perceive the centre as an arena for fighting out regional conflicts, and an arbitrator of provincial interests respectively. Despite my reservations about Whitney's and Whitson's hypotheses, there is no doubt that some provincial leaders do have influential connections with powerful central patrons. This issue will be dealt with in more details in the discussion of types of provincial leaders below.

(b) The Key Link in the Administrative Hierarchy

Another powerful source of provincial autonomy is the position of provincial leaders as the link between the central authorities and the population. In the process of implementing central policy, provincial leaders are instructed to take local conditions into consideration. The exact relationship between adhering to central directives and taking local conditions into account is far from clear cut. As such, the system allows provincial leaders a degree of autonomy, but does not specify the limits to this local discretion. Virtually the only way that a leader knows whether he is acting within the limits of the acceptable is when he has gone too far and the centre reacts adversely.

Provincial leaders have power to decide what aspects of policy should be emphasised, and which should be downplayed. Invariably, even when a central policy is being flagrantly ignored, they will declare that they are acting within the spirit of central directives and taking national interests into account. As such, although provincial leaders in the 1980s had a relatively large degree of leeway in interpreting and implementing central policy, they remained constrained to one degree or another by official central goals and policies.

The use of local discretion in policy implementation usually takes the form of negative power - the provincial leader blocks central directives. But it can also take the form of positive policy implementation in the form of experimenting with new projects. For example, experiments with forms of responsibility systems in Sichuan and Anhui in the late 1970s paved the way for subsequent nationwide reforms. However, I would argue that this has more to do with factional alliances with central figures than it is an expression of true provincial independence.

Donnithorne claims that another related source of provincial power is through their control of information to the centre⁷⁷. As provinces are a key unit of accounting, central plans and directives are built on the information that the centre receives from the provinces. As such, the provinces can exert influence over the central planners in two ways. Firstly, they can deliberately overspend to try and force central planners to allocate more funds to the province in subsequent years. Secondly, provinces can withhold or distort the information they pass to the centre. They can retain surplus funds for local use, or exaggerate deficits in order to gain larger central grants in the next plan.

Even when the financial system was highly centralised and many industrial units were directly under central control, a degree of economic information still passed through the hands of provincial governments. But with the decentralisation of control over light industry to the provinces in 1956-57, the amount of financial information directly collected by branch agencies of the central planning organisations was reduced. This reliance on provinces as important units of accounting has been intensified by the reforms of the 1980s. However, it must be noted that with the increasing complexity of the Chinese economic system, provincial authorities are increasingly reliant on lower levels of administration and basic units of accounting. What has been the centre's loss has not necessarily been the provinces' gain.

(c) Efficacy of leadership

It perhaps goes without saying that a provincial leader must perform his job efficiently if he wants to stay in power. But there may be differences of opinion over what actually constitutes doing the job well. As noted above, with the flexibility in the system that allows provincial leaders leeway in policy implementation, it is sometimes difficult to know what is considered successful local implementation, and what is considered illegitimate localism.

Nevertheless, I would argue that a provincial leader can gain leverage *vis-a-vis* the centre by successfully representing the interests of his region. A skilful provincial leader who manages to increase the wealth of his region will gain local popularity. Even though this may irk the central authorities, particularly if the leader is pushing the boundaries of the permissible to their extreme (or even crossing them), it is difficult for them to do much about it. As an Economics Daily article bemoaned in December 1988, local leaders who ignore the central line and take local interests into account can not be easily dismissed without weakening the party's already fragile legitimacy:

*"The problem is that people who adopt counter measures do not have a bad reputation in their own region; instead people have a good appraisal of them."*⁷⁸

This is a particularly pertinent factor when the CCP is trying to rebuild legitimacy - something that it has been trying to do throughout the 1980s. If local legitimacy has been rebuilt through the success of local economic policies, removing the provincial leader responsible for those policy initiatives can be counter-productive. Hence the need to "promote" Ye Xuanping rather than formerly or overtly purging him. Even the disgraced Hainan leadership (dismissed for corruption) were reported to have been popular with the Hainan population for making money for the locality - no matter how underhand the means.

(d) Control Over Local Appointments

As Burns notes in his analysis of the reform of the nomenklatura system, even before the 1984 changes the provinces retained significant *de facto* control over local appointments⁷⁹. The power of provincial leaders in this regard should not be overstated. One of the fundamental problems within the Chinese economic and political system is a lack of adequately trained and expert cadres to fill all positions of responsibility. The lower down the system you go, the more acute the problem becomes. Therefore, even if a provincial leader wants to change the composition of his local level subordinates, he may have no alternative to the present incumbents.

Nevertheless, control over local appointments does give provincial leaders the ability to build a local power base. Furthermore, through the dual control structure, provincial leaders can exercise an element of control over provincial branches of central organisations. A branch agency will be responsible both vertically to its central superior, and horizontally to the provincial authorities. In times of conflict with the centre, the province may use its control over allocation of personnel and resources to the local agency to "persuade" it to go along with the province's priorities.

(e) Local Media Sources

Although the central authorities retain a strong grip on national media sources, a considerable degree of control over media sources rests at the provincial level. In addition to the centrally controlled media sources, provinces and cities host radio and television stations, evening and daily newspapers, and publishing companies. These media sources can be utilised in two main ways. Firstly, they may be used to express views on political and events from a provincial perspective. In the 1980s, they were used as a vehicle for expressing inter-provincial conflicts in particular. Secondly, rather than making overt statements, the provincial media can be used to report what appears at first sight to be "neutral" information. By continually portraying provincial economic success stories, support for the local leadership can be steadily built up.

Provincial media sources can also be utilised in times of intra-elite conflict at the centre. Shanghai's media apparatus was utilised by the Gang of Four to attack Wu Han at the onset of the Cultural Revolution. Shanghai was also utilised as an alternative to the central media establishment in Beijing during 1991-92 by leaders who wanted to initiate a faster pace of reform than the more conservative leaders who controlled the central media apparatus. However, these cases are not really signs of provincial strengths or weaknesses. They instead demonstrate the use of provincial bases in intra-elite factional conflicts, an issue that will be dealt with in detail in section 1.4a(i) below.

(f) The Strength or Weakness of the Centre

A final, and crucial, variable of provincial autonomy is the degree of autonomy of provincial leaders is dependent on the unity and cohesion of the central elites. When the centre is weak, disunited or overburdened with work, then the power of provincial leaders is enhanced. If the centre is ineffectual and weak as it was at the end of the Qing dynasty, then power tends to gravitate to the next level of authority. If the centre is split by competing policy packages vying for prominence as it was for much of the 1980s, then provincial leaders can emphasise those elements that best suits their local requirements. Under such circumstances alliances between like minded leaders at the centre and in certain provinces are likely to emerge. If the centre takes on too many important projects at the same time, it will be unable to control the implementation of all projects in every area⁸⁰. Furthermore, Manion's analysis of the cadre retirement system in China found that due to the sheer number of central changes being implemented at the same time, policy objectives tended to conflict with each other⁸¹. In

addition, policy changes were often announced and passed down to lower levels without clear objectives, thus presenting provincial leaders with considerable leeway in policy implementation.

Intra-elite conflict had a profound impact on the trajectory of centre-province relations in China in the 1980s. Not only did it create many of the conditions mentioned above where provincial leaders' power was enhanced, but it also affected the way in which reform policies were initiated. The dysfunctional impact of the interaction of the reforms is one of the keys to understanding the changing nature of the centre-province relationship. A fuller analysis of the causes and impact of intra-elite conflict will follow in chapter two.

1.4 Variations in Provincial Leaders' Relation With the Centre

Sections 1.2 and 1.3 identified the sources of central control and provincial autonomy, and analysed the changes in the relative strengths of each in the 1980s. But as stated in the chapter introduction, these changes in the balance of power were not evenly spread across all provinces. How and why these divergences in the spatial impact of the reform process occurred will be dealt with in detail in chapters three to six. In the final section of this chapter I will address the issue of variations in provincial leaders' relationships with (and attitudes to) the centre. This discussion will be split into two sections - variations in provincial leaders' relationships with the centre, and variations in central attitudes to different provinces.

(a) Variations in Provincial Leaders' Attitudes to the Centre: A Classification of Provincial Leaders

Interpretations of the provincial leaders' desires to attain autonomy from the centre are closely related to concepts of the locus of power in the PRC. For those who interpret China as a centralised political system, provincial leaders are seen as agents of central authority in the provinces. For those who base their interpretations on notions of decentralised control, however, provincial leaders are seen as representatives of their province, fighting for local interests.

The real situation does not, however, fit simply into a centralist-decentralist dichotomy. Firstly, the relationship between provincial leaders and the centre is relative, not absolute. All provincial leaders are to greater or lesser extents both central agents and defenders of the locality. The issue, therefore, is one of degrees of loyalty, and of primary focuses of identification. Nevertheless, it is possible to identify different types of provincial leaders based on whether they are **primarily** agents of the centre or provincial representatives. In addition, a third group of leaders that Lieberthal and Oksenberg term "political survivors"⁸² can be identified. These leaders attempt to find a way between the vagaries of the Chinese political system by adopting a pragmatic and flexible approach.

Although these classifications provide over-strict delineations between types of provincial leaders, they nevertheless provide an interesting framework for provincial leaders within the PRC. At the very least, they highlight and emphasise the fact that individual provincial leaders vary in their desire to attain autonomy from the centre (or put another way, in their adherence to central control). Thus the strength of central control mechanisms over provincial leaders is not a constant and universal force.

(i) Agents of the Centre

This first category is perhaps the broadest of the three, and contains within it a number of subdivisions. In particular, a distinction must be made between those provincial leaders dispatched to the provinces for specific reasons, and provincial leaders who decide to take on the mantle of central agents themselves.

The centre may send leaders to the provinces for a number of reasons. Firstly, if a provincial administration is in chaos, then a central trouble-shooter may be sent to arbitrate between competing factions in the province. Secondly, a central agent may be sent to a province after the incumbent provincial leader has been found guilty of misdemeanours and removed from his post. At this stage, a fresh 'central' face will be deemed necessary both to restore legitimacy and to carry out an investigation of the previous administration.

We should not take the term 'agents of the centre' too literally. It does not necessarily mean that these leaders move directly from a position in Beijing to the provinces. Although such transfers do take place, this is by no means always the case. New provincial appointees are often moved from positions in other provinces rather than from the centre itself. These leaders can combine the necessary independence and distance from the province's problems with experience of provincial administration in general. As such, the term 'outsiders' is probably a more apt label to describe leaders appointed in these circumstances than 'central agents'.

In addition to these two types of 'central agents' identified by Lieberthal and Oksenberg⁸³, we should add a third category. A central agent may be necessary to oversee policy changes that the centre deems to be too important or contentious to be left to the current provincial leadership. This will be particularly important when a province's local interests impinge with the interests of the nation as a whole. For example, I would argue that the appointment of the former chief engineer in the Ministry of Coal, Wang Senhao, as Governor of Shanxi Province represented an attempt to facilitate the exploitation of Shanxi's coal reserves for national economic development⁸⁴. Wang had no previous experience of provincial administration, but was cognisant of the importance of ensuring a steady and cheap supply of coal from Shanxi to China's major industrial centres (and also for export). Wang's attitude to Shanxi's coal reserves is therefore likely to be very different from other provincial government officials who have expressed (in private) displeasure at the way that Shanxi was being exploited by the centre by not receiving a fair price for its coal⁸⁵.

Whilst attempting to identify different types of provincial leaders, it is important to remember that although some provincial leaders are more firmly to the centre than others, this does not necessarily mean that they are loyal to the centre as a unitary entity. I would argue that in most instances, where a provincial leader can be identified as a central agent, he will be an agent of an individual central leader (or group of leaders) rather than to the centre as a whole. Indeed, given the divisions within the central elite (see chapter two), loyalty to one central leader at times virtually precludes simultaneous loyalty to other central leaders.

So rather than a leader being sent to a province by the centre as a whole, a provincial leader may instead be dispatched by a leader or a faction to help build up a power base in a particular province. This factor was an important component of the power struggle during the pre-mortal succession crisis of 1973-76, and its continuation into a post-mortal struggle after the elimination of the Gang of Four in 1976. As Oksenberg notes:

*"Factions in Beijing were not linked equally to all parts of the country. Rather, some factions had more intimate connections with certain cities, provinces, and lower levels, while other factions had their strength in different regions."*¹⁸⁶

For example, the Gang of Four had power bases in Shanghai, Baoding, Hangzhou and Shenyang; Hua Guofeng in Hunan, Shaanxi and Hebei; and Deng Xiaoping in the south and south west.

Provincial power bases are important for central factions for a number of reasons. Firstly, due to provincial participation on central bodies such as the CCP CC and the PB, they can even create power bases within the central elite itself. Secondly, during periods of bitter intra-elite conflict, provincial power bases can also provide alternative political centres to Beijing. For example, the Cultural Revolution was effectively launched from Shanghai and Hangzhou in competition and conflict with elites in Beijing. Thirdly, in extreme cases they can also provide safe havens in times of crisis as evidenced by Deng Xiaoping's "escape" to the south after being purged in 1976.

Fourthly, provincial power bases can be used to tilt the balance in a faction's favour during debates over policy formulation. Loyal provinces become the testing ground for new projects to prove the wisdom of a leader's preferred option. In such circumstances, it is wise to load the dice and choose "model" areas that will lead to the best possible results. Experiments with rural responsibility systems in Sichuan and Anhui before 1976 are a good example. It is notable that the Sichuan leader, Zhao

Ziyang, was rapidly promoted to the party's central elites after the success of his experiments in Sichuan.

The second main subdivision of central agents is those leaders who take on the role of central agent on their own initiative. Power considerations are an important motivating factor here. Provincial leaders may attach themselves to a central leader and prove themselves a loyal and worthy follower in an attempt to gain recognition and promotion to higher positions. But other motivating factors should not be ignored. A shared ideological commitment with a central leader can motivate a provincial leader to ally themselves with the centre (although separating purely power motivations from purely ideological motivations is an almost impossible task).

Again, we must bear in mind the question of loyalty to whom at the centre. During periods of political conflict at the centre, provincial leaders may take up the policy of one group and champion it fervently in their province. For example, Guizhou province supported Chen Yun's strategies during 1956, while the competing Maoist policy was championed by a vigorous communisation campaign in Henan during 1957. In such cases, the leaders of these provincial testing ground put their careers on the line. If the campaign is a success and accepted as national policy, then the rewards, as shown in Zhao Ziyang's case, can be considerable. However, if they pick (or are picked by) the losing side, then the consequences can be severe.

The vagaries of vacillations at the centre thus have a profound affect on central agents in the provinces. When things are going well for the patron group in Beijing, then the provincial clients can bask in the reflected glory. But as Solinger notes:

*"once a central leader or faction falls, local followers will be certain to disappear from the scene of power within a short time."*⁸⁷

However, as the analysis of defenders of the locality and survivors below will demonstrate, security of tenure is something that cannot be guaranteed for any provincial leader no matter which group they belong to.

(ii) Defenders of the Locality

The second type of provincial leader identified by Lieberthal and Oksenberg is the defender of the locality. These leaders fight for provincial interests, and try to extract the maximum benefit from the centre for their area. Teiwes provides three examples of such provincial leaders; Tao Zhu, who was accused of being "over-zealous" in the promotion of Guangdong's interests; Li Jianxu in Henan, who promoted a policy of

ignoring grain production in favour of peanut cultivation to maximise local revenues (and then called for central allocations to make up for the grain deficit); and Li Jingquan in Sichuan who blocked the transfer of grain from Sichuan to grain deficit provinces⁸⁸.

According to Chen Yizi⁸⁹ and He Lingzuo⁹⁰, the tendency for local leaders to identify with the needs of their territory is a function of the lack of a separation of powers in the Chinese political system. As party-state functions are so intertwined, it is natural that party officials, rather than concerning themselves with the type of party work that would bind them to the party organisation, instead spend the majority of their time dealing with local economic concerns:

*"the party organisation of each place will directly command local government and economic activities and very likely become the party of that place.... Consequently, the party of Zhejiang represents the interests of Zhejiang, that of Fujian the interests of Fujian, and that of a county the interests of that county."*⁹¹

All provincial leaders must be defenders of the locality to some extent. It is their duty to ensure that local conditions are taken into account in the implementation of centrally defined policy. To ignore the needs and requirements of their province would thus represent a dereliction of their duties. Indeed, I would argue that it is tacitly accepted that a good provincial leader will try and maximise the benefits accruing to the province during negotiations with central planning and financial authorities.

Stepping beyond the acceptable (if not legitimate) boundaries of pursuing of local interests can incur heavy penalties - all three of the provincial representatives identified by Teiwes above were ultimately purged for their 'crimes'. But one of the greatest challenges facing provincial leaders is knowing where those boundaries lie. This problem is particularly acute during periods of central conflict. One one leader (or group) deems to be acceptable flexibility in policy implementation may be seen as illegitimate "localism" by other leaders. If the balance of power shifts at the centre, then provincial leaders who thought that they were adhering to central policy might now find themselves classified as miscreant defenders of the locality. Thus, it is important, although difficult, to make a distinction between "genuine" defenders of the locality and those leaders who are subsequently identified as "localists" after failing to respond quickly enough to a change in policy or leadership at the centre.

Furthermore, it should be noted that the tendency to look to the province may be exacerbated when the central authorities are either weak, or in turmoil as a result of intra-elite conflict. When there is a power vacuum at the centre, then the provincial leadership echelons are the natural locus for power to gravitate to. As such, the decision to become a defender of the locality may be an inevitable consequence of the lack of authority at the centre, rather than a conscious decision to challenge the authority of the central leadership.

It must be noted that identifying provincial leaders who are defenders of the locality is made difficult by the strategy that the leader may deploy. This was particularly pertinent during the 1980s. For example, if a province stood to lose out through the introduction of market reforms, then the local defender would presumably ally himself with more conservative central leaders. Similarly, provincial leaders in areas that would benefit from more market reforms may ally with radical reformers at the centre. In both cases, these leaders would become central agents so as to best defend their provincial interests. As such, the question of whom provincial leaders are loyal to was particularly important given the realignment of economic and political relationships in the 1980s.

(iii) Survivors

The third type of provincial leader is the survivor. Such an individual plays a careful and unstable balancing act between adhering to central orders and stressing the interests of the locality. This situation is unstable not just because of the often contradictory imperatives of following central orders and taking local interests into account, but also because there may be more than one central policy, and more than one provincial interest. As such, the success of such a balancing act depends to a large extent on the degree of factionalism within both the central and provincial leadership echelons.

The flexibility that is deliberately built into the provincial leadership position also makes this strategy a difficult one to pursue with success. Leaders are expected to adhere to central directives, while at the same time suiting measures to local conditions (*yin di zhi yi*). If the leader leans too strongly towards the central imperatives, he faces the prospect of losing the support of his locally based subordinates. If he leans too strongly towards considering local conditions, then he faces the prospect of being condemned by the centre for promoting local interests and ignoring central directives.

The system that was intended to make provincial leaders use their initiative in the implementation of policy can thus make their decision making very difficult. Survivors face the greatest problems when there is no clear policy coming down from the centre, or when conflicting orders are coming down from different groups at the centre. When the centre is in turmoil the safest option may be to do nothing at all, and wait to see which way the rest of the country jumps, or who wins the elite conflict in the centre.

(a) Variations in Central Attitudes to the Provinces

The above classification of provincial leaders shows that there is considerable variation in the desire of individual leaders to attain autonomy from the centre as well as highlighting the important issue of whom provincial leaders are loyal to. But there is another aspect to the relationship between provincial leaders and the centre - the extent to which a provincial leader's relationship with central leaders is dependent on the province (or type of province) the leader serves in.

This aspect of the centre-province relationship is a consequence of the fact that Beijing does not have a single relationship with all provinces. There are vast disparities in China's provinces in terms of levels of economic development, types (and mixes) of economic activity, degrees of strategic importance (both military and economic), importance as political centres, and so on. As each province has specific characteristics that shape that province's relationship with the centre, is it possible that this will not affect the province's leaders' relations with the centre? For example, although leaders in Guangdong and Tibet may possess the same desire to achieve autonomy from the centre, they are not in the position to achieve the same levels of autonomy.

The explanation for the variations in ability to achieve autonomy is in part found in the comparative levels of development of the provinces. As we shall see, this was a particularly pertinent point during the 1980s. With state allocation partly replaced by market allocation mechanisms, provincial dependence on the centre varied greatly across provinces. In some provinces it was simply not possible to obtain deficit goods and resources other than through central allocation. As such, their ability to attain independence from the centre was strictly limited. However, richer provinces had the wherewithal to obtain these goods and resources from the non-state sector (from both internal and external sources). They therefore had the potential to obtain more autonomy from the centre than other provinces.

But variations in the centre's attitude to leadership in different provinces also plays a very significant role. If we put the complex question of personal relations between

leaders at the centre and the provinces to one side for a moment, we can try to identify how the province that a leader serves in might influence that leader's relationship with the centre. Teiwes' in-depth study of provincial leadership stability provides an interesting (albeit out-dated) insight into the question of variations in central policy towards the provinces⁹².

Writing in 1972, Teiwes was attempting to explain why provincial leadership in some provinces were more liable to be purged than other leaders. He categorised provinces into four groups of stability - highly stable, basically stable, limited continuity and unstable. Taking the 1956-66 period as a whole, he identified the following groups of provinces in terms of stability (provinces are ordered in rank of stability; ie: Jiangsu is the most stable, and Gansu the least).

Table 1.3
Provincial Political Stability, 1956-66

Group I	Group II	Group III	Group IV
Jiangsu	Hebei	Liaoning	Qinghai
Jiangxi	Guangdong	Ningxia	Shandong
Sichuan	Xinjiang	Yunnan	Gansu
Jilin	Zhejiang	Hunan	
Shanxi	Shaanxi	Guangxi	
Tibet		Guizhou	
Inner		Henan	
Mongolia		Anhui	
Fujian			
Hubei			
Heilongjiang			

source: Teiwes, F. (1972) "Provincial Politics in China: Themes and Variations" in Lindbeck, J. (ed.) China: Management of a Revolutionary Society (London: Allen and Unwin) p. 152.

Teiwes came up with two important conclusions for this study. Firstly, Teiwes argues that being an overall donor or recipient of revenue, raw materials and food has a profound impact on a provincial leader's security of tenure. In particular:

*"A key index of central-provincial relations is whether a province is an importer or exporter of grain."*⁹³

The only province that was not normally a grain exporter falling into the highly stable group of provinces was Shanxi, which notably is a key supplier of coal and energy supplies. Secondly, he noted that:

*"It is intriguing that both before and during the Cultural Revolution national defense areas appear to have been insulated to some extent from the pressures of provincial politics."*⁹⁴

These assertions have now been overtaken by time. For example, Teiwes regarded a large number of provinces as "*national defense areas*", including Fujian due to its proximity to Taiwan. However, given the changes in the international environment since the early 1970s, and in particular, the CCP's perceptions of international threat, the classification of provinces as national defense areas carried much less significance

in the 1980s. In addition, the semi-reform of the Chinese economy in the 1980s means that the situation regarding surplus and deficit provinces has also been altered. Nevertheless, Teiwes' findings gives rise to a number of important issues.

Firstly, although national defence considerations may have been less important in the 1980s than in previous decades, they were not totally eliminated. With the situation in the central Asian republics of the former Soviet Union far from stable, the prospect of disturbances outside China spilling over into Xinjiang in the future cannot be discounted. It is notable that leadership stability in Tibet and Xinjiang in particular (and in Autonomous Regions in general) in the 1980s was relatively high⁹⁵. But rather than being a consequence of these areas' strategic national defence importance, I would argue that it had more to do with ethnicity and national integration. Tibet and Xinjiang both contain large national minority populations that are hostile to rule from Beijing. As such, it is important to have a strong hand and leadership stability in these areas to help maintain stability.

Secondly, the special position and role of the leaders of Beijing, Shanghai and Tianjin should be emphasised. Although more power was granted to provincial level units in the 1980s, Shanghai and the other two municipalities retained relatively closely tied to central control. Even though the central authorities were genuine in their desire to allow provinces more autonomy, Shanghai in particular was too important for the national economy to be given its head. The profits and taxes generated by Shanghai are crucial to the scope and direction of national economic policy. As a result, the centre keeps a closer check on its (and Beijing and Tianjin's finances) financial situation than on provinces that provide less to the central coffers. As a consequence, the natural spatial impact of the market has been distorted.

But there is also a political dimension to the closer central contact and control of leaders in the three municipalities. As Scalapino noted in 1976, political imperatives also play a role in tying China's three major urban centres to the central authorities:

*"Shanghai, which furnishes approximately one quarter of China's revenue and was the city where the Cultural Revolution was launched, remains critical to the direction of both Chinese politics and the economy."*⁹⁶

As noted in the discussion of the control of the media above, Shanghai remains an important (and sometimes almost an alternative) political centre today. It is further notable that Jiang Zemin was promoted from the Shanghai party leadership to become national party secretary general after the dismissal of Zhao Ziyang in 1989, and that

Zhu Rongji was similarly promoted from Mayor of Shanghai to the SC in May 1991. Tianjin Mayor and party secretary, Li Ruihuan, also made the transition from provincial to national leadership in 1989. All three of these leaders are well placed (and also well connected) to become prominent leaders in the post-Deng political system.

Table 1.2 showed that Beijing Municipality had an above average 40 new appointees in the 1978-86 period. However a quarter of these new appointments were to party positions in 1978, and it is particularly notable that Beijing's leadership survived relatively unscathed from the 1983 round of changes, and totally unscathed from the 1985 round⁹⁷. I surmise that the importance of Beijing meant that it was one of the first provinces to be subject to the central leadership's desires to create a compliant and responsive leadership in 1978. It was subsequently under tight scrutiny from the central leadership which reduced the need for more wide-scale dismissals later.

Thirdly, Teiwes' emphasis on the relationship between grain production and leadership stability has been altered by the semi-introduction of market mechanisms. With ownership, production and distribution of light industrial goods increasingly out of state administrative control, the mix of economic activity in a province has taken on a new importance. As the pricing and distribution of grain and coal (and other key raw materials) still largely under central administrative control, the degree to which a province's economic activity is dependent on the production of state-controlled resources is likely to influence that province's (and therefore the province's provincial leaders') relationship with the centre.

Building on Teiwes' analysis, we can hypothesize that, all other things being equal, there are six main factors that shape the nature of a provincial leader's relationship with the central authorities. Firstly, whether or not the region is an area of strategic national defence. Secondly, whether the province or region is inhabited by large national minority populations hostile to Beijing's rule. Thirdly, the level of economic development of the region, and in particular, whether it has the ability to attain financial autonomy from the centre. Fourthly, the mix between economic activity that is regulated by central administrative mechanisms, and that which is regulated by market mechanisms. Fifthly, the province's standing in the national development plan, for example, whether or not it has been targeted as a growth region, or the importance of the province for national economic development. And sixthly, the traditional importance of the region in relation to political centres of power.

1.5 Summary

This chapter has identified the sources of central control and provincial autonomy and shown how the efficacy of each changed during the 1980s. It has also demonstrated that there are considerable variations in both the desire and the ability of provincial leaders to attain autonomy from the centre. As shall be shown in more detail in chapter three, where provincial leaders had both the desire and ability to attain increasing autonomy from the centre, it proved increasingly difficult for the national leadership to do anything about it. We are confronted with a situation where by the end of the 1980s the centre still retained significant forces of control, integration and national cohesion, but where at the same time its position has been greatly weakened *vis-a-vis* the strength of some provinces.

Notwithstanding the weakening of some of the instrumentalities of central control, communist party rule continues to act as an agent of cohesion and integration in contemporary China. The strength of central control may have been weakened, but ultimately, the forces and control mechanisms identified in this chapter are all elements that help keep China together. The changes in the relative strengths of centre and province mean that new relationships will be reformulated within the parameters of the existing Chinese state, rather than the state itself disintegrating.

Although the analysis in this chapter has answered some questions regarding changing centre-province relations, it has also raised other questions that need to be addressed. Why did the centre implement policies that led to it losing a significant degree of control over some provinces? How extensive was the loss of control, and what did the centre do to try and rectify the problem? And what were the consequences of these changing centre-province relations on the development of the national economy. These questions will be answered in the remainder of this thesis, starting with an analysis of how intra-elite conflict impacted on centre-province relations in chapter two.

CHAPTER TWO: UNPACKING THE CENTRE - INTRA-ELITE CONFLICT AND CENTRE-PROVINCE RELATIONS

2.1 Introduction

One of the key issues raised in chapter one was the fact that provincial leaders tend to be loyal to specific individuals at the centre, rather than the centre as a whole. The centre is not a unitary coherent entity, but is rather contains a number of different groupings and opinions over the best or correct course for Chinese socialism. In this chapter, I will assess the impact of these divisions on the changing nature of centre-province relations in the 1980s.

Perhaps the only consistent element of Chinese politics since 1949 has been the inconsistency of policy resulting from intra-elite conflict. Ever since Mao decided not to accept the decision of his colleagues to abandon his twelve point plan for agriculture in 1956, the CCP has been riven by intra-elite conflict and strife. The search for a distinctive "Chinese Road to Socialism" has shaped the uneven development of the PRC. The lack of consensus over the vision for the future and Mao's inability to accept that there could be more than one true road - his road - became a fundamental cause of intra-elite conflict. But as we shall see, this conflict did not die with Mao.

The primary purpose of this chapter is not to provide a definitive classification of Chinese factions. Rather, drawing on the work of Dittmer, Bachman, Solinger, Hamrin and other, I will focus on the impact of this lack of central cohesion on the policy formulation and implementation relating to centre-province relations and regional development policy in the 1980s. There are two important elements here. Firstly, a lack of coordination in the reform process had a considerable impact in the provinces as the rationale behind earlier reforms was frequently undermined by later reforms. Secondly, economic reforms were at times based on considerations of the balance of power in the central elites, rather than on what was best for the economy. In other words, short term political considerations were placed above longer term economic rationality.

The combined impact of these two factors had a profound impact on the changing nature of centre-province relations in the 1980s. They contributed to the incremental and uncoordinated process of reform which led to the coexistence of two not particularly compatible economic sectors, and of two not particularly compatible centre-province/core-periphery relationships. As such, the following analysis underpins much of what is to follow in subsequent chapters.

2.2 Factions, Factionalisation, and Intra-Elite Conflict

If evidence were needed that elite conflict was not going to die with Mao Zedong, it came with the open competition that characterised the final stage of the pre-mortally succession crisis. According to Domes, the Cultural Revolution marked the change from a political system characterised by factionalisation to one characterised by factionalism⁹⁸. Before the Cultural Revolution there had been disagreement and often intense competition over policies, but the same people did not join together over every issue. In essence, loose alliances over single issues were the order of the day.

However, after the chaos of the Cultural Revolution and the fall of Lin Biao, all this was changed. With Mao increasingly ill, the struggle to succeed Mao took on a renewed importance. The loose coalitions became firm factions. Groups of people came together and stayed together to fight a common cause. They adopted comprehensive programmes and alternative and competing policy packages in an attempt to win support for their group.

Domes' classification of groups is useful insofar as it suggests that a simplified two line struggle approach to Chinese politics is fundamentally flawed. However, there are problems with applying his framework to post-Mao conflict. The evidence of the 1980s suggests that Chinese politics cannot be viewed in terms of competing factions as Domes defines them. The same group of people do not always join together to fight a common cause on all issues. Group formation has tended to be loose and fluid rather than tight and cohesive.

The explanation lies in the nature of the specific battles being fought during 1975-76. What was at stake was the overall direction of the PRC after Mao. The strength of opposition to the Cultural Revolution policies being advocated by the Gang of Four was the force behind the factional alliances that emerged. Once this threat was removed, then the glue that held the factions together was also removed. The problem for Domes' schema is that you only know that a faction is not solid and cohesive when that cohesion breaks down. In the struggle to win the battle for succession, factions may form, but break down once the purpose for which they were formed has been achieved.

It appears that in China (as in many political systems) it is easier for a group to stay together when it is not in power. In his somewhat flawed attempt to build a factional model for Chinese politics, Nathan notes that the moment that a faction gains power, it begins to fall apart⁹⁹. He argues that there are so many small groups active in the

Chinese political elites that it is impossible for any single group to dominate. As a result, in order to gain a majority, groups have to come together to fight against common enemies. However, the fact that so many different interests exist in these coalitions makes it virtually impossible for the group to stay united and therefore to remain in power once the common enemy has been defeated. The interests involved are so divergent that they cannot all be met.

This view of the inherent weakness of Chinese factions is shared by Pye¹⁰⁰. He argues that the loose nature of group formation in China makes it relatively easy for leaders to build an alliance to achieve a specific goal. But the very factor that facilitates group formation makes the maintenance of group cohesion difficult in the extreme. For example:

*"the tacit nature of factional relationships, which made it easy for Deng to attract great support immediately after his second rehabilitation, has also caused his power to gradually erode because of the logical impossibility of satisfying all his potential supporters."*¹⁰¹

There are two crucial factors. Firstly, I argue that one of the key features of Chinese politics is that consensus can usually only be defined in negative terms¹⁰². That is, it is fairly easy to reach agreement on what is to be rejected, but much more difficult to reach agreement on what the new policy should be. A common enemy is all but a prerequisite for groups and individuals to come together in agreement. In the widest sense, this can be an external threat, or a threat to the dominant position of the party. In such cases, the disunity of the central elites is likely to be put aside as more immediate and far reaching threats are dealt with.

More often, unity within the Chinese elite is shown in common opposition to a leader (notably Mao) or/and specific policies. For example, from about 1954 onwards, there was general (but not unanimous) agreement that the Soviet Model was not a suitable model for China's future development. But it soon became clear that this agreement broke down when alternatives for the future were placed on the table. Similarly, in 1978 there was general agreement that the Maoist model of development should be abandoned, but as the 1980s progressed, sharp divisions emerged over what reforms should be made, how rapidly the pace of reform should move, and the ultimate goal of the reform process. The glue that bound the "reformers" together began to weaken as the reforms moved away from their starting point and began to produce new winners and losers.

The second key feature is the extent of the divisions within the leadership and the number of competing policy packages, opinions, and self-interests groups. What occurred in 1978 was not the victory of one line over another, but the rejection of the Maoist line (including Hua Guofeng's variation on the theme). It was defeated by a broad based coalition of people who wanted to reform the economic and political system that had characterised the previous decade. The extent of the differences within this broad based coalition should not be understated.

As a result of the above two factors, the post-Mao political system, like the pre-1976 period, has been characterised by elite conflict and policy vacillations. But rather than the violent policy swings every four to five years while Mao was alive, the post Mao-era has seen smaller but more frequent fluctuations. The reforms stuttered and underwent retrenchment in 1979, 1981-82, 1983, 1985 and then again during the conflict between Zhao Ziyang and Li Peng in the autumn of 1988. Periodic campaigns against bourgeois liberalisation and spiritual pollution were also implemented throughout the 1980s. Although it would be going far too far to characterise the 1980s "chaotic", neither would "stability" be a suitable epitaph for the decade.

2.3 Factions, Factionalisation and the Politics of Transition

In addition to the inherent problems of elite conflict in the PRC, post-Mao attempts to reform the old political-economic system have added a new dimension to an already complex set of relationships. In essence, these complications can be identified as the problems and consequences of the politics of transition.

There were three key problems for elite cohesion during this initial period of transition. Firstly, important and influential leaders had different visions over how the system should be reformed. When the direction of the reforms seemed to be moving away from their desired goals, or even when they disagreed with the means rather than the ends of the reform process, those leaders intervened in an attempt to secure a reversal or modification of policies. Secondly, the process of change brought about new winners and losers. In a rapidly changing environment, individuals and groups reacted to the changes and fought to protect their own interests. In the process, alliances between individual central leaders and specific provinces (and/or individual provincial leaders) were revised as coalitions were sought and created to fight for specific courses. Thirdly, it is questionable whether there ever was a clear and coherent programme for reform. Leaders had general ideas about what they wanted, but they did not have clear ideas about how these aspirations were to be brought to fruition. In

order to fully explicate the impact of these three features, I will now discuss each in more detail.

(a) Competing Policy Packages

Policy implementation and the reform process was profoundly affected by the different visions of what the reforms were meant to achieve. Bachman notes that the analysis favoured in the western media based on an oversimplified "two line struggle" - between those who want to reform the system and those who want to conserve the status quo - hinders rather than facilitates an understanding of contemporary Chinese politics¹⁰³. Neither "the conservers" nor "the reformers" are coherent groups, but are rather umbrella terms that hide wide divergences of interests and ideas.

Bachman has gone further than most in trying to break down the division that exist within the "conservatives", identifying six different "varieties of conservatism"¹⁰⁴. Nevertheless, in common with Hamrin, Dittmer and Solinger, Bachman utilises a tripartite division of the Chinese leadership in an attempt to identify competing policy packages in the 1980s. As table 2.1 shows, despite a common framework of analysis, there is disagreement on where the divisions lie.

Table 2.1
Competing Ideas and Policies in Post-Mao China

Author

Hamrin	Chen Yun Peng Zhen	Hu Yaobang Zhao Ziyang	Deng Xiaoping
Bachman	Chen Yun	Zhao Ziyang	Deng Xiaoping
Solinger	<i>Adjusters</i> Chen Yun	<i>Reformers</i> Zhao Ziyang	<i>Conservers</i> Yu Qiuli
Dittmer	<i>Moderates</i> Chen Yun Li Peng Yao Yilin Jiang Zemin Deng Xiaoping* Zhao Ziyang*	<i>Radical Reformers</i> Hu Yaobang Hu Qili Tian Jiyun Wan Li Li Ruihuan Zhao Ziyang*	<i>Palaeo-Maoist Conservatives</i> Peng Zhen Wang Zhen Li Xiannian Bo Yibo

* indicates part-time membership

Source: Bachman, D. (1986) "Differing Visions of China's Post-Mao Economy: The Ideas of Chen Yun, Deng Xiaoping, and Zhao Ziyang" in Asian Survey March 1986, pp. 292-321; Dittmer, L. (1990) "Patterns of Elite Strife and Succession in Chinese Politics" in The China Quarterly No 123, pp. 405-430; Hamrin, C. (1984) "Competing Policy Packages in Post-Mao China" in Asian Survey March, pp. 487-518; Solinger, D. (1984) "Decentralization and the Problem of Encapsulation: Spatial Reform of the Economic Structure" paper presented for the conference on To Reform the Chinese Political Order Harwichport, Mass., 18-23 June.

The most obvious distinction between these four approaches is that while Bachman and Hamrin limit their analysis to the ideas of specific individuals, Solinger and Dittmer make some attempt to define group approaches. However, even in their inception, these were only conceived as being loose groupings. Solinger's analysis is based on the identification of "*at least three broad lines of fissures within the policy making elite*"

(emphasis added)¹⁰⁵ rather than more formal or stable factional groupings.

Furthermore, the inclusion of Deng Xiaoping as part-time members of two of Dittmer's groups shows just how loose his classification of a group is. As such, both Dittmer's and Solinger's classifications cannot be taken as anything other than fluid groups where there is general agreement over broad policy areas.

Perhaps the main contribution of these groups approaches is in identifying lines of conflict within the Chinese political elite. Solinger identifies five key areas of friction: administrative versus market economic regulation; centralisation versus decentralisation; the speed of growth; the treatment and role of heavy industry; and the extent to which foreign trade should be encouraged¹⁰⁶. These areas of conflict provide a basic guide to the sources of conflict in each of the four analyses.

Hamrin's analysis centres round the distinction between the backward looking ideas of Peng Zhen and Chen Yun, and the forward looking reform ideas of Hu Yaobang and Zhao Ziyang. For Peng and Chen, the aim was to restore the "correct" policies of the *status quo ante* of 1956 - to "*balance the economy and re-institutionalise the Leninist central bureaucratic command system*"¹⁰⁷. Even though time had brought new challenges and new problems to be addressed - in particular addressing the problems generated by the Cultural Revolution - Chen Yun's original proposals for the Second FYP remained something of a blueprint for future developments.

Rather than just reinvigorating past policies, Hu Yaobang and Zhao Ziyang were committed to pursuing new policies to deal with new problems. While they recognised the need to go back to old policies in the short run, reforms had to move on from this position as soon as the climate was right. The answer lay in removing bureaucratic constraints on the economy and expanding the scale of market mechanisms. This is not to say that Hu and Zhao shared the same views on every policy. Rather, they shared a similar desire to fundamentally change the nature of the economic system, and joined together to pursue these goals in the face of mounting conservative opposition during 1981-82¹⁰⁸.

To these two sets of proposals must be added a third consideration, the role of Deng Xiaoping. According to Hamrin, Deng "*maintained his position as paramount leader by arbitrating between these competing wings of his political coalition*"¹⁰⁹. For Hamrin, Deng's position was pivotal. Without his support, it was difficult for the reformers to push ahead with reforms. For example, it was only when Deng shifted off

the fence in 1984 and came down on the side of Hu and Zhao that the impasse of the previous year was broken¹¹⁰.

Bachman takes a similar view to Hamrin on Chen Yun's policies, arguing that:

*"a remarkable degree of continuity between Chen's views on running the economy in the 1950s and 1960s and his views on the economy today [1986]."*¹¹¹

However, his views on Zhao Ziyang differ from Hamrin in terms of the evolution of Zhao's ideas. Bachman argues that they changed in response to both developments in political and economic environment, and Zhao's own changing political power. Prior to the 1978 third plenum, he was *"the loyal, if innovative, provincial party secretary"*. From the third plenum to autumn 1980, he was *"the ardent reformer"*. And from mid to late 1981, he became *"the sadder but wiser reformer"* in response to the economic problems that had occurred during the year¹¹².

But Bachman's most interesting observations - and an area where he disagrees with Hamrin - are on the role of Deng Xiaoping. Noting that there is *"remarkably little discussion on economic affairs"*¹¹³ in Deng's 1980s writings, Bachman rejects the argument that he avoided coming down in favour of one line or another *"to preserve his flexibility in coalition building and maintenance"*¹¹⁴. Instead, Bachman highlights two other features.

Firstly, he notes that Deng's economic thinking in the late 1970s had proved to be flawed, and his legitimacy as an economist had therefore been diminished. He argues that Deng was probably *"instrumental"*¹¹⁵ in the formulation of Hua Guofeng's economic strategy in 1976, and therefore shared *"partial culpability"*¹¹⁶ for its failure. As a result, Deng steered clear of re-asserting his economic principles in order to distance him from the failed policies of the 1976-78 period.

Secondly, Bachman suggests the hypothesis that:

*"Deng wanted to enhance the authority of his successors by suggesting that Zhao Ziyang, and to a lesser extent, Hu Yaobang, were largely responsible for economic reforms."*¹¹⁷

While I would agree that Deng allowed Zhao and Hu to take on the mantle of reformers, this is not necessarily inconsistent with Hamrin's case for Deng as the arbiter *extraordinaire*. Bachman's analysis was written before the dismissals of Hu and Zhao in 1987 and 1989 respectively. On both occasions Deng did not intervene to protect the

secretary generals from the force of conservative opposition. On the contrary, he played a visible role in supporting the dismissal of both leaders.

I would add a third possible explanation for Deng's stance regarding economic reform. As Goodman argues, Deng cannot be seen as merely a pragmatist blowing whichever way the wind takes him¹¹⁸. There are a number of consistent elements in Deng's policies, chief among them being his belief that the dominant role of the party and its monopoly on power were inviolable¹¹⁹. Reform of the economic system was not only necessary for economic reasons, but also to bolster the CCP's flagging legitimacy after the chaos of the Cultural Revolution. Hence, once those reforms themselves threatened the CCP's grip on power, Deng felt duty bound to respond.

Thus, I believe that Deng should be viewed neither as the supreme leader nor the supreme pragmatist, but rather as the supreme arbiter of the political system in the 1980s. The conflicts that led to the fall of both Zhao and Hu were not over means, but over ends. Deng could not defend the reform process in the face of conservative opposition once the long term direction of the process departed from his vision of political power. Not only did the opposition from conservative groupings grow too strong, but Deng could never countenance the loss of Party control over society. In essence then, for Deng, both Hu and Zhao exceeded their remits and were taking the CCP down dangerous roads in terms of political control.

However, Deng's logic was flawed. The problems that emerged in the 1980s were not determined by the party secretary generals. Neither Hu nor Zhao were in control of the momentum for change which was generated by a lack of coordination in reforms which created the conditions for the social and economic changes that took place in the 1980s. Rather than leadership changes being a solution, or even a reaction to the problems, they were in fact, part of the cause.

Although there appear to be considerable divergences of ideas within the Chinese political elite, this does not mean that there was continual conflict over all issues at all times. The views of two individuals or groups may well coincide at specific times. Solinger, for example, argues that "Reformers" and "Adjusters" agreed on the speed of development, and the "Adjusters" and "Conservers" shared a commitment to the primacy of central planning¹²⁰. Nevertheless, as the impact of the initial wave of reforms became began to take affect, the cleavage between the two extremes within the central leadership clearly widened.

(b) Evolution of Conflict

Although the task of identifying different groups within the post-Mao CCP elite was never easy, it became more problematic as the 1980s progressed. As reforms were implemented, it soon became clear that the PRC was not simply going to stand still once the *status quo ante* of 1956 was reached. New conflicts and alliances emerged as the consequences of the initial reforms became apparent. Thus, the pattern of conflict and the divisions in the leadership in, say 1980, were not the same as the divisions and conflicts in 1988. Individuals and groups were forced to alter their stance and their allegiances in response to the shifting economic and political environment.

For example, in 1976, there was not even a general agreement that rural responsibility systems should be introduced to spark agricultural growth. But with the success of experiments in Sichuan and Anhui, and the subsequent nationwide adoption of the policy, the nature of the conflict over rural reforms changed to that of **how**, and not **whether**, to implement the rural responsibility system. As a February 1982 People's Daily report put it:

*"It is no longer a question of whether [such a framework] is needed or whether it is good. Rather, it is one of how to perfect and stabilize [its] various forms and make them better suited to the overall development of agricultural production."*¹²¹

Initially, the CCP looked backwards at least as much (and probably more) as it looked forwards. In many ways, the conflict over development that began in 1956 was not to be resolved until after the death of Mao. There was a striking similarity between some of the policies implemented in 1978, and those proposed by Chen Yun in 1956, which had formed the basis of the recovery programme after the Great Leap Forward. Robert Ash has noted that despite the different political climates of 1961 and 1978, many of the initial reforms were not new, but a continuation of the ideas put forward in 1956 and carried out during the readjustment period after the failure of the Great Leap:

*"It is certainly no coincidence that one of the earliest decisions of the Third Plenum was to endorse a revised version of the 1961 'Regulations on the Work of People's Communes' - the very document which epitomised the pragmatism of agricultural policy in the early 1960s."*¹²²

1956 was initially also taken as the benchmark for all that was 'good' about CCP rule in the ideological sphere. The 1981 Resolution on Party History defined Mao Zedong Thought not as what Mao Zedong thought, but instead as a body of Thought "which

came into being through the collective struggle of the Party"¹²³. Mao Zedong Thought was epitomised by the "correct" policies of the Second Five Year Plan adopted at the 8th Party Congress of September 1956. When Mao launched the High Tide of Agricultural Collectivisation over the heads of his colleagues, he negated the principle of collective leadership. As a result, the post-1978 leadership managed to contrive a version of history where what Mao Zedong thought abrogated Mao Zedong Thought.

The resolution asserted that the policies of the Eighth Party Congress of 1956 were:

*"correct, and charted the path for the development of the cause of socialism and for Party building"*¹²⁴.

Although the Gang of Four took much of the blame for the excesses of the Cultural Revolution:

*"Chief responsibility for the grave 'left' error of the 'Cultural Revolution' does indeed lie with Comrade Mao Zedong"*¹²⁵.

Great care was taken to ensure that the overall verdict on Mao stressed his achievements. The resolution was, after all, part of the process of rebuilding the party's legitimacy. As such, it was necessary to emphasise that the CCP had brought great benefits to the Chinese people. However, it was made clear that had it not been for Mao's interventions, greater progress would have been made.

This does not mean that all conflict over policy had finally been eliminated. Once the Maoist line (and variants on it) had been settled, divergences in policy among the 'anti-Mao' groupings came to the fore. In the short term, it was beneficial to turn to the tried and relatively successful strategy associated with Chen Yun. These policies had been successful in overcoming the defects of the Great Leap, and had a proven track record in facilitating economic recovery. But as Dernberger notes:

*"it is important to remember that in 1956 those advocates of reforming the economic system did not have the unanimous backing of the entire right-wing."*¹²⁶

The initial period of Chen Yun in control was only a transitory victory. Indeed, even during the 1978-79 period when Chen Yun appeared to be the architect of the post-Mao reform process, experiments in new reforms were already taking place in some areas. By 1985, Chen Yun had become one of the fiercest critics of the way the reform process was moving - in the eyes of the western press (and some scholars), the great reformer was now the great conserve.

Two distinct, although often coinciding, types of opposition groups to the reforms can be identified. Firstly, there were leaders and groups whose preferred options and visions were being left behind as the reforms proceeded. These people were trying to conserve a vision or a concept of the correct path for China's road to socialism. Secondly, there were individuals and groups who had seen their power, influence and status diminished by the reforms, or perceived their positions to be under threat. The other side of the same coin is that some saw their powers increasing, or lobbied for reforms that would enhance their position. These groupings were primarily self-interested groupings.

However, it is important to insert a caveat at this stage. Although we may suspect that individuals are acting out of personal self interest (or even bureaucratic interest), it is difficult to prove this conclusively. It is politically dangerous (almost political suicide) for individuals to couch opposition in terms of defending self, local or sectional interests. The concept of such interest groups is anathema to the CCP. The party itself is the embodiment of the interest of the proletariat. Any views that oppose party policy are narrow sectional interests that represent an attempt by a minority to promote their interests over and above those of the majority - the proletariat. As a result, any opposition has to be presented in terms of ideological conviction. Without asking the individuals in private and with anonymity, it is difficult to separate the public imperative from the private imperative.

Attitudes to the reforms were shaped and changed as the results of initial reforms became evident. The way the leadership divided over issues in 1987 was as much shaped by the reality of the current economic situation as it was by the initial policy preferences that the leaders held in 1978. Although some leaders, for example, Chen Yun, kept a relatively constant view throughout the decade, others, for example, Yao Yilin, appeared to change their stance as they saw the impact of the reforms on the economy, and perhaps also as they reflected on the way that the balance of power was shifting in the elites.

So by the time of the 13th Party Congress in 1987, the lines of conflict over the reforms had moved on from the initial post-Mao situation. Oksenberg identified the three underlying areas of conflict at this time as:

- 1 Economic reforms - how fast and how far should they go? Should prices be further deregulated and the market expanded or not? Had the reforms gone too far, or not far enough?

- 2 Political reforms - what was the relationship between economic and political reform? Was political reform necessary for further economic reform?
- 3 Opening to the outside world - what were the risks, and were they worth encountering?¹²⁷

But as Burns notes, these divisions at the top of the party-state elites were only the tip of a very large ice-berg. The reforms generated conflicts throughout the party-state administrative machinery. Centre-local disputes, regional tensions (locality-locality disputes) and bureaucratic conflicts all emerged as the reforms brought about changes in the distribution of power and influence in the political system¹²⁸. On a similar note, Shirk argues that the reforms intensified conflicts between localities, and within the central bureaucratic machinery:

*"With the advent of the reform era, conflicts between ministries have become more frequent and often have required higher-level leaders to intervene."*¹²⁹

The reforms not only generated opposition from ideologically or policy driven central leaders, but also from the losers in the reforms. The 1980s witnessed a partial transfer of power from central planning and administrative bureaucracies to market measures and provincial planning agencies; from provincial planning agencies to market forces and local planners; from heavy industrial administrative units to light industrial units; from heavy industrial and raw material producing centres to light industrial production centres; from central banks and the ministries of commerce and finance to local banks and financial institutions; from the interior to the coast (from the third front to the first front) and so on.

Because Chen Yun and others proposed the basic retention of the old system (with adjustments and refinements) their ideas frequently coincided with the interests of the "losers". For example, Chen's stress on financial balance in the national budget placed a primacy on central control of finances by the People's Bank of China, the Ministry of Finance and the Ministry of Commerce, coupled with a strong central planning apparatus. This policy line was also favoured by the bureaucratic interests concerned as it strengthened their power and prestige. Similarly, it can be assumed that the gainers from the reforms, for example, the coastal provinces, allied with central leaders who proposed a further loosening of the central control apparatus, increased use of market apparatus, and an emphasis on comparative advantage in development policy.

The available evidence suggests that there was indeed support for more conservative central leaders from groups and institutions that were losing power as a result of the

reforms. For example, representatives of heavy industry at both the central and provincial level consistently argued for the recentralisation of administrative controls¹³⁰. Solinger takes this line of approach further by examining the base of support for the various policy groupings in the Chinese elite. She argues that:

*"The most obvious bases determining which point of view a particular group or institution is prone to support are the province in which it is located and the branch of industry with which it is connected."*¹³¹

Thus, those in areas where heavy industry is dominant would oppose moves to emphasise light industry. And:

*"those from provinces where there is an economic surplus would favour the local autonomy that is associated with the decentralization proposals of the Reformers, while poorer provinces would prefer the guarantees in the planned approach of the Adjusters."*¹³²

This support for various central policies was perhaps most clearly manifest during NPC sessions. For example, at the Third Plenum of the Fifth NPC in August 1980:

*"Spokespersons in favour of reform generally came from areas that had benefited from the flexible economic policies of the past four years."*¹³³

while spokespersons from coal producing areas took the floor to defend the coal industry which had been disadvantaged by the reforms. Sullivan reached similar conclusions to Solinger, noting that viewing the 1980s as a whole, provinces that could be identified as sources of opposition to the reforms were all:

*"in hinterland regions adversely affected by recent economic reforms."*¹³⁴

This tendency for individuals and groups to fight for their own benefits was a consistent feature of power and policy in the 1980s. For Swaine, it created a situation where initiative and progress were stifled by the end of the decade¹³⁵. Although the irrationality and inefficiency of the current system was widely recognised, many officials and groups were benefiting from the system. As a result, there was a large vested self-interest group who wanted to preserve the albeit irrational status quo. They opposed both retreat to the old system and advance to something new. As a result, the privileged sub-elites became out of step with mass concern regarding the state of the economy.

(c) Achieving the Four Modernisations: Programme or Aspiration?

A further crucial question to be addressed is whether there has ever been a programme for reform that mapped out developments in advance. The views and policies of Chen

Yun outlined above were concerned largely with restoring the Leninist structure associated with the policies of 1956, and the recovery and retrenchment period between 1961 and 1964-65. For those who wanted to move beyond this initial starting point, was there any clear picture of the path for and consequence of reforms, or was policy defined on the move?

With the benefit of hindsight, it appears that no such programme existed. Commenting on the period 1978-1983, Naughton argued that:

*"Unable to dominate events, the government has had to scramble repeatedly to 'put out fires' and prevent disastrous outcomes"*¹³⁶

As a result of this preoccupation with short term problems and solutions, the CCP elites were unable to *"formulate a consistent program of economic changes"*¹³⁷. However, the fact that problems quickly emerged and prevented a long term strategy being implemented does not necessarily imply that no strategy ever existed. Rather, the strategy may have been based on wrong or incorrectly thought out assumptions. This would have a similar effect as if there had been no strategy in the first place.

Both White¹³⁸ and Hamrin¹³⁹ argue that a programme did not exist. There may have been numerous individual policy initiatives, but there was:

*"no overall programme which mapped out in advance the scope, pace and phasing of policy implementation."*¹⁴⁰

The importance of mapping out a coordinated programme of reform was articulated by some policy advisers in 1978. But three factors combined to obstruct the process. Firstly, Li Xianguo argues that cadres would neither understand nor accept the best options¹⁴¹. They had been trained and socialised under the old system, and until officials at all levels were "re-educated" in new ideas and strategies, firm programmes would not be workable. It should be noted that Li was not advocating a short term and incremental approach. He believed that there was a pressing need in the 1980s for a clear, cognisant and well researched strategy, even if that meant waiting until cadres attitudes had changed. Secondly, in the early post-Mao years, sceptics and critics of reform in general could not be persuaded to accept a firm programme for reform. Secondly, even among the reformers in the leadership there was initially too ignorance and later too many divisions for a package to be agreed on¹⁴².

If a firm policy programme existed, it would have been politically dangerous to put it forward for consideration. The divisions in the leadership were so great, and the vested interests in maintaining the status quo were so strong, that opposition to such a

package would have emerged from almost all quarters. The consensus that existed even in 1978 about the way forward only extended to general and vague goals and aspirations. Consequently, the CCP's "programme" for reform was also only general and vague. Achieving the Four Modernisations (*shi xian si ge xian dai hua*) was a slogan, and nothing more. It was a statement of aspirations that all could adhere to rather than a programme for reform.

Rather than marking a break with the Maoist policies of the past, Deng's emphasis on the Four Modernisations tied the new leadership with the past. It was initially intended to build legitimacy for Deng by associating him with the policies of the popular Zhou Enlai, who had first used the phrase in 1964 at the first session of the Fourth NPC. But it also tied Deng to a lesser extent to Mao, or at least, to Deng's interpretations of what Mao stood for. In an important speech preceding the 1978 Third Plenum, Deng went to great lengths to stress the continuities between his ideas and those of the great helmsman.

Deng portrayed his policies as nothing more than what Mao would have championed had he still been alive. This slightly warped interpretation was exactly what was needed at the time for Deng in his struggle to outwit Hua Guofeng. With Hua playing the Mao card, it was important for Deng to try and undermine this element of Hua's legitimacy by re-defining, to suit his own purposes, what Mao said. In a statement that anticipated the 1981 re-definition of Mao Zedong Thought, Deng defined achieving the Four Modernisations as being in keeping with "*holding high the banner of Mao Zedong Thought*" to:

*"attain the objective of the Four Modernizations as defined by Mao Zedong and proclaimed by Comrade Zhou Enlai"*¹⁴³

If Mao had been buried instead of being embalmed and sitting up awaiting visitors in the "maosoleum" in Tiananmen Square, he would have been spinning in his grave at this assertion. This use of the Four Modernisations to justify whichever policies were the flavour of the day is evidence of the way in which statements of intentions were expressed in broad and all encompassing slogans that could offend nobody. In the preface to the "little red book", Lin Biao referred to the need to develop agriculture, industry, science and technology and national defence¹⁴⁴ - the same priorities of the post Mao reforms, but hardly the same policies.

The only way in which progress could be made was through incremental reform. If critics would not accept a full policy package, they might be persuaded into accepting

experiments which were qualified by a clause that future policy directions would depend on what happened. Even better, if experiments were first successfully completed and the results then presented to the sceptics, the strength of arguments against the policy would be diminished.

As a result, major policy announcements tended to follow events rather than precede them. In his analysis of agricultural policy in the first decade of reform, Robert Ash paints a picture of a leadership that was somewhat swept along by the tide of events that it had unleashed (not unlike the process of collectivisation and communisation in the 1950s). He concludes that:

"There is an evolutionary logic that runs through both stages [Dec 1978-1985 and 1985-88]. Frequently, however, it appears to have been born of necessity and shaped by the inexorability of developments in the countryside. As often as not, the planners have followed events rather than anticipated them."
(emphasis added)¹⁴⁵

But such reactive policy implementation was fraught with difficulty. If a leader wanted to prove the benefit and success of a particular policy, he was likely to choose an area for experimentation that would yield the required results. For example, Woodward argues that the momentum for industrial reform was gradually built up to minimise the potency of the arguments of conservative opponents.

*"it appears that these experiments were initially conducted in enterprises which were already the largest, most efficient and profitable [born from] a desire to have the experiments prove a success."*¹⁴⁶

The problem was that these experiments did not really prove anything about the impact and consequence of the reform once it was expanded onto a national scale. If and when problems emerged once the experiment was expanded from its initial testing ground, opponents would seize on the chance to rubbish the policy, and *"hence, a policy of readjustment had to be introduced"*¹⁴⁷.

So if a prior programme did exist, it had to be shelved because of the realities of the political situation. However, there is evidence to suggest that despite the recognition of the need for a coordinated approach to reform in 1978, no such programme was ever developed. It is true that during the 1980s, leaders such as Zhao Ziyang and Hu Yaobang tried to arrive at a policy programme and initiated research into preferred policy options such as Zhao's intellectual think tank, the Committee for Restructuring

the Economy (*ti gai hui*). However, advisers, academics and party researchers were typically encouraged to investigate the impact of individual policy options, rather than taking a macro perspective.

It should be noted that such a wave of policy research is not necessarily conducive to rational or "good" policy making. Once a leader clearly identifies himself with a particular policy, then his political fortunes become related to the success or failure of the policy. There are two possible detrimental effects. Firstly, a leader can impose his vision in spite of advice that the chosen policy is, at best, dubious. Deng Xiaoping's personal involvement in attracting Occidental to China is a case in point.

Deng was personally keen to strike up an agreement with Occidental to exploit China's coal reserves in the world's largest open cast mine at Pingshuo in Shanxi. According to Lieberthal and Oksenberg, he believed that a deal with one of the giants of international energy exploitation would be a "*showcase of Sino-foreign cooperation*"¹⁴⁸. The planned cooperation was based on a 1982 feasibility study that assumed that the coal would fetch US\$50 per ton on the world market. But by 1984, world prices had dropped to below US\$40 per ton. As a result, Occidental were unable to raise capital for the project from international finance institutions. Rather than accept that the project was economically unfeasible under current international economic conditions, the People's Bank of China were pressured to step in and meet Occidental's investment deficit.

The second possibility is that advisers will give the leader the information he wants to hear. Janis suggests that when a dominant leader has a firm view about a given topic, policy advisers will manipulate information to support this view¹⁴⁹. Positive and supporting evidence will be emphasised, and negative or questioning evidence will be relegated to minor importance, or simply suppressed altogether. Given the stakes involved in the Chinese political system in the 1980s, such a tendency is likely to be heightened. With policy options facing opposition from a number of sources, it is important that once a leader was thrown his weight behind a policy, it is shown in the best possible light. Detrimental and negative responses would harm not only that policy initiative, but also other policies associated with the leader, and the leader's position within the power elites.

That problems would emerge in an economic system facing rapid and extensive change was inevitable. At the very least, the removal of state set prices and the use of market mechanisms in price setting and goods allocation would result in some price inflation.

For any researcher with access to government statistics on supply and demand for commodities, this would have been a self evident fact. But because of opposition to the reforms in the elites, the reformers were not in a position to ride out the storm and wait for the economy to settle down.

The economic reforms introduced in the 1980s introduced new and alien concepts into the Chinese economy. Research was rapidly encouraged into capitalist economics and the role of the market regulations. Governments and economists well versed in the practices of capitalism have their work cut out making sure that the economy does not run into problems. It is not surprising, therefore, that novices made mistakes and miscalculations in assessing the impact of economic reforms in China. To make matters worse, when market decentralisation reforms were introduced, power was devolved to people with little or no experience of market mechanisms.

Enterprise managers, banks and local officials lacked experience and expertise to make full and effective use of the powers that they had been granted. As a result, even the most able and experienced economic researchers would have faced difficulties in assessing what the consequences of reforms would be. In such a situation, it was highly likely that the path of economic reform would be far from smooth and straightforward. But rather than take these problems in their stride and overcome them, leaders were often forced, by the nature of opposition to reforms in the central elites, to take remedial actions that hit at the heart of the very reforms.

(d) The Manifestation and Consequences of Opposition to the Reforms

As the reforms progressed in the 1980s, the potential sources of opposition were so wide and diverse that it seems impossible for any reform to be implemented without generating criticism from at least one quarter. Wilson and You Ji have identified an impressive array of leaders who have opposed Deng and the reforms at various times in the 1980s¹⁵⁰. These are Peng Zhen, Chen Yun, Li Xiannian, Ye Jianying, Deng Yingchao, Nie Rongzhen, Xu Xiangqian, Wang Zhen, Bo Yibo, Yang Shangkun, Zhang Aiping, Hu Qiaomu, Deng Liqun and certain PLA leaders. In addition, Sullivan argues that even reform minded leaders such as Wang Zhaoguo and Hu Qili have been concerned with "*the unanticipated consequences of reform on China's social and political system*"¹⁵¹.

Despite Deng's promotion of reform minded leaders into the central elites, "conservatives" retained control of important institutions. Chen Yun dominated the

CDIC, Hu Qiaomu and Deng Liqun were important figures in the propaganda apparatus, and Deng Liqun headed the quasi-official Leading Group to Oppose Bourgeois Liberalisation. In addition, the conservatives had support in some military organisations, and within some provincial organisations. As Sullivan notes:

*"The most ideologically charged attacks on reform in 1985-86 were published in the provincial press."*¹⁵²

Bachman identifies six groups of conservative opposition to the reforms in the 1980s: financial conservatives, planning conservatives, moral conservatives, ideological conservatives, vested interest conservatives, and anti-foreign conservatives¹⁵³. The notable factor here is the diversity of types of conservatism identified by Bachman. Indeed, even fairly radical reformers can fall into one or more of these groups. No leader could survive long without at least making formal statements about the need to defend moral standards and prevent the degeneration of Chinese society. But even when these wide groupings are discounted, Bachman's analysis suggests that virtually any reform is likely to encounter opposition from at least one conservative grouping.

But the diversity of opposition views was a source of strength as well as a hindrance for the reformers. According to Bachman, the most important role of Deng in the 1980s was preventing the conservatives coalescing together into a unified and coherent opposition movement¹⁵⁴. The differences between the various groups meant that although two groups or leaders might agree that they oppose a reform, there might be large disagreement between the two on alternatives to the policy.

Nevertheless, from 1987 onwards, reformers in the central leadership did suffer some important set-backs. The fall of Hu Yaobang in 1987, and Li Peng's economic retrenchment programme of 1988 were both big blows for more radical reformers. Hu's 1987 fall from power marked an important watershed in the nature of post-Mao conflict. It provided an opportunity for conservatives to seize the initiative and question the whole direction of the reforms. More concretely, Zhao Ziyang's transfer from Premier to Party Secretary General opened the path for Li Peng to assume the premiership, and in conjunction with Yao Yilin, to isolate Zhao from control over economic affairs. Deng's conviction that the Party post was the more important of the two appears in retrospect to have been either a major tactical error, or a sign of Deng's partial retreat from the economic reform agenda. By sacrificing Hu to keep the conservative opposition happy, the balance of power in economic affairs was tipped away from the reformers and into the hands of Li Peng and Yao Yilin (at least temporarily).

Both Hu Yaobang and Zhao Ziyang made mistakes that contributed to their downfalls. Firstly, they made policy statements that provided easy targets for opponents of reform to latch on to. By trying to set the ideological agenda for reform, Hu presented opponents with too clear a statement of his objectives and priorities. As Hamrin notes:

*"Central directive no 1 for 1983 encouraged peasants to get rich as soon as possible, a slogan that was such a bold statement of the shift to material incentives that it thereafter incited constant contention."*¹⁵⁵

In a similar vein Zhao also made a too precise definition of his reform agenda in his keynote speech to the 13th Party Congress in 1987. Zhao spent much time defending the dominant role of the party and the need to resist political reform, but he also made bold statements on economic reform that set warning bells ringing in more conservative groupings. His assertion that:

*"Helping to expand the productive forces should become the point of departure in our considerations of all problems, and the basic criterion for judging all our work should be whether it serves that end."*¹⁵⁶

concerned many conservative leaders. As long as public ownership remained the dominant form, Zhao argued that collective, private and foreign ownership should not only be tolerated, but encouraged. The speech also carried a ringing endorsement of the coastal strategy¹⁵⁷, a policy which Zhao was personally committed to, but which was eliciting criticism from both provinces in the interior, and central planning and financial officials.

Secondly, both men also fell foul of the inherent problems of being the heir apparent. If the heir simply tugs his forelocks to his patron, his power base will die with the patron. If the heir tries to build an independent power base to survive the death of the patron, then he risks crossing the patron and being dismissed. Nevertheless, Hu and Zhao misplayed the Beijing power game to greater or lesser extents. Once installed as Secretary General, Hu built up a power base in the party elites by promoting many of his former colleagues from the Communist Youth League. According to Chang:

*"Hu's tendency to promote largely his former associates from the Communist Youth league (eg: Hu Qili, Qiao Shi, Wu Xueqian, Hao Jianxu, and Wang Zhaoguo) made him vulnerable to charges of factionalism, and alienated officials from other leadership factions."*¹⁵⁸

In a political system where building a coalition of groups is essential for maintaining political power, building too strong faction can be ultimately self defeating. Wilson and You Ji note that Zhao Ziyang was also:

*"very bad at maintaining personal alliances, let alone creating any new ones."*¹⁵⁹

and suggest that Hu and Zhao made the mistake of identifying themselves too firmly with preferred policy options. This restricted their options when problems emerged and tied their political fortunes with the fortunes of the policies they favoured¹⁶⁰.

Both leaders ostensibly fell from power as a consequence of their attitudes towards student demonstrations demanding increased political reform. I would argue that although the question of how to deal with the protesters in 1986 and 1989 was a very real problem in itself, it also provided the vehicle through which other elite conflicts were played out. The underlying conflicts within the political elites both shaped Hu's and Zhao's attitude towards the demonstrators and the nature of the conservative attacks on the two leaders. In Zhao's case, his implication with foreign powers also strengthened the case against him continuing in power¹⁶¹.

The personnel and policy changes that followed the falls of Hu Yaobang and Zhao Ziyang may ultimately be seen as mere deviations in China's post-Mao political and economic evolution. But as shall be shown in the following section, in the short run, these blips and the other features noted above in this chapter have had a profound impact on centre-province relations, province-province relations, and regional development in China in the 1980s. We can examine this impact under three main headings: the impact of a partially reformed economic system; centre-province alliances to pursue or defend a common interest; and the impact of confusion and lack of clarity in central directives on provincial adherence to central policy. The following sections provide brief introductions to the issues involved. Examples of how they affected the evolution of Chinese political economy will be given in the detailed analysis of centre-province relations in the 1980s in chapter three.

2.4 Relevance for Centre-Province Relations and Regional Development

(a) The Impact of Partial Reform

One of the most important consequences of intra-elite conflict on centre-province relations was the impact of a semi-reformed economy. With deep disagreements over the means (and later ends) of the reform process, even relatively minor economic problems were used as a pretext to launch re-assessments of policy by more conservative minded leaders. As a result, as Hamrin notes:

*"Even small problems could bring a serious political attack that led to policy stagnation, fluctuation or reverse."*¹⁶²

Furthermore, given the experimental nature of the reforms, reformers themselves were not always aware of the full impact of the reforms that they themselves had implemented. As a result, pressure to re-evaluate a reform would come not only from opponents wishing to rubbish the reform, but also from reformers keen to limit minimise inevitable but damaging side-effects and keep the reform process on the tracks.

The reforms thus created their own momentum. When things were going well, then further reforms could be pushed through with *relative* ease. But if things started to go wrong, then not only were future reforms out of the question, but steps had to be taken to sort out past problems. As Hamrin so aptly commented on the fluctuations in policy in 1984-85:

*"The start of the second wave of reform in 1984 demonstrated the wisdom of the axiom that nothing succeeds like success Beginning in 1985, the other side of the coin turned up."*¹⁶³

As a result, not only individual reforms, but the reform process in general, were the subject of challenge, readjustment and refinement.

Crucially, this meant that reforms in various sectors of the economy were not coordinated. Firstly, as noted above, it was impossible for the reformers to push through a coordinated package of reforms because to do so would arouse too much opposition from too many groups. Although it was difficult even to push through reforms on specific and single issues, this was far easier than meeting all the challenges head on simultaneously. As a result, the impact of later reforms frequently impinged on (or even was at odds with) the rationality of earlier reforms. For example, the rationale of the new revenue sharing process between centre and province was undermined by later changes in taxation and profit retention mechanisms. Provincial authorities, working in a rapidly changing environment, were forced to adopt short term strategies to ensure that revenue targets were met, thus negating the benefits of long term planning and certainty that the initial reform was meant to introduce.

Secondly, as "*nothing succeeds like success*", it was important for the reformers to ensure that the reforms succeeded. The incentive for the reformers was to put short term gains above long term considerations. You Ji argues that short-term perspectives

were crucial in determining Zhao Ziyang's economic policies¹⁶⁴. For example, despite inflationary pressure in 1985 and 1986, Zhao felt that he could not afford to follow deflationary policies for long. Despite the economic rationality of slowing down growth, political imperatives required continued growth:

*"to show to both China and the world that reform had resulted in rapid economic development."*¹⁶⁵

Similarly, You Ji argues that the conditions were ripe for comprehensive price reform in 1984. But for political reasons, the economic rationality of the previous wave of price reforms was not followed through to its natural conclusion. Pushing ahead with price reform would have generated opposition from more conservative leaders within the central elite. Fearful of arousing the ire of conservative leaders, a more acceptable policy of devolving power to lower level authorities was chosen instead. As the more conservative leaders were particularly powerful in the central planning and financial administrations, such a decentralisation of power had the effect of undermining the conservatives ability to control (or at least influence) the economic system. As a result, this should have created the pre-conditions for facilitating further reform of the economy by weakening the conservatives institutional basis of power. In reality, the consequences were much less beneficial to the process of reform than was envisaged at the time. You Ji notes that this short term expediency was to have harmful long term impacts on economic development and, by 1988, on the position of the reformers:

*"It is clear now that a thorough price reform initiative could have helped the ultimate creation of a market system, while this devolution of administrative power only resulted in creating bottle-necks towards that goal....While the choice, at the time, of a less controversial reform probably reduced the resistance from the conservatives, it also led the reform to a near impasse, the impact of which is strongly felt today [1990]."*¹⁶⁶

Although political considerations were very important in shaping the evolution of the reform process in the 1980s, they were not the sole cause of the incremental approach. Even if the political preconditions for rapid and fundamental change of the economic system had existed, it is likely that a cautious approach would still have prevailed. The shock to the system of an overnight transition from plan to market would have been enormous. It would also have been unfeasible. Even with the slow push to the market that characterised the 1980s, both coming to terms with the rigours and disciplines of the market, and acquiring the necessary skills to utilise the market, has been a slow, and at times painful, process. Notwithstanding the justifications for pursuing such an

incremental approach, the resulting policy initiatives had a profound impact on centre-province relations and, increasingly, on province-province relations.

The reduction in the scope of central planning and allocation coupled with the move from mandatory to guidance planning resulted in a shift in power away from the central authorities. In combination with the devolution of administrative powers from centre to province, these reforms clearly enhanced the power and autonomy of the localities *vis-a-vis* the centre.

Such a transfer of power from centre to locality is not necessarily problematic in itself. The real problem lies in the way that the devolution of powers dovetailed with other reforms in the economic system. Crucially, decentralisation took place at a time when state planning and allocation was removed from an increasing number of resources, including investment capital. With more capital available to some provinces as a result in changes in revenue sharing arrangements with the centre, and through contacts with foreign companies and banks, the financial autonomy of these provinces was greatly enhanced. As a result, some provinces were no longer constrained by central grants and resource allocation in defining local economic policy. By the end of the 1980s, Guangdong in particular had sufficient financial autonomy to pursue economic initiatives that were frequently at odds with central policy.

To make matters worse, the steady dismantling of old administrative control mechanisms did not go hand in hand with the establishment of new mechanisms designed to control (or at least guide) economic activity on a national scale. Although some market control mechanisms were introduced, in some areas, central administrative control was replaced by local administrative control. As a consequence, as Prybyla notes:

*"Without coordination either by a central plan or by a genuine market, there is haphazard investment by localities, which wastes resources through unwarranted duplication of industrial capacities."*¹⁶⁷

Prybyla's analysis was supported by the findings of a 1990 World Bank study of China's economy. It argued that one of the key problems in the Chinese economy was the time lag between administrative decentralisation, and the establishment of "*an institutionalized capacity for macromanagement*"¹⁶⁸. The lack of an integrated and truly competitive domestic market meant that provincial economic decision making was not subject to regulation, and the wider implications of provincial economic

policies, (particularly pertaining to investment) were ignored. Indeed, changes in both the nature of ownership and the fiscal system combined to provide an incentive for localities to increase their revenue irrespective of the cost to the national economy as a whole.

A further example of the how the process of incremental change affected the provinces can be found in:

*"the not very compatible and distorting coexistence of state-set cost-plus prices, floating prices, white-market prices and black-market prices."*¹⁶⁹

Such a proliferation of pricing mechanisms created irrationality in the allocation of resources - an irrationality that was perhaps most clearly evident in the pricing and allocation of key raw materials, particularly coal and other energy inputs.

The low state set prices of these products fed in to the production of virtually every other product. As a result, raw material producing centres were providing a hidden subsidy for the development of light industrial centres, and thus rendering the concept of comparative advantage inoperable. Furthermore, as they did not receive an adequate price for their raw materials, the coal mines and other raw material producers are not receiving sufficient profits for investment in the future. The only alternative is to rely on central grants. But as the devolution policies transferred the control of many finances from centre to province, the centre's wherewithal to provide the necessary investment capital for raw material production was severely impaired.

This issue was particularly important for provinces with an economic base dominated by the production of raw materials and energy. In Shanxi Province, for example, state coal mines alone employed 14.3% of the provincial work force, and the industry's share of the output value of all industry was a 20.8%. With the electricity generating industry accounting for 6.4% of the total, the two industries alone accounted for over a quarter of Shanxi's industrial output value - greater than the whole of the light industrial sector¹⁷⁰. Although provincial officials publicly declared adherence to official government policy, in private they expressed their dissatisfaction at the exploitation of their province's wealth.

To summarise then, intra elite conflict over the way forward generated an uncoordinated reform programme that had important consequences for centre-province relations in China. These dysfunctional or unintended outcomes of conflict at the centre can be seen as a damaging but necessary price to be paid for overcoming conservative opposition at the centre. As shall be shown in the following section, the

need to minimise opposition to reforms had other far reaching consequences for centre-province relations.

(b) Centre-Local Alliances

During the process of reform in the 1980s, the rapidly changing economic environment produced new winners and losers. It is not surprising that groups and individuals allied together to defend or pursue common interests. In terms of centre-province relations, we might expect that interior provinces dependent on central grants to meet expenditure with only minor light industrial bases would support the policies of conservative leaders who favoured strong central control and coordination. Conversely, the richer more developed provinces of the coast and south would favour the reformist policies emphasising comparative advantage, market mechanisms and the encouragement of foreign trade and investment.

Such loose divergences of interest can be observed. As shall be shown in chapter three, as province-province tensions increased in the 1980s, representatives of provinces in the interior were critical of the 'errant' provinces in the south and south-east. These criticisms took two forms. Firstly, provincial newspapers were used to express provincial interests. This was a relatively safe method of airing grievances as the comments were not directly attributable to the provincial leadership. Secondly, in the relatively more free and open atmosphere that characterised NPC sessions, provincial representatives began to use these fora to express provincial interests. As we shall see in chapter three, the March 1989 NPC session was particularly noteworthy for the extent of explicit and forthright criticism of both central government policy and the attitude of the rich provinces of the Gold Coast from representatives from the interior.

In addition, it must be remembered that decentralisation policies were as much a means to the end of reform rather than an end in themselves. As noted above, decentralisation was not motivated by economic, but by political considerations. Decentralisation represented the re-configuration of alliances and coalitions - reformers used the devolution of economic powers to build support from provincial leaders and reduce the power from conservative central planners to the provinces.

(c) Central Cohesion and Provincial Power

The transfer of powers from the centre enhanced the provinces' ability to pursue their own economic priorities irrespective of national goals and needs. It also meant that they had the ability to obstruct, amend, or simply ignore central directives that were

not in keeping with local economic goals and priorities. As a result, the success or efficacy of the decentralising power to build a reform coalition was dependent on unity and common interests and purposes amongst reformist central leaders and provincial leaders.

As shall be shown in chapter three, the evidence suggests that such a community of interests was absent. To make matters worse, the process of establishing new mechanisms to control economic activity on a national scale was both slow in coming and piecemeal. For example, a World Bank study noted that:

*"It has taken the People's Bank of China nearly four years, since its designation as a central bank in 1984, to gain a measure of control over credit expansion and deflect demands of local government authorities on its provincial branches. Earlier episodes of credit tightening in 1985, 1986 and 1987 could not be sustained in the face of provincial opposition."*¹⁷¹

This issue was complicated by the fact that the victory of the reformers at the centre was never complete. I would argue that one of the reasons why some provinces flouted central directives - particularly during the retrenchment campaign that started in September 1988, was because of the lack of central cohesion and unity. It was no secret that some central leaders, notably Zhao Ziyang, did not approve of retrenchment policies, and that the tide might sweep back in favour of the reformers. What was the point of making short term cutbacks if the period of retrenchment was going to be shortlived? Indeed, the lesson of the 1980s was that a period of retrenchment would be followed (usually sooner rather than later) by a further wave of reform. By the end of the decade there was no expectation or confidence that the retrenchment policy would last. The World Bank commented that in 1990:

*"having experienced short-lived bouts of contraction over the preceding three years, enterprises attempted, initially, to 'wait out' credit restraint."*¹⁷²

After a decade of waves of reform and retrenchment, many localities decided that the vagaries of central political instability should merely be ignored. As a result of changes in the economic sphere, some of these provinces not only had the desire, but also the means to act independently of Beijing.

2.5 Summary

Fundamental reform of any economic system is never an easy objective to achieve. It is inevitable that short term difficulties will arise and that in the process of reform, existing economic relationships will be re-defined as the new system begins to take

shape. As such, it was no surprise that the pre-reform pattern of centre-province relations was drastically altered in China in the 1980s. Neither was it a surprise that the 1980s was characterised by intra-elite divisions over how to reform the system. Divisions in the leadership were too great, and the number of vested interests threatened by reform too many, for the decade to pass without a significant degree of elite conflict.

This chapter has shown both why elite conflict emerged in the way it did, and more importantly, the significance of such central disunity for this study. In conjunction with the discussion of the sources and strengths of central control and provincial autonomy in chapter one, a basis for an understanding of why and how centre-province relationships were transformed in the 1980s is now in place. Chapter three will build on this basis by providing a detailed examination of the extent and trajectory of these changes between 1978 and 1989. In addition to developing the themes addressed in chapters one and two, this analysis will also raise important issues that will form the basis of the second half of this thesis.

CHAPTER THREE: THE LOSS OF CENTRAL CONTROL: CENTRAL POLICY AND PROVINCIAL RESPONSES

3.1 Introduction

Although chapters one and two made it clear that great changes in the nature of centre-province relations occurred in the 1980s, they did not give details of the extent and form of these changes. The purpose of this chapter is to trace the evolution of centre-province relations in the 1980s to both expand on the investigation in the earlier chapters, and to highlight the key dimensions of the changing relationship that will be discussed in chapters four to six. Particular attention will be paid to the ever growing conflict between the centre's aims to emphasise regional specialisation and comparative advantage, and the dysfunctional consequences of reform which meant that what was best (and rational) for the locality frequently conflicted with what was best (and rational) for the nation as a whole.

The problem for the central authorities was that reforms not only generated a conflict of interests between centre and provinces, but also provided some provinces with the means to elevate their interests above those of the centre. By the end of the decade, the centre found it extremely difficult to force errant provinces to comply with their directives, thus aggravating already strained relations with the centre.

This chapter will also expand on the central assertion that reform and modernisation measures in the 1980s did not affect all areas of China in the same way. By no means all of China's provinces had the ability to pursue local interests irrespective of central concerns. Indeed, while some of the provinces in the south and east developed quasi-independent economic policies by the end of the decade, some raw material producing centres in the interior remained relatively firmly tied to central control.

Although the changing nature of centre-province relations in the 1980s was a gradual process, it is possible to identify four distinct phases in the evolution of these relationships: the emergence of a conflict of interests between centre and provinces, 1978-84; increasing local autonomy, 1984-86; a growing divergence of interests, 1986-88; and the failure to rein in the provinces, 1988-89¹⁷³. The issues uncovered and identified in this chapter will form the focus for the discussion in the remaining chapters of this thesis.

3.2 An Emerging Conflict of Interests: Local Economic Needs and Central Economic Plans, 1978-84

(a) The Growth of Local Spending

The first signs that the central authorities were becoming concerned with the growth in investment spending came as early as March 1979. A mere three months after his accession to *de facto* power, Deng Xiaoping admitted that:

*"it is necessary to make a partial retreat. Some unrealistically high targets, which it would do more harm than good to aim at, must be resolutely lowered."*¹⁷⁴

Although this was in part a response to the failures of Hua Guofeng's economic strategy, it was also prompted by the explosion in capital construction investment that had followed the devolution of controls over investment spending.

The centre's increasingly futile attempts to curb provincial capital construction spending was the most visible example of centre-province conflict in the 1980s. Most of the pressing financial concerns of the 1980s (inflation, budgetary deficits etc), were partially caused or at least exacerbated by the growth in capital construction investment. But although the remedial measures that were implemented helped to overcome the immediate problems, they failed to address the deeper seated problems of which investment booms was merely a symptom. Rather than trying to iron out irrationalities in the economic system, the solution to current problems was sought in back-tracking and re-imposing some administrative controls.

The growth in investment spending was problematic for both economic and political reasons. From an economic stance, investment capital had been used inefficiently and had not produced the desired or expected increases in productivity. A 1982 report found that many new enterprises were inefficient in production and consumed large amounts of inputs. As a result, the average profit for every unit of output value in 1980 was a third less than the figure for 1957¹⁷⁵. In addition, it did not make the job of "balancing the books" any easier. According to the Minister of Finance, Wang Bingqian, the financial deficit for 1980 totalled RMB 12.75 billion, over a third higher than the planned deficit of RMB 8 billion¹⁷⁶.

From a political stance, it soon became clear that it was going to be difficult for the centre to claw back any powers that it devolved to the provinces and producers. Even during the relatively moderate "partial retreat" of 1979-82, central calls for restraint often fell on deaf provincial ears. During this period, investment in fixed assets actually

increased from RMB 66.9 billion in 1978 to RMB 84.6 billion in 1982. According to Perry and Wong:

*"All the increase has come from local investment, which more than doubled (from 22.5 billion yuan to 53.6 billion yuan) during this period."*¹⁷⁷

(b) Developing a Central Response - The Views Of Deng Xiaoping

In responding to the growth in local spending, central leaders were caught between two conflicting imperatives. On the one hand they needed to rein in the rapid developments and expansion of investment to secure the future of the reforms. But at the same time, they had to be careful not to discredit the notion of reform altogether by placing too great an emphasis on the problems generated by the reforms.

This internal contradiction was evident in Deng Xiaoping's attitude to reform and retrenchment during 1980. In particular, Deng was caught between his commitment to encouraging some areas and people to get rich first, and the knowledge that this policy may generate (and indeed, already had caused) discontent amongst the *have nots*. In January 1980, the CCP CC convened a special meeting of cadres to discuss the problems facing the country, a sign in itself that the "normal" control channels identified in chapter one were not working. At the meeting, Deng reaffirmed his conviction to the basic principles of reform, including:

*"we are in favour of allowing a part of the population or certain localities to become well off first through hard work which earns them greater income."*¹⁷⁸

It is important to note that whenever Deng outlined his commitment to allowing some areas to get rich first, it was in terms of wealth resulting from hard work. The impression that he was trying to give (at least publicly) was that anybody could get rich as long as they worked hard irrespective of where they lived, or what sector of the economy they were employed in. For example, in his speech to the closing session of the watershed Third Plenum in December 1978, Deng argued that:

*"If the standard of living of some people is raised first, this will inevitably be an impressive example to their 'neighbours', and people in other regions and units will want to learn from them."*¹⁷⁹

In essence, the sentiment is similar to that of the "Learn from Dazhai" campaign of the Cultural Revolution - work hard and you too can attain great wealth - although Deng would presumably reject the validity of this comparison.

One area in which Deng and other central leaders were relatively forthright in their comments was in criticism of provinces and lower level units that placed local interests above national needs. Whatever the differences between central leaders over other policy areas, opposition to the flouting of central directives was a topic that almost all central leaders could agree on. Typical of the type of attacks on local interests that was to characterise the 1980s, Deng asserted that:

*"Some have gone so far as to ignore the interests of the country as a whole and to flout discipline"*¹⁸⁰

and that:

*"Those who work harder should indeed earn more, but one must take society as a whole into account."*¹⁸¹

Similarly, at the February meeting of the fifth plenum of the 11th CC, Deng stated that:

*"Now and perhaps for a rather long time to come, we will have to stress centralization where it is really required."*¹²

and called for all members to adhere to the party line.

Deng's vision of reform was one where the centre retained the power to exert overall control over a decentralised economic system. Adherence to central commands and instructions was essential if the reforms were to pass off as smoothly as possible. Only the centre had the correct overall perspective to ensure that the cumulative impact of economic change across the country was beneficial to the nation as a whole.

(c) Criticising The Provinces

(i) Learning From Shanghai

In the Spring of 1981 the central authorities launched a "learn from Shanghai" campaign to encourage other local authorities to emulate Shanghai's decision making priorities. Between April and October, 3,400 local party and government cadres were taken on specially arranged tours and shown how Shanghai officials refused to let local conditions impinge on the higher priority of what China as a whole required. Great emphasis was placed on the extent to which Shanghai subsidised or underpinned the development of the rest of the nation - it was the single biggest provider of national funds, and exported 45% of its industrial goods to "outside" markets¹⁸². Furthermore, the wealth of the province had not been achieved by investing in new productive capacity, but by making rational and efficient use of existing plants. The message was clear - follow Shanghai's example of building on existing strengths and thereby ensure that national interests were placed above local interests.

(ii) Direct Central Criticisms of the Localities

Attacks on the activities of some local level officials were a constant feature of this early period of reform. These charges did not just come from central leaders. For example, at the 4th session of the 5th NPC in December 1981, Gong Xiangcai, a delegate from Zhejiang province, complained that raw material centres were blockading exports to coastal provinces and channelling supplies to local enterprises¹⁸³. It is important to note that at this stage, provincial-province tensions usually took the form of coastal provinces complaining about the policies of interior raw material and heavy industry centres. As the decade progressed, the nature of these province-province conflicts turned 180 degrees, with the coastal provinces becoming the main target of attacks from the interior.

Local enterprises were also blamed for rises in the retail price index during 1980 and 1981 (of 6% and 2% respectively). Prices had been increased without official authorisation or surcharges added to act as disguised price rises. Although these price rises had been enacted by producers, local authorities were held culpable for failing to prevent the contravention of official pricing regulations. In addition to ordering officials to step up their supervision of local enterprises, the general public were also invited to defend their own and the state's interests - both *Beijing Ribao* and *Beijing Wanbao* carried phone numbers for the people to ring if they suspected that prices were being illegally increased¹⁸⁴.

These developments caused considerable discontent in more conservative sections of the national leadership. In a widely published meeting with Yao Yilin, Song Ping and other key state planners, Chen Yun outlined his criticisms of the impact of the reforms, and the policies of some local authorities. He asserted that:

"In running socialist enterprises, we should take into consideration the following factors: whether there is a market for the products, where the raw materials come from and how enterprises are managed. Now, some places in our country do not pay attention to this."[emphasis added]¹⁸⁵

He further stressed the need to have a nationally coordinated economic strategy:

*"It will not do if construction is undertaken here and there without coordination."*¹⁸⁶

and recognised the long term dangers if current trends continued:

*"If we are too anxious for quick success, the economic development could be slowed down."*¹⁸⁷

State Planning Commissioner, Chai Shufan, was explicit in apportioning the blame for the over-rapid expansion of the economy with local authorities at all levels:

*"It seems that some places are too anxious and they want to change their backward conditions as quickly as possible."*¹⁸⁸

Again, the main target of criticism at this stage were the more backward interior areas which were anxious to develop their economies by building production units that utilised local supplies and resources. Although such criticisms continued throughout the 1980s, the primary target was to turn increasingly to the richer provinces of the south and east.

(d) Addressing The Problems

In an attempt to re-institute central control and take some of the heat out of the economy, a policy of restricting capital construction was introduced. Construction of a number of large scale projects that had been badly planned or were taking longer than expected to be constructed were halted. As a result, according to Huan Guang, the Minister in Charge of the State Capital Construction Commission, investment in capital construction fell from RMB 53,900 million in 1980 to RMB 41,700 million in 1981¹⁸⁹.

However, here we see one of the great problems facing the centre in its retrenchment policies. It only had direct control over large state owned complexes, and investment covered by the national budget. Local extra-budgetary investment proved much more difficult to control. As a result, although investment covered by the plan decreased during 1981, extra-budgetary investment by local authorities actually increased. The aim of the central policy had been to stop duplication of production and investment that did not take raw material supply, costs and markets into consideration. In reality, what it did was to reduce investment in large scale capital construction, while smaller projects continued unabated. As a result, as the State Statistical Bureau admitted in April 1982, while the state was cutting production of some products, locally owned enterprises continued to produce those same goods:

*"the output of some products that should be limited under the plan also increased blindly"*¹⁹⁰

and thus:

*"supplies for the domestic market in 1981 continued to increase."*¹⁹¹

Despite the centre's best efforts then, local investment continued to grow during 1981. This had the effect of placing great strains on energy supplies, transport facilities, and the state's finances. In particular, the expansion of out-of-plan investment consumed

funds which were needed for large scale heavy industry and infrastructural development, on which the nation's long term development depended.

These trends clearly concerned even the most ardent reformers in the central elites, who did not want to see the reform agenda discredited, or long term development jeopardised, by the activities of local authorities and enterprises. At his keynote speech to the CCP's 12th National Congress in September 1982, Hu Yaobang commented that:

*"In recent years, state revenues have somewhat decreased and there has been shortage of funds for urgently needed key projects. On the other hand, funds at the disposal of local enterprises have grown greatly and have been used for many projects which may seem badly needed from a local point of view; but this inevitably makes it difficult to adequately meet the national needs and to prevent and overcome the tendency towards blindness in construction."*¹⁹²

Hu further accused even state owned enterprises of:

*"such acts as violation of unified state plans, arbitrary holding back of materials earmarked for unified distribution, withholding of profits that should be turned over to the state, evasion of taxes, wilful violation of prices and blocking the flow of resources."*¹⁹³

(i) The Sixth Five Year Plan

These themes were also taken up by Zhao Ziyang in his report on the Sixth FYP in November 1982. In his speech, Zhao recognised that one of the key problems in China's economic development was rapid expansion of capital construction investment. Although this had been damped down by the retrenchment policies:

*"Once things started to go well after readjustments, people tended to repeat the mistake This is indeed a painful lesson for us, and we cannot afford to make this mistake again."*¹⁹⁴

In other words, only during periods of strict control and retrenchment could things be kept in check. As soon as the shackles were removed, then the investment explosion began again. As a People's Daily editorial put it:

*"Many years of experience in China have proved that whenever we relax control through planning, there appears the phenomenon of arbitrary 'repeating construction'."*¹⁹⁵

Reforming the system by giving more power to local authorities and enterprises almost inevitably resulted in undesired consequences. Zhao's solution was to back-track and re-introduce controls on local and enterprise investment spending. He outlined three

important measures to be implemented. Firstly, investment in fixed assets outside the plan had to be sanctioned by higher level authorities. Secondly, the State Planning Commission (or provincial level branch) must analyse and approve the financial viability of each project. And thirdly, no project could be started without prior feasibility studies and technical and economic appraisal¹⁹⁶.

The problem with these proposals was twofold. Firstly, they did not address the underlying causes of the economic problems. At best, the re-introduction of controls would provide a breathing space for the reformers. Secondly, the responsibility for implementing the changes was given to provincial level units. The success of these measures depended both upon the provinces taking national considerations into account, and on the independence of provincial level branch offices of national organisations from provincial interference. Neither of these two prerequisites existed. As a result, the proposals were to make little headway in controlling investment.

(ii) The Continued Failure of Central Policy

Reports from 1983 show the lack of success of these controls in restricting local investment and production. The State Statistical Bureau's report on the 1982 economic plan noted that:

*"there was no marked improvement in economic results in production, construction and circulation; many places suffered shortages in energy supply and transportation"*¹⁹⁷

Despite the retrenchment policies, 1982 witnessed a 25.4% increase in investment in fixed assets of state owned units, and local investment topped the planned figure by some RMB 5.2 billion. Even more worrying was the trend for finance planned for investment in planned projects being diverted for out-of-plan projects. As a result, 30 out of the 80 large and medium projects in the plan failed to meet their 1982 completion deadline¹⁹⁸.

The failure of the initiative was officially recognised by Zhao Ziyang in his government work report in June 1983:

"Both the 12th National Congress of the Chinese Communist Party and the Fifth Session of the Fifth National People's Congress clearly enunciated that policy of concentrating funds for key construction projects and of strictly controlling the scale of capital construction. But this problem has not yet been solved in a satisfactory way due to a generally deficient recognition of its

*importance and urgency, and the failure of the government to take sufficiently forceful measures, and the lack of strict checkup and supervision."*¹⁹⁹

The economic system was rapidly getting out of synchronisation. The expansion of the productive capacity of manufactured goods had vastly exceeded the development of the raw material and energy industries and the development of the national infrastructure. The diversion of funds from the state plan to fund the expansion of productive facilities had only exacerbated the problem:

*"The problem is that the state budgetary investment in key construction projects in the fields of energy and transport has failed to reach the amount planned while capital construction by localities, departments and enterprises using their own funds or different kinds of loans is out of control."*²⁰⁰

Moreover, far from getting better, the situation actually deteriorated during 1983. Investment in capital construction in the first five months of 1983 marked an 18.3% increase on the same period in 1982. In addition, illegal activities by some localities and enterprises continued to flourish. With building supplies limited due to the construction boom, the market price of materials rose sharply. Rather than hand supplies over to allocated markets for low state set prices, many materials suppliers and local authorities withheld the materials and sold them on at higher prices. For example, the Baotou Iron and Steel Complex in Inner Mongolia was reported as selling steel billets at 30% above the state set price²⁰¹.

The central authorities responded by resorting to non-formal control mechanisms. Firstly, they stepped in to collect funds for energy and transport projects from the extra-budgetary income of local authorities and enterprises. Secondly, the control of materials for centralised use was stepped up²⁰². And thirdly, in an attempt to ensure the effectiveness of the first two measures, the State Council and the Central Commission for Discipline Inspection dispatched 30 work teams around the country to ensure that central directives were being complied with at local levels. The initial results seemed encouraging. In January 1984, Lin Fatang from the energy and communications section of the State Planning Commission's Research Institute of the Planned Economy announced that 5,000 projects had been cancelled or suspended during the first 9 months of 1983²⁰³. But despite these cutbacks, investment in capital construction continued to grow, and, according to the Deputy Head of the Comprehensive Statistics Department at the State Statistical Bureau:

*"The contradiction between economic development and insufficient transport facilities became more acute."*²⁰⁴

3.3 Stoking the Fire: Increasing Local Autonomy, 1984-86

One of the dysfunctional consequences of the early period of reform was an increase in out-of-plan and extra-budgetary expenditure. This spending proved difficult to control, even when the central authorities imposed checks and controls on spending by stepping up administrative supervision. But such administrative supervision ran counter to the intention of freeing enterprise decision making from bureaucratic control. Eager to prevent the reforms being side-tracked by conservative opposition, reformers pushed ahead with the second wave of reform (1984-86) without first dealing with the irrationalities within the economic system. As a result, the reforms implemented after 1984 served to only exacerbate the centre-province tensions that the "cautious retreat" of 1981-83 had failed to resolve.

(a) Political Constraints On Economic Reform

The renewed emphasis on reform in 1984 and 1985 gave the CCP a chance to alleviate many of the structural imbalances within the economy. As noted in chapter two, You Ji argued that a full scale policy of price reform in 1984 might have alleviated some of the problems that were to emerge later in the decade²⁰⁵. However, Zhao Ziyang's official statements contradict this view. In his 1984 Government Work Report, Zhao argued that although the investment environment had been improved:

*"What is most important is that economic relations are not yet to be straightened out and in particular, the price system, irrational as it is, lacks the conditions for overall reform in a short period of time."*²⁰⁶

Here we see one of the central conundrums for Zhao and his followers. The full scale price reform that You Ji advocated probably would have gone a long way to creating a more rational and efficient economy. But price reform would have generated inflation, at least in the short run, and other necessary reforms would also bring troublesome side-effects. For example, economic rationality might demand that loss making enterprises be allowed to go bust rather than the being kept open with subsidies and guaranteed supplies and markets. But if all loss making enterprises went out of business, the impact on urban unemployment would be considerable.

Reformist leaders faced a dilemma in squaring long term economic requirements with three other considerations. Firstly, the ability to push through radical reforms in the face of opposition from not only conservative leaders, but also less radical reformers. Secondly, the opportunity that rising inflation and unemployment would provide for opponents to attack the reform process in general. Thirdly, a concern with the impact

of these problems on social order. And fourthly, a genuine desire to ensure that no group, neither geographical nor sectoral, were too adversely affected by the reforms.

As a result, the reforms that were announced in 1984 and 1985 represented a severely constrained attempt to overcome the fundamental causes of current economic problems. Although the lack of ability and desire to embark on more radical reforms are entirely understandable, it nonetheless marked a failure to tackle any of the real issues affecting centre-province relations.

(b) The Third Plenum of the 12th Central Committee

The Third Plenum marked the watershed in the swing back from retrenchment towards further reform. With the economic system relatively stable, the official communique announced that *"we must go a step further"*²⁰⁷ and that *"conditions are now ripe for all-round reform of the economic system"*²⁰⁸. Although the plenum addressed the economy as a whole, table 3.1 presents the main defects in the economic system that specifically affected centre-province relations and regional development.

Table 3.1
Diagnosing The Disease: Major Causes of Economic Instability, 1982

- 1 The lack of a distinction between the functions of governments and enterprises.
- 2 The existence of trade barriers between localities.
- 3 Over-rigid administrative control over enterprises.
- 4 The negation of market mechanisms in economic decision-making.
- 5 *"absolute equalitarianism in distribution"*²⁰⁹

source: CCP CC (1984) "Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure" in Beijing Review 29 Oct, p.iii.

In order to resolve these problems, the state (at all levels) had to step back from economic activity and allow market forces to play a much greater role. Thus, annual plans would be simplified and transformed from mandatory commands to more general guides of the aims of development²¹⁰. In addition, it was argued that *"this irrational price system has to be reformed"*²¹¹. But this was not a commitment to a plan for comprehensive price reform, but rather a vague reference to gradually reducing administrative price controls and replacing them with floating prices:

"In readjusting prices, we must reform the over-centralized system of price control, gradually reducing the scope of uniform prices set by the state and appropriately enlarge the scope of floating prices within certain limits of free

*prices. Thus prices will respond rather quickly to changes in labour productivity and the relationship between market supply and demand and better meet the needs of national economic development."*²¹²

Furthermore, a crucial component of the new reform agenda was an explicit and official commitment to uneven development:

*"common prosperity cannot and will never mean absolute equalitarianism or that all members of society become better off simultaneously at the same speed."*²¹³

All areas would benefit from the reforms with some merely getting richer sooner:

"The difference arising from the prosperity of some people before others is a difference in speed, with all members of society advancing on the road to common prosperity. It is certainly not polarization." [emphasis added]²¹⁴

(i) The Third Plenum: An Assessment

Although the Third Plenum correctly identified many of the problems afflicting the economy at the time, it was a flawed response to the underlying tensions in centre-province relations for four main reasons. Firstly, in order for the coastal development strategy to be both economically and politically feasible, key economic preconditions had to exist. For example, the prices of raw material inputs had to reflect their full value. If input prices remained below the market level, there would be no incentive for raw material producing centres to allow *their* resources to subsidise the development of the coast. Furthermore, with raw material prices set artificially low, the production centres would not be able to raise sufficient capital for long term investment and development. If this remained the case, then expensive infrastructural developments would continue to drain the increasingly stretched central coffers.

Secondly, and following on from point one above, adequate raw material supplies had to be made available to meet production demands. Without this precondition, the tendency for local producers to secure local raw materials through a number of semi-licit and illegal means would remain. Thirdly, and connected to point two, the national infrastructure should be developed to meet the new demands being placed upon it. Without the ability for goods and resources to flow across the country, then local comparative advantage could not be exploited. This would result in shortages of supplies to coastal production centres and a consequential diminution of their profit margins, and potential shortages of basic foodstuffs in areas that concentrated in raw material production. In such circumstances, the onus on local authorities was to meet

the immediate demands of their local population by whatever means possible, rather than adhering to central allocation targets and plans.

Fourthly, the bold step of closing down loss making and inefficient enterprises had to be taken. Without the penalties of the market being employed alongside the benefits, the incentive to cut back on investment would not exist. With inefficient enterprises consuming large amounts of raw material inputs, supplies to more efficient producers elsewhere would be reduced. Furthermore, as was to become all too clear by the end of the 1980s, subsidising loss making enterprises created great strains on the national coffers.

(c) The Third Session of the Sixth NPC

Having re-embarked on reform the previous Autumn, the Spring NPC session gave the CCP an opportunity to reinforce the commitment to reform. However, although the session did place an emphasis on the benefits of reform, this was balanced with an acknowledgment of the economic problems that were already becoming too clearly evident.

At least part of the intention of emphasising problems was to drive home to local leaders the problems that were being caused through the failure to adhere to central directives, and of making economic decisions that ignored larger national considerations. Zhao Ziyang used his Government Work Report to complain that local interests were impinging on central policy and national concerns in far too many cases:

*"At present some localities are pursuing unrealistically high targets for higher growth rates with no regard to society's needs, supply and demand, available financial and material resources or the necessity for balance between revenues and expenditure, between credit receipts and payments, between supply and consumption of materials and between receipts and payments of foreign exchange."*²¹⁵

Furthermore, in some areas, Zhao claimed that local authorities had overstepping the mark in their interpretations of national policy. In order to build local popular support for their local policies, some localities were:

*"found misrepresenting reform to justify the pursuit of their own interests at the expense of those of the state and the people, and their pursuit of immediate interests at the expense of the long term interests in the development of production."*²¹⁶

Zhao recognised that these issues were essentially symptoms of more deep-seated consequences of reform and:

*"being unavoidable in the execution of reform, can only be solved through further reform."*²¹⁷

In particular:

*"The prices of many commodities reflect neither their value nor the supply and demand relationship."*²¹⁸

But conditions were not yet ripe for *"further reform"*. Not only were the constraints of the previous autumn still very much in place, but spending (and capital construction investment in particular) was already beginning to get out of control. So for the time being, it was necessary to:

*"leave basically unchanged the prices of those raw and semi-finished materials, fuels and other major means of production which are distributed according to state plan."*²¹⁹

Having failed to make the structural changes that would have ironed out some of the economic irrationalities which were at the root of growing centre-province tensions, Zhao returned to more familiar methods of trying to elicit provincial compliance. Firstly, he forcefully reminded provincial cadres of their formal and legal responsibility to adhere to central directives. They were:

*"absolutely forbidden to overstep their authority and go their own way, still less to interfere with the unified policy decisions and the plans of central authorities and damage the overall interests of the country in pursuit of the interests of their own units or small circles."*²²⁰

If problems arose during the process of reform, provincial cadres should not make their own decisions, but instead:

"ask for instructions from their superiors in good time if there are no specific regulations to go by On no account should they make decisions or act on their own." [emphasis added]²²¹

Secondly, he issued a clarion call of unity and cohesion:

*"as long as our people share the same understanding and act in unison, we have the ability and resourcefulness to solve any problems that arise in the course of our progress."*²²²

But as shall be shown in the following sections, this call for unity (and similar appeals from other central party and state leaders) represents something of a triumph of aspiration over objective economic reality. At the heart of the issue of "localism" was

the semi-reformed nature of the economic system. Reformers at the centre were not prepared or able to meet this challenge head on - neither in 1984 nor in 1985, or indeed throughout the 1980s. As a result, the new reform policies of the Autumn of 1984 and Spring of 1985 could not possibly overcome the conflict of interests between centre and provinces. Rather they contributed to both a continuation of these tensions and an exacerbation of inter-provincial antagonisms during the rest of the decade.

(d) The Impact of the New Reforms

(i) Inter-Provincial Tensions and the Coastal Development Strategy

One of the most important consequences of the new wave of reforms after 1984 was their affect on the nature of intra-provincial conflicts. Attacks on interior provinces for hoarding raw materials continued, but leaders from the interior complained increasingly vociferously that they were being treated unfairly. Whether the interior provinces were correct to feel aggrieved or not is a question that will be assessed in chapter five. In this section, I will simply outline the measures taken by the central authorities to rebut accusations of polarisation.

The centre's initial response to the growing resentment from interior provinces was a combination of promises, payoffs and exhortations. For example, at a special symposium on developing western China in Lanzhou in August 1985, promises were made that developing the west was a central priority. However, this would have to wait until coastal development was complete which, at the earliest, meant the end of the century. For the time being, the western provinces must content themselves with:

*"laying an ideological and theoretical foundation for the future."*²²³

Apparently aware that promises on their own would not be sufficient to pacify the voices of protest, it was announced that the centre would increase its aid to the western Autonomous Regions and Yunnan, Qinghai and Guizhou provinces by 10% per annum²²⁴. This move highlights an important element of the spatial impact of the 1980's reforms. Although many of the benefits of the reforms accrued to enterprises and local authorities, many of the costs were borne by the centre. Throughout the reform process, CCP leaders have been wary of allowing the market reforms to affect both geographical and sectoral groups too strongly. For example, in addition to subsidising western provinces, compensatory payments were paid to urban workers to offset the impact of agricultural prices. So in order to ameliorate the negative affects of emphasising coastal development, the centre took on extra budgetary commitments at a time when central coffers were already under severe strain. This not only affected

important long term national investment considerations, but was also contributed to a shift in the financial balance of power between the centre and some provinces.

According to the noted economist Xue Muqiao, the best way to develop the west (without placing further strains on national finances) was to allow natural economic links to grow between the developed coast and the less-developed interior²²⁵. The central authorities did sponsor initiatives to encourage the growth of inter-regional trade and coordination between the developed coast and the interior. But crucially, the "natural" impact of these inter-regional contacts were distorted by important structural differences between economies in the interior and on the coast. The coexistence of divergent pricing mechanisms, different centre-province revenue sharing systems, and unequal access to domestic and foreign investment and markets, combined to usually give the coastal regions an advantage over the interior in trade between the two. In addition, an inadequately developed national infrastructure hampered the development of effective links across regions.

Faced with a situation where inter-regional trade might actually exacerbate rather than assuage inter-provincial tensions, the central authorities responded by exhorting restraint from coastal producers. For example, at a special national meeting on economic and technological cooperation held in Tianjin in September 1984, the coastal regions were counselled to "*keep mutual benefit uppermost in cooperating*" and:

*"coastal area authorities must be far-sighted and must keep the socialist co-operative spirit even if they suffer losses at first."*²²⁶

In short, they were to ignore immediate and objective local economic rationality and only consider loftier but more remote and less tangible national interests.

(ii) A Second Investment Boom

A second key consequence of the new reforms was a further expansion of local spending. At the heart of this problem was the move from One of the reasons for these problems was the state budgetary appropriations to bank loans as the source of investment finance for all capital construction projects²²⁷. It is difficult to see the underlying logic of this move, given that it was made at a time when unrestrained credit expansion was being blamed for most of the economic problems of the day²²⁸. As we saw in section 3.2 above, even central attempts to control local investment had not been wholly successful in reining in investment spending, and some Chinese economists argued for a strengthening of central control rather than a further devolution of power²²⁹. But once even these constraints were removed, then the

deficiency of relying on exhortations and pleas to take national interests into consideration became increasingly apparent.

By as early as July 1985 the problem and longer term consequences of the credit expansion had become evident²³⁰. Compared with 1984, investment in capital construction increased by 35% in the first quarter of 1985, by 37% in April, and by 42% in May. Crucially, investment in state planned projects recorded a mere 1.6% increase, whereas investment in unplanned projects increased by a massive 87%²³¹. The most severe (and most immediate) consequences were felt in the building materials and transport industries²³².

The majority of the increase came from an expansion in local spending. On average, there had been an 86.8% increase in local spending, with investment spending in eight coastal provinces more than doubling. The biggest increase was in Guangdong Province - a foretaste of a specific centre-province conflict was to intensify as the 1980s progressed²³³.

(iii) Corruption: The Hainan Incident

In addition to these problems, August 1985 saw the most damning indictment yet of the failure of local leaders to place national interests above local concerns. High ranking officials in Hainan, including Chen Yuji and Lei Yu, were dismissed from office for severe abuses of power. Hainan had been granted special tax free status to facilitate the development of the island into a major economic base. Cars, motorcycles, televisions and video recorders had been imported tax free, and then resold at twice or three times the initial price to less favoured areas²³⁴. The resulting impact on local revenues was reported to have been favourably received by the local population²³⁵, but not, unsurprisingly, by the central authorities.

3.4 Losing Control: A Growing Divergence of Interests, 1986-88

(a) The Failure of Central Control

Although the economic problems of 1985 were not allowed to get out of control, any successes that were achieved by the centre were at best partial. At the Fourth Session of the Sixth NPC in April 1986, Zhao Ziyang acknowledged that:

*"although the tendency towards excessive investment that appeared in the last two years has now, with enormous effort, been moderated, the problem is not yet basically solved. Many localities and departments continue to launch new projects at random."*²³⁶

If success could not be guaranteed when the centre was exerting "*enormous effort*", then what chance did it have if supervision was reduced?

Despite more calls for unity and restraint from Zhao and other leaders, the problems of controlling local economic activity deteriorated during 1986. Despite a planned decrease in capital construction expenditure for the first seven months of 1986, spending actually increased by 7.3%. A total of RMB 4.4 billion had been invested from extra-budgetary funds controlled by local authorities in direct contravention of central government directives. The State Planning Commission responded to this challenge to its authority by taking the unusual (and onerous) step of ordering a check on **all** building work²³⁷.

Renewed attempts were also made to encourage inter-regional economic cooperation. In a similar manner to the "Learn from Shanghai" campaign in 1981, the examples of Beijing and Tianjin were held up for emulation. During 1986, Beijing invested RMB 130 million in projects in 12 provinces, and Tianjin invested RMB 150 million in "*neighbouring areas*" to expand raw material production bases²³⁸. To further promote the concept of growing inter-regional trade, yet another special national conference was held in March 1986 to study the success of horizontal economic associations²³⁹.

But despite these central controls and the shining examples of Beijing and Tianjin, provincial disregard for central regulations continued unabated. In a report on the economic situation in 14 coastal cities, a State Statistical Bureau communique noted that by March 1987:

*"Some cities, too eager for success, took on too much construction. The result is very serious: both capital construction and raw materials are in serious shortage."*²⁴⁰

Also in March 1987, Zhao Ziyang gave what was to be his final Government Work Report before giving up the Premiership to Li Peng²⁴¹. Although Zhao acknowledged that:

*"The main problems we face today are that the increase in fixed assets investment outside the plan has yet to be brought under control, that too many projects have been launched and that the scale of construction is over-extended."*²⁴²

he also announced that the central government would increase the power of local authorities to examine and approve construction projects:

*"On the condition that the total investment set by the Seventh Five Year Plan is not exceeded, more power to examine and approve construction projects will be given to departments that have responsibility for investment; departments and localities that do not have such responsibility will also be granted more power to approve projects in certain trades and professions."*²⁴³

Despite the rider that limits on investment should not be breached, the further devolution of control over investment spending at this stage fuelled existing problems. With Zhao Ziyang shortly to hand over the reins of government power to the more conservative Li Peng, this move contributed to the emergence of often fierce disagreements over economic policy between Li and Zhao in 1988 and 1989.

(b) Conservatives in the Ascendancy? The Rise of Li Peng

Throughout 1987 and 1988, the centre's ability to control economic affairs in the provinces steadily declined. A July 1987 State Statistical Bureau communique provided an example of areas where affairs were out of control; consumption funds had increased too quickly, bonuses were being paid that were not related to productivity increases, investment in capital construction outside the state plan had increased, and prices of foodstuffs were rising so rapidly in some cities that real incomes had fallen²⁴⁴. This situation coincided with Li Peng's appointment to the Premiership, an event that marked an important turn in the reform process, and in central attempts to control the provinces.

Initially, the difference in emphasis between Zhao and Li was not clearly marked - it was more a question of emphasis and style than one of open policy conflict. But as the economy faced increasingly severe problems in the second half of the year, key conflicts emerged over the best way to handle the crisis. Li Peng's March 1988 Government Work Report did not mark a substantial break from the those presented by Zhao Ziyang. Although great emphasis was placed on the successes of the previous year, attention was also drawn to the problems that remained to be solved.

Li paid particular attention to the growing tension between central and local authorities. He argued that:

*"During this period when the old structure coexists with the new, we are faced with many new contradictions."*²⁴⁵

and one of the most pressing contradictions that needed to be solved was *"the economic relations between central and local authorities"*²⁴⁶.

There was also a subtle change in style between Li's first Government Work Report and Zhao's last. Firstly, although Zhao had been keen on promoting bilateral economic relations between coast and interior, Li's comments implied a greater directive role for the centre in forging inter-regional trade²⁴⁷. Li also indicated that he did not regard prior statements by other leaders as unalterable blueprints for progress. For example, the reform policies of the 13th Party Congress were:

*"after all, only in rough outline that must be filled out and refined in practice"*²⁴⁸

Although remaining committed to the goals of the congress, Li provided the caveat that:

*"The situation in the past five years shows that in order to achieve these objectives we sometimes have to make a detour Since economic problems are very complex and our country is so big that conditions vary in a thousand ways, neither plans for construction nor programmes of reform can be worked out perfectly at one stroke, and they are bound to go through a continual process of modification and improvement."*²⁴⁹

Clearer signs of the new direction in central government policy came in Yao Yilin's draft national plan for 1988. For example, although Li Peng had announced that more attention would be placed on developing the weak links in the economy - agriculture, energy, raw and semi-finished materials and transport and communications, it was Yao Yilin who outlined how capital would be raised to fund these projects:

*"Local authorities and departments will not be allowed to launch new projects with their own funds until they have fulfilled the quotas imposed by the State Council for the purchase of bonds for construction of key enterprises Those localities that failed to fulfil the quotas last year will have the loans granted to them for investment in fixed assets reduced."*²⁵⁰

In other words, provinces and lower level local authorities would be forced to lend money to the centre to fund key development projects. At the same time, strict controls were introduced to cut back the expanding rate of local investment:

*"No loans of appropriations will be granted to those completed projects outside the plan for which no energy, raw and semi-finished materials or transport facilities will be available."*²⁵¹

and:

*"Work on office buildings, auditoriums and hotels that are being built or renovated without approval will be stopped."*²⁵²

Central attacks were also made on the growth of institutional spending by cadres for cadres on such items as new cars, air conditioning, better offices and so on. According to Minister of Finance, Wang Bingqian, institutional spending increased by an average of 21.2% per annum between 1983-87²⁵³. In order to bring such spending under control, the State Council issued an "Urgent Circular on the Strict Control of Institutional Purchases and the Reduction of Expenditures" on 23 February. The stated aim was to reduce institutional purchasing by 20% in real terms during 1988²⁵⁴ - a goal that proved impossible to attain.

(c) A Growing Economic Crisis

By the Autumn of 1988, the Chinese economy was facing severe difficulties. Rising inflation had prompted a wave of panic buying and bank runs, and national finances were under severe strain. In responding to these problems, the central leadership tried to implement a retrenchment package which affected the provinces in two main ways. Firstly, a number of policies (and a great deal of rhetoric) were specifically designed to control provincial spending. Secondly, policies related to price reform and the scope of administrative controls had indirect affects on both centre-province and province-province relations. In both identifying the cause of these problems and in taking remedial action, the central authorities were much more explicit in their criticisms of the provinces than ever before. However, as shall be seen in section 3.5, the centre's ability to enforce the implementation of these policies in some provinces was weak - a factor that only served to further exacerbate existing centre-province and inter-provincial tensions.

(i) Inflation and Panic Buying

The most immediate central concern in the Summer and Autumn of 1988 was the massive price rises in many urban centres. With inflation eating away at domestic savings and price rises outstripping increases in urban wages, July and August saw a spate of panic buying and bank runs. In Fujian Province, savings deposits fell by RMB 57.8 million in seven days, forcing the provincial authorities to implement emergency measures to stabilise markets²⁵⁵. This phenomenon was repeated throughout the country, with, for example, the Shenyang branch of the Industrial and Commercial bank suffering a RMB 52 million fall in reserves between 25 July and 5 August²⁵⁶.

With inflation rising rapidly, Li Peng argued that the basis for the much needed further reform of the price system was not in place. Despite Zhao Ziyang's counter argument that only through price reform could China solve one of the long term causes of inflation, the State Council announced on 26 July that Zhao's proposed package price

reforms had been postponed until the second half of the year (these plans were later to be shelved indefinitely)²⁵⁷. If price reform could not be pushed through in the relatively stable days of 1984, then it is difficult to see how it could possibly have been implemented during the turmoil of 1988. Nevertheless, the continuation of a two-tier pricing system was to continue to impact on centre-province and province-province relations throughout the rest of the 1980s and beyond.

(ii) A Continuing Credit Boom

Another major cause of the emerging tougher central attitude towards the provinces was the abject failure of previous central directives to have any affect on local spending. 1988 saw a plethora of central directives concerned with reining in credit, cutting institutional spending, and reducing local out of plan investment in capital construction. At best, these directives had only met with limited success - in some areas they were totally ignored. As NPC delegate Zhaxi Wangqug put it in November 1988:

*"The central authorities have issued numerous orders over the past several years, but certain local authorities and departments have simply disregarded these orders."*²⁵⁸

By September 1988, only 433 construction projects had been investigated, and of these, the construction of only 111 projects had been suspended²⁵⁹. By the end of August, the number of construction projects in the country totalled 47,344, of which 83% were local projects²⁶⁰. Worse still, despite attempts to cut capital construction expenditure, it actually increased by 15.9% during the first eight months of 1988 (compared to the same period in 1987)²⁶¹.

Calls to cut institutional spending had similarly fallen on deaf ears. Guangdong authorities were accused of "*flouting the State Council's decision*" by continuing to buy new fleets of cars for cadres. Despite the ban on spending, officials in Guangdong spent RMB 20.85 million on cars between January and August. Provincial institutional spending by the end of August had reached RMB 412 million, more than double its total budget for the whole year²⁶². It should be noted that the rich provinces were not the only ones flouting central directives. "*Poverty stricken*" Jiangxi provincial cadres were similarly criticised for spending supposedly scarce capital on a new car fleet and on air conditioners for government offices²⁶³.

(iii) Corruption

A third important consideration was the impact of corruption in the provinces. Figures released in June 1988 revealed a budget deficit of RMB 7.959 billion for 1987, and projected a similar deficit for 1988²⁶⁴. According to Finance Minister Wang Bingqian, at least part of the deficit had been caused by provincial corruption. Wang accused the provinces (and other accounting units) of evading taxation, withholding revenues from profits, and faking deficits in order to gain central government grants²⁶⁵. Jin Xin, the Director of the General Tax Bureau, also accused localities of formulating their own tax policies to divert taxes away from national funds to local coffers in contravention of state laws²⁶⁶.

(iv) Shortages and the "Energy Crisis"

Shortages of raw material and food was a fourth major source of concern. The biggest problem was in the area of energy supplies. Coal for electricity generating, already in short supply, got steadily scarcer and scarcer on the coast as the year progressed. For example, in Jiangsu, the supply of coal for electricity generating was only 90.5% of demand in the first half of 1988, falling to 86.41% and 75.18% in July and August respectively. As a result, major power stations were forced to stop operating, and the provincial supply of electricity cut by a third. The net result was that by the autumn of 1988, Jiangsu's electricity generating capacity was only the same as in 1982²⁶⁷.

In addition to the longer term problems of an underdeveloped national infrastructure, three other factors combined to create severe problems. Firstly, some coal producing areas simply ignored central controls and dealt directly with light and consumer goods producers on the coast. Secondly, some local authorities diverted their allocation of coal and other energy sources to small scale manufacturers in an attempt to boost local revenues. Thirdly, a heatwave in central China during July reduced the capacity of hydro-electric generators²⁶⁸.

The main losers were large state owned complexes which produced essential secondary energy sources and manufacturing inputs. For example, the state owned Guangzhou Iron and Steel Works was forced to close down one of its furnaces and leave another in a state of heat preservation due to shortages of coal, while non-state owned production units in Guangdong purchased coal at high prices on the free and black market. This not only had a knock on effect on supplies of semi-finished materials, but also resulted in a daily loss of RMB 150,00 in income²⁶⁹. By the end of October, Guangdong was only receiving 40% of the coal required to meet its heavy industrial demand²⁷⁰. Similarly, Hunan Province reported that its power stations were down to 20 days supply by the end of July²⁷¹.

The problems of assuring adequate coal and energy supplies provide a good example of the consequences of partial reform. Firstly, the retention of low state set prices for coal supplies generated considerable disquiet in coal producing areas which felt that they were being exploited by both the central government and the coastal provinces. Secondly, the difference between state and market prices (both legitimate and illegitimate) provided an incentive for suppliers to by-pass the state sector and deal directly with those enterprises that could afford to pay the going rate. Thirdly, the continued use of administrative controls for distributing coal gave local authorities the ability to allocate resources to enterprises based on their own local needs. These three factors in combination acted to pull coal supplies in a number of disparate and contradictory directions.

At best, the diversion of supplies out of the state plan to the highest bidder represents a highly distorted market in action. Thirdly, the irrational price system for raw materials led to distortions in supply. In 1988, raw materials could be bought at three prices, namely the state set price, state guaranteed price (pegged floating prices) and market prices in ascending order. The low state set prices only accounted for 20-40% of the demand from state-owned enterprises, forcing them to compete with small scale light industrial enterprises for supplies at higher prices. As these locally controlled enterprises generated high profits and could often rely on administrative interference on their behalf from local authorities, state owned enterprises were competing in an unfair market²⁷². At worst, the allocation of supplies to local producers led to a distribution of coal that met neither the priorities of the central plan nor the market.

With investment in energy and the infrastructure neglected for much of the 1980s, it was difficult for these sectors to keep pace with developments in the rest of the economy under "normal" conditions. Under the abnormal conditions of the first ten months of 1988, coal output increased by 4.21%, but industrial output grew by a massive 17.5%²⁷³. But even this increase in coal production could not be effectively fed into the economy. With the railway system unable to keep pace with the demands being placed upon it stockpiles of coal grew in railway sidings in Shanxi Province whilst steel furnaces on the coast were being closed down. At least this had a beneficial impact on local employment - men were employed to continually spray the coal with water to prevent combustion!²⁷⁴

The need to develop energy production placed the central authorities in a dilemma. Li Peng and others remained committed to retaining control over energy supplies. By the end of the 1980s, this provided one of the few remaining sources of central economic control over the provinces. It also provided an area where the party could argue that market forces were tempered by the priorities of the national plan. However, the centre no longer possessed the financial wherewithal to provide the investment in infrastructural and raw material development that was urgently needed. Encouraging the wealthy provinces of the south to use some of their new found wealth to invest in large scale projects would reduce the burden on the centre and go some way to overcoming shortages. But this would mean that the centre would weaken its economic control mechanisms at a time when the coastal provinces were proving difficult to control. Another option which was adopted with varying degrees of success, was to encourage foreign investment into infrastructural projects. The problem here was that foreign investors wanted something in return for their cash - namely, raw material supplies. Unless sufficient supplies could be generated to satisfy the foreign partner and provide an increase of supplies for domestic usage, then either or both of the partners would soon lose patience²⁷⁵.

In the end, a policy of encouraging limited provincial investment in large scale energy projects was chosen. In September 1988, three new thermal power stations were commissioned in Yunnan, Guangxi and Guizhou with a planned combined total investment of RMB 7 billion. The central authorities were to provide only 20% of the total sum, with 50% coming from the planned main beneficiary, Guangdong, and the remainder from the host provinces²⁷⁶. When fully operational, these new power stations will help meet the demands of China's fastest growing provincial economy, but at the cost of central planners' ability to coordinate economic development across China.

(d) The Provinces Accused

The clearest articulation of the main areas of conflict between centre and provinces came in two articles in Liaowang in September and October 1988²⁷⁷. The authors began by acknowledging the simple fact that the centre had lost much of its power to control the economy:

*"With the establishment of decision making powers in localities and adjustments in the economic relations between localities, a degree of economic 'independence' may have taken shape."*²⁷⁸

In particular, the expansion of local independence had combined with shortages of raw materials to create a two-fold problem. Firstly, provinces had erected barriers (both fiscal and physical) to prevent goods leaving their territory. In the most serious case, military units from Guangdong were used to transport illegally purchased silk cocoons past armed provincial checkpoints in Sichuan. Secondly, there had been intense competition between richer provinces to pay inflated prices for scarce goods. As the competition intensified and prices were forced upwards, large state owned complexes had been starved of supplies.

The blame for the growth of local independence was in part placed on the policies of the central authorities. Policies aimed at developing the economic potential of the coastal provinces were said to have gone too far. The favourable conditions granted to the coast and the Special Economic Zones (SEZs) meant that they enjoyed vast advantages in their dealings with other provinces. Secondly, in a situation where rules and regulations were often vague, constantly changing, and even nonexistent, many provincial cadres sought clearance from their central superiors before making decisions. With central organs swamped by the sheer weight of problems, requests and demands coming from below, the lag between problem being referred and the centre making a decision grew ever larger. Faced with this policy vacuum, provincial cadres increasingly developed their own policies and stopped seeking clearance from above.

Despite these failings, the brunt of the blame fell on provincial and lower level local authorities. Of particular note is the assertion that:

"When the state interests and the local interests come into conflict with each other, local leaders will naturally try to safeguard the local interests."
[emphasis added]²⁷⁹

The assertion that the "natural" tendency of provincial leaders is to defend local interests is an important recognition that calls for unity without effective economic and other central control mechanisms were unlikely to bear fruit.

Provincial leaders were specifically accused of only implementing those central policies that were deemed to be beneficial to perceived local interests, or of following the "policy of three lights"²⁸⁰. This problem got worse as the 1980s progressed as a result of growing inter-provincial tensions. With no action being taken to bring wayward provincial leaders to book, other provincial leaders felt that the only way that they could compete was by also looking after their own interests and neglecting central directives. Being virtuous was at best unproductive, and at worst, foolhardy.

Although these articles gave an interesting insight into the attitudes of leaders such as Li Peng, Yao Yilin and Chen Yun, their content must be considered with care. Although provincial leaders are explicitly targeted for criticism, the implicit target was the Premiership of Zhao Ziyang. The failure to provide clear guidance had allowed or even forced provinces to develop their own strategies. Perhaps more importantly, too little had been done to back up speeches, circulars and press statements attacking localism with concrete action. As such, these articles represent both the emergence of a growing central conflict with Zhao Ziyang and Li Peng as the main protagonists, and a commitment to re-establishing effective and systematic control over the provinces. However, by this time, the sources of central control over some provinces had become so weak that re-imposing central control proved to be a far from easy task.

3.5 The Failure to Rein in The Provinces, 1988-89

(a) The Third Plenum of the 13th Central Committee

It was against this background that the Third Plenum of the 13th CC was held in Beijing in September 1988. As with the Third Plenums of both the 11th and 12th CC, it was to prove an important turning point in policy and leadership conflicts²⁸¹.

(i) Elite Conflict and the Third Plenum

The preparations for the Third Plenum had been fraught with difficulties and conflicts centring on solving the growing inflationary crisis. Zhao Ziyang argued that the way out was to push ahead with further price and wage reform to get rid of the causes of economic instability - the conflicting existence of both administrative and market control mechanisms - at one sweep. In contrast, Li Peng and Yao Yilin (with the backing of Chen Yun) maintained that inflation was so high and instability so great, that further reform would only exacerbate the problems. What was needed was a step back to stronger administrative control rather than a step forward to greater market control. Zhao and Li were so far apart on their remedies for the economy that at one stage in the preparatory work conference, Zhao is reported to have had a stand up row with Li over economic policy²⁸².

With the General Secretary having less clout in economic affairs than the Premier, Zhao was institutionally in a weak position. The first sign that he was running into trouble came from Hong Kong on 19 September, when Wen Wei Po reported that:

*"One relatively prominent view at this conference holds that under the current circumstances, the key to stabilizing prices lies in strengthening centralism and centralised leadership."*²⁸³

Another report from Hong Kong in the CCP controlled Ming Pao the following day noted that:

*"Due to the meeting's extremely heated discussions on China's current economic situation, the 3rd plenary session of the CCPCC may be postponed."*²⁸⁴

Given the CCP's desires to show a face of unity to the outside world (and their own population) this was a potent signal of the extent and animosity of the debates.

(ii) Towards Recentralisation

As party General Secretary, it fell to Zhao Ziyang to articulate the decisions of the preparatory central work conference, despite the fact that he opposed many of the new measures. It should be noted that the proceedings of the plenum remained unpublished

for a month, and that Zhao's original speech may have undergone later revisions to more clearly reflect the newly dominant line.

The speech marked a very definite shift in favour of restoring central control over the economy, and bringing the provinces into line. Zhao began with an echo of Mao's words in "On the Ten Great Relationships" by stating that one of the greatest problems facing the party and the country was:

*"whether the relationship between local interests and the interests of the whole can be correctly handled All localities and departments have the obligation to protect and be subordinate to the interests of the state."*²⁸⁵

An important example of this problem was the question of grain production, a fixation of many conservative leaders, and notably of Chen Yun. With some richer areas buying up grain on the free and black market, the amount available for central purchase and allocation had decreased. Local units were ordered to *"stop the practice of procuring grain at high prices"* and to *"subordinate themselves to the unified management of the CCPCC"*²⁸⁶. As to the blame for such practices, Zhao was explicit in his criticisms:

*"Provincial party secretaries and governors will be held responsible for any anarchic and undisciplined acts that deny the unified management of the CCP CC. Here I want to make this point very clear."*²⁸⁷

This assertion differs from the majority of CC and SC circulars and directives, which usually referred to localities, departments and enterprises at all levels rather than specifically blaming provincial level leaders. This was not meant to place all the blame on provincial leaders, but rather a recognition of their responsibility for affairs under their jurisdiction. In particular, it was aimed at undermining the oft used defence at the time that provincial leaders could not control the activities of lower level organisations and units.

Qiao Shi expressed similar sentiments in his report on party discipline at the Third Plenum. While it was wholly correct to encourage decentralisation and local initiative, Qiao asserted that it was wrong to use these powers to disregard central authority. He complained that officials took decisions on *"the immediate interests of their own locality"*²⁸⁸ rather than what was good for the nation as a whole. For Qiao, the balance of power had shifted too far in favour of the localities and the time was ripe for the centre to act to redress the balance. If this decreased local initiative and flexibility, then this was the necessary price to be paid for rectifying current ills:

*"When a measure is made public it must be strictly implemented. We must carry out the measures strictly. Even if we act too strictly, we still have to do it."*²⁸⁹

(b) The Centre on The Offensive

(i) The Media Campaign

The clear lead given by the national leadership at the Third Plenum was taken up by a concerted campaign in the national press. For example, in a 28 September *Renmin Ribao* editorial, criticisms were made against provincial leaders who had ignored central directives. It stressed the importance of central control and charged that the party must ensure that "*local parties*" did not emerge which:

*"stresses only its partial interests and neglects the interests of the whole."*²⁹⁰

This was followed by a second editorial on 10 November which continued the attacks on the blocking power of localities, and identified three degrees of illegitimate action; publicly supporting central policy, but doing nothing concrete to enforce it, the adoption of counter measures to deal with policies from above, and provinces which did "*everything possible to counter the policy from the central authorities*"²⁹¹. It also called for the centre to take firm action to back up its policies, and to get tough on offenders:

*"Once these cases are checked and found to be true, the relevant offenders must be punished severely."*²⁹²

(ii) The Imposition of New Controls

The post-Third Plenum era also saw the issuing of a number of central regulations and directives aimed at overcoming economic problems and restoring central control. These included the re-introduction of price ceilings, and a reinforcement of controls on capital construction investment. Mindful of the failure of previous directives to bear fruit, the centre moved to assure compliance in the localities. The State Council sent special price observers from the Price Committee of the State Administration of Commodity Prices to all provincial level governments. These observers were given the jurisdiction to be present at all meetings that dealt with pricing policy, and to report back to the State Council on the implementation of the new guide-lines²⁹³.

This was followed by three other signs of the centre's renewed determination to ensure that this time its policies would be adhered to in the provinces. Firstly, the State Council announced on 3 October that a national fiscal inspection would take place to

investigate cases of fiscal evasion and the faking of losses in departments in charge of economic affairs²⁹⁴. Secondly, on 6 October, the State Council announced the establishment of a national inventory on investment. The inventory was under the direct control of Li Peng - perhaps an indication of the desire to prevent the policy being hijacked by reformers - and aimed to reduce out-of-plan construction capital construction. Any project that was less than 70% completed when the inventory was made would not be completed²⁹⁵. Ironically, but not surprisingly, this actually led to an increase in construction, as units worked night and day to get their projects to the required 70% completion rate. Thirdly, a Central Credit and Loan Review Office was established on 7 October aimed at controlling the expansion of the money supply in the provinces. Again, this was backed up by the dispatching of central work teams to ensure compliance²⁹⁶.

As well as implementing general measures to dampen down the economy and restore central control, steps were also taken to solve specific problems in specific areas. for example, in order to cut back on expenditure in the rapidly expanding SEZs, their 100% foreign currency retention rights were revoked. Instead, they had to abide by the same 20:80 retention ratio applicable elsewhere²⁹⁷. The centre also acted to prevent rich areas buying scarce produce at inflated prices. In an operation that perhaps fits the Chinese adage of "killing the chicken to scare the monkey"²⁹⁸, Hubei Provincial People's Government was ordered to carry out an in-depth self-criticism and return silkworms it had purchased at high prices from Jiangsu²⁹⁹.

(iii) Exhortations and Threats

The central authorities also resorted to one of their favourite tactics by holding two important national conferences in Beijing at the end of November and the beginning of December. At a national planning and reform conference, Li Peng called for all localities to further "*unify their thinking*" with the State Council and CCP CC³⁰⁰. At the same conference, Yao Yilin complained that many localities were ignoring the rectification campaign, and waiting for the tide to turn back towards reform. In addition, he complained that many local cadres were simply not taking the issue seriously enough:

*"The main problem with many cadres at various levels is that they underestimate the economic problems and are still not prepared to pay the necessary price to control inflation."*³⁰¹

Perhaps Yao would have been more correct if he had stated that the provinces didn't understand the real commitment of the central authorities, having witnessed earlier attempts to re-assert control peter out to be replaced by further waves of reform.

The true seriousness of the situation was shown by the CC's decision to call responsible officials from all provinces to Beijing to attend a special forum at Zhongnanhai. The meeting was addressed by a notable array of senior leaders - Zhao Ziyang, Li Peng, Yang Shangkun, Wan Li, Yao Yilin and Qiao Shi - in itself an indication of the depth of the problem. Zhao's speech was particularly noteworthy as it contained specific criticisms of the coastal provinces:

*"The coastal regions must get a good grasp of readjusting their economic superstructure."*³⁰²

He added that if these provinces did not implement readjustment policies, the centre would have to step in to directly supervise these policies themselves.

(c) The Response From The Provinces

(i) 'Be Alert To New Counter Measures'

The response to these new initiatives from the provinces was, to say the least, less than enthusiastic. The governor of Hainan, Liang Xiang, went as far as to state publicly that the new austerity policy should not affect Hainan³⁰³. Liang's later dismissal from power owed much to the removal of his close ally, Zhao Ziyang, and allegations that Zhao's family had received preferential treatment from business deals in Hainan. Nevertheless, such an explicit rejection of central policy cannot have helped his chances of survival once his patron had fallen.

The concern in Beijing regarding the provincial response to its October initiatives was demonstrated in an article in *Jingji Ribao* called "Be Alert to New Counter Measures". Despite the best interests of the centre:

*"At present there really are some people who do not conscientiously study how to implement policies proclaimed by the central authorities, but rather make every effort to counter or exploit the policies."*³⁰⁴

Although the centre could use coercive power to gain compliance by dismissing troublesome leaders, this could jeopardise popular legitimacy in the areas that were doing well:

*"The problem is that people who adopt counter measures do not have a bad reputation in their own region; instead people have a good appraisal of them."*³⁰⁵

(ii) Retrenchment and Provincial Revenues

In some provinces, officials deemed that the potential costs to both the provincial finances and the provincial economy in general were too high to be acceptable. In Guangdong for example, the provincial authorities calculated that the cut backs in construction ordered by the state would lead to between 600,000 to 800,000 redundancies in the construction industry alone³⁰⁶. As the construction workforce had been swelled by economic migrants from the countryside, the province was faced by a large and discontent group of 'non-people'. Without a job, they could not get a *hukou* (local residents permit) without which they could not get *liangpiao* (grain ration coupons) or accommodation. Reluctant to return to the countryside where they would become a burden on their families, many tried to stay in Guangdong illegally. Fairly serious disturbances resulted in Canton, with the Mayor calling for help to clear crowds of disaffected workers by Canton railway station on at least two occasions.

It has been estimated that for every 1% fall in the retail price index, local revenues will fall by RMB 300 million³⁰⁷. Not surprisingly then, some local authorities preferred the local benefits of inflation to the long term and national benefits of retrenchment. *Jingji Ribao* reported that not only were some provinces ignoring retrenchment policies, but that some were even setting plans for industrial growth rates above the 4-5% prescribed by the state plan, and that retrenchment policies were meeting a "*great deal of resistance*" in "*a few*" provinces³⁰⁸. In a manner typical of many reports on provincial responses to central policies, the report referred to "*a province in East China*" that had gone as far as to set a planned industrial growth rate of 12-25% in flagrant violation of central directives³⁰⁹. It is probable that the unnamed province was Jiangsu, which had the dubious pleasure of an inspection tour by Song Ping³¹⁰.

Nevertheless, provincial financial reports in the Spring of 1989 were dominated by references to the financial problems that had emerged as a result of the retrenchment policies. The situation had deteriorated most in those areas that had previously benefited from the economic boom of the 1980s. For example, the revocation of the foreign currency retention rights for SEZs placed them in extreme difficulties. Having budgeted and planned on one set of economic rules, they were now forced to live by another set of rules. Furthermore, the central credit squeeze made it difficult for them to make up the shortfall from domestic loans. By April 1989, Zhuhai SEZ calculated that it faced a deficit of RMB 600 million, and that it had a shortfall of US\$180 million in foreign currency³¹¹. By the end of the year, reports from Hong Kong suggested that as many as a third of Zhuhai's factories had closed down during 1989³¹².

Similarly, Shanghai suffered severe economic difficulties by the middle of the year. As a direct result of the retrenchment policies, the first half of 1989 saw a RMB 2 billion reduction in purchases from other provinces compared to the same period in 1988. The knock on affect on other provinces and central government finances in terms of a reverse multiplier affect were severe, and the Shanghai authorities calculated that they would be RMB 3 billion short of funds in the second half of the year³¹³.

This factor demonstrates one of the key findings of this thesis. The incremental and reactive nature of policy making in the 1980s created instability and uncertainty for the provinces in their economic activities. Firstly, as the example of Zhuhai and foreign currency retention rights demonstrates, they were forced to plan in a rapidly changing environment where the rules of the game could be changed overnight.

Secondly, central attempts to resolve specific and immediate problems often generated further problems of their own. For example, one of the key concerns of the central 'conservatives' during the retrenchment period was to stabilise grain production and supply. But the retrenchment policies ironically made matters worse in certain respects. The economic slow-down led to a reduction in enterprise profits, and consequently, a reduction in central government revenues. In May, the Ministry of Commerce and the Agricultural bank announced that there was only RMB 10 billion available to fulfil contracts with farmers and purchase grain and edible oil - 50% of the required RMB 20 billion³¹⁴. In many provinces, local authorities had attempted to safeguard provincial coffers by issuing IOUs, an exercise that incurred the wrath of both farmers and central authorities. The solution was seen as pulling money out of other projects to meet the bill. Although this provided a short term solution, it did nothing to solve the fundamental and underlying problem of grain production, and generated its own problems by pulling funds out of existing or already planned projects elsewhere.

(d) Conflict at the NPC

The annual session of the NPC provided a forum for the articulation of interest from China's central and provincial leaders. Li Peng unsurprisingly used his government work report to ram home the centre's priorities, and to provide the initial results of the central financial audit, through which a total of RMB 7.41 billion in funds that had been withheld from the state were recovered³¹⁵.

The response from the provincial representatives attending the session was, on the face of it, fairly positive. However, criticisms of the retrenchment policy were made, and it should be remembered that in the past, provincial leaders had said one thing while in Beijing under the eye of the central leadership and national press, and then had done something else when they returned home.

Provincial criticisms of the retrenchment policies were not confined to representatives from the coastal provinces. Indeed, if anything, the voices of protests were loudest from delegates from interior provinces. The main complaint was that the centre had been formulating a national policy that did not take into account the different economic circumstances in different areas - what the Chinese call "cutting with one knife". For example, Li Gui, a delegate from Inner Mongolia, commented that:

*"I don't agree to an austerity policy applying indiscriminately to the entire country, in that economic development has never been too hot in ethnic minority areas."*³¹⁶

This sentiment was echoed by Liu Fusheng from Hunan, who called on the centre to avoid setting uniform requirements for all provinces, irrespective of their levels of economic development, and their adherence to central directives³¹⁷. Similarly, Guo Zi from Hebei bemoaned the fact that energy and raw material producing areas were being starved of funds, which was harmful not only to the areas concerned, but to national development in general³¹⁸.

Jiangxi's Jiang Zhuping and Heilongjiang's Cong Fukai both complained that virtuous provinces which adhered to central directives were losing out to those provinces which were continuing to develop irrespective of central controls³¹⁹. According to a report in *Time* magazine, Hunan officials had been complaining in private that Guangdong's economic policies were distorting the development of their province, and that Hunan was in danger of becoming an economic colony of Guangdong³²⁰. When **Time** reporters put this charge to Governor Ye Xuanping, he responded by saying that:

*"It is natural that commodities flow towards where they can get a good price."*³²¹

an argument that displayed a knowledge of market economics, but did little to placate Hunan officials.

(e) The Impact of June 4th

In some ways, the outburst of popular discontent on the streets of Chinese cities was a blessing in disguise for provinces resisting the centre's initiatives. Although many were faced with problems of social control and order, it took the heat out of the centre's attacks for a while and diverted attention from the retrenchment policies. Certainly, between April and June, the central leadership had more immediate concerns on their mind than dealing with wayward local authorities.

(i) Provincial Responses to the Demonstrations

For a number of reasons it is difficult to assess the response to the demonstrations in the provinces. Firstly, with the extension of demonstrations into the provinces, local leaders were faced with the problem of restoring order on their own streets. Secondly, it would be highly dangerous for any provincial leader to countenance civil disorder no matter to what extent he opposed the centre's policies towards the provinces. Thirdly, even in those provinces where leaders were committed to economic reform, it should not be assumed that they were necessarily also in favour of political reform. After all, if the CCP was overthrown, then what price their own tenure on local power?

It is not surprising, therefore, that provincial telegrams of support for the central leadership were rapidly forthcoming after both the declaration of martial law and the suppression of the demonstrations in 3 and 4 June. However, it should be noted that reports from Hong Kong suggest that there was not a uniform response to the centre's activities³²². Despite officially supporting the centre, it was suggested that some provinces used the ambiguity and conflict in the centre to do little or nothing. Specifically, in some areas, orders to suppress the demonstrations were ignored, with local leaders claiming that they did not know who was in charge in Beijing. Zhao Ziyang's speech to the Asian Development Bank on 4 April, which advocated dialogue with the students and a soft line, was later blamed for fuelling the unrest and creating uncertainty over what the central line actually was³²³. Ming Pao in Hong Kong claimed that Sichuan was the first province to fall in line with Li Peng's declaration of martial law³²⁴, and Shanghai, Shaanxi, Hunan, Hubei, Hebei, Henan and Fujian, all responded with immediate telegrams of support to Li Peng³²⁵.

(ii) Addressing Grievances

With the 'successful' suppression of the demonstrations, the centre took the initiative and attempted to address some of the grievances articulated by the demonstrators. A campaign against official corruption had been under way before 4 June, and this was stepped up after the "suppression of the counter-revolutionary turmoil". The first major victim in the provinces was Vice Governor of Hunan, Yang Huiquan, ironically one of the centre's more loyal provinces throughout the 1980s. Yang had been dismissed on 15 May for misusing public funds and failing to enforce the screening of enterprises in the provinces³²⁶. After 4 June, the process, or at least, the reporting of the process, was taken up with a new vigour.

The primary focus of the campaign was against economic crimes, and June saw a proliferation of provincial reports outlining action taken against corrupt cadres, including a number of high ranking officials. The most significant step was the summoning of Hainan provincial party secretary, Xu Shijie and provincial governor, Liang Xiang, to Beijing in July to discuss the reform process in Hainan. The Minister of Supply, Wei Jianxing, was subsequently dispatched to Hainan to investigate problems and Liang was officially removed from office and replaced by Liu Jianfeng in September, having been accused of seeking private gain by abusing his official power³²⁷. For the second time in four years, China's newest province had lost its leadership in a corruption scandal.

But there was more to the Liang Xiang case than at first meets the eye. He has been described as being very close to Zhao Ziyang and the archetype reformist provincial leader. Despite (or rather because of) the fact that official statements on the case went to great lengths to stress that Liang's removal had nothing to do with his connections with Zhao, the suspicion remains that his fall was more to do with his political contacts than his personal activities.

However, given the enormity of the dismissal of Zhao Ziyang, perhaps the surprising fact is not that Liang fell, but that more provincial leaders did not go with him. Between January and June 1989, Discipline Inspection Commissions throughout the country dealt with 64,017 cases and 41,147 people were subjected to disciplinary action. Of these, 8,252 were expelled from the party, 9,828 placed on probation, 1,267 removed from party posts, and 19,417 "*given more severe punishment than removal from their party posts*"³²⁸.

Furthermore, the Ministry of Supervision dispatched 16 special groups to investigate violations of party discipline in the provinces³²⁹. Yet despite frequent references to cases involving high ranking cadres, the effect on the top levels of provincial leaders was limited, with department and bureau levels of provincial authorities taking the main brunt of the campaign.

It seems that the party centre was caught between two priorities in their dealings with provincial leaders. On the one hand, they wanted to ensure provincial compliance with central initiatives, but on the other, they also needed to ensure stability in the country at a time of crisis. Simply to remove any leaders who had crossed the centre, or who had a close relationship with Zhao Ziyang would have been dangerous for two reasons. Firstly, as Zhao was personally connected with the reform movement in general, and Deng Xiaoping in particular, it would have been highly dangerous to criticise him and his policies without reserve. What legitimacy the party had in 1989 had been won on the back of improved economic conditions. Thus, in an interview with Wen Wei Po in October, the secretary of the Chongqing Municipal CCP Committee, Xiao Yang, asserted that:

*"Comrade Zhao Ziyang has quite great achievements to his credit his achievements cannot be negated."*³³⁰

He further stated that a wide-scale purge of top party members was not possible because this would be "*very dangerous*"³³¹. Another report from Hong Kong quoted Deng Xiaoping on Zhao's mistakes and reported that a two year moratorium had been

placed on discussion of Zhao's "*theoretical problems*". According to Deng, extensive criticism of Zhao would be detrimental to stability and would "*mess matters up*"³³².

Secondly, the extent of sympathy for Zhao (or at least opposition to Li Peng) throughout the country was widespread. To purge all those who opposed current policy would lead to instability, not least because of the popularity of many of those leaders in their own provinces.

(f) Continued Provincial Resistance

Despite the renewed emphasis on controlling the provinces, gaining compliance was a slow and difficult exercise and ultimately only a short term and partial success. The extent of continued provincial resistance to central orders became evident at a National Industrial Production Conference in Beijing in October 1989. Over a year after the September 1988 Third Plenum turned the emphasis to central control, Li Peng lamented that:

*"Leading cadres in some areas and localities have not yet fully accepted this view."*³³³

As is usual, the policy statements of the national leadership were followed by a campaign in the national press. A *Guangming Ribao* editorial entitled "Upholding he Centralism and Unity of the Party and Enhancing Observance of Party Discipline" asserted that "*a handful of comrades*" had ignored the lessons of history which showed the importance of rallying behind the party centre. These cadres were acting "*according to personal will*" and "*promoted themselves at the expense of others to increase their own authority and power*"³³⁴.

The attack was continued in November by firstly the *Renmin Ribao*, and then by Jiang Zemin's speech to the fifth plenum of the 13th Central Committee. *Renmin Ribao* fiercely criticised the trend over the previous two years of placing local interests above national concerns³³⁵. On centre-province relations, Jiang Zemin stated that it was totally wrong for individual provinces to "*go their own way*". Neither should provinces plead special interests and ask for exceptions to be made in central policy directives. He further condemned the practice of feigning agreement with the centre in public, while ignoring the central directives in practice. Jiang also announced the introduction of half yearly examinations on the work of implementation of central decisions to increase supervision of central directives³³⁶.

The new year saw no let up in the centre's criticisms of provinces acting out of local interest, and presumably, by implication, of provincial resistance to Beijing. On 17 January, a *Renmin Ribao* editorial on the CC's decisions on restoring central control left no doubt about the centre's priorities:

*"Efforts must be made to strengthen centralization and unity while opposing decentralization."*³³⁷

In explaining the problems that had emerged in the national economy, the blame was placed on:

*"over decentralization of power and the weakened macro-control of the state in the distribution of funds, foreign exchange and materials."*³³⁸

The problems encountered by the centre in trying to restore control over the provinces were essentially a consequence of the failure to address the deep-seated causes of centre-province and province-province tensions. Central policies merely concentrated on short term solutions to specific problems, and were the equivalent of placing a sticking plaster over serious wounds.

For example, officials from Jiangsu and Zhejiang were called to Beijing to discuss a dispute over silk cocoon procurement. Zhejiang Provincial Peoples Government was subsequently criticised, fined, and forced to carry out a "*profound*" self-criticism³³⁹. Although this may have resolved a specific and highly visible conflict, it did nothing to address the root cause of the dispute or to prevent the very same problem arising elsewhere. At the very best, the post-September 1988 policies could only have provided a temporary abeyance of centre-province disputes. As has been shown above, they even failed to achieve this limited objective.

3.6 Summary

This chapter has traced the evolution of centre-province relations during the 1980s. It has revealed that throughout the decade, controlling economic affairs in the provinces was a difficult and costly process. In the first half of the decade, the centre retained the ability to restore a semblance of control by re-imposing and strengthening administrative control mechanisms. However, as soon as these controls were loosened, then problems quickly began to reappear.

By the end of the decade, even Li Peng's retrenchment and re-centralisation policies were not sufficient to control affairs in some provinces. There were three major reasons why this was the case. Firstly, as previous retrenchment policies had all been

followed by periods of further reform, many areas decided to wait out the retrenchment phase convinced that a period of further reform would surely follow soon. Secondly, provinces exploited divisions in the central elites to ignore policies that were not conducive to local growth.

Thirdly, and most importantly, the central authorities' economic levers of control over the provinces had been vastly weakened in the preceding ten years. This was partly a deliberate intention of the reforms, and a consequence of deliberate and specific decentralisation policies. But crucially, it was also a dysfunctional consequence of the way in which economic reforms had been implemented. Two contributory elements must be considered here. Firstly, a lack of coordination between reforms in different spheres of the economy meant that the rationale and indeed aims of reforms at times conflicted with each other. Secondly, the semi-reformed nature of the economy created a distorting mix of plan and market, where too often, local economic activity was regulated neither by central administrative control nor market mechanisms.

Thus, the centre's attempts to impose recentralisation and retrenchment could, at best, only have been a partial and short term response to more deep-seated economic problems. Faced with an economic crisis in the Autumn of 1988, the only effective long term remedy was to iron out those irrationalities in the economic system that had created the potential for local authorities to usurp power.

Building on the analysis in chapter one, we can see the importance of economic mechanisms in determining the strength and weakness of central control and provincial autonomy. Notwithstanding the powerful political levers of control that the centre retained, the centre gave away much of its economic control over the provinces during the 1980s. To fully understand the changing nature of centre-province relations, it is therefore crucial to look at the main areas where reforms altered the balance of power between centre and provinces in economic relations in the 1980s. Thus, chapter four will concentrate on specific and deliberate decentralisation policies, chapter five on regional development policy, and chapter six on centre-province revenue sharing arrangements. Although these chapters will each address reforms in specific areas, underlying this analysis is the assertion that a lack of coordination between the various reforms lay at the heart of many of the problems in the Chinese economy in the 1980s.

CHAPTER FOUR: CENTRALISATION AND DECENTRALISATION

4.1 Introduction

The attempt to establish an efficient and workable division of powers between central and local authorities has been an on-going problem for the CCP. For much of the post-1949 period, the issue revolved around two main questions. Firstly, what was the best way of organising territory to best facilitate decentralised control? And secondly, how much power should be devolved to these lower level units? Unable to find a satisfactory and conclusive answer to these questions, CCP policy on organising space and (de)centralisation changed (often radically) on a number of occasions between 1949 and 1978.

These issues continued to cause problems for policy makers after 1978. But crucially, they were complicated by the party's commitment to economic reform. For example, the new stress on regional specialisation and exploiting regional comparative advantage did not fit easily with existing administrative divisions of power. So although it is important to identify the existing problems of organising space and balancing central control with local flexibility that existed before the start of the reform process, the main focus will be on the specific problems of the 1980s.

Decentralisation, by definition, entails a reduction in central power. But it does not necessarily mean that the devolved powers will be exercised in a manner that conflicts with central priorities and strategies. Nor does it necessarily mean that the centre will not be able to return to centralised control when it sees fit. In order to understand how decentralisation measures influenced centre-province relations in the 1980s, it is essential to focus on the type of decentralisation implemented by the central leadership, and the way that decentralisation policies interacted with other economic reforms. Of particular importance was the relationship between administrative decentralisation and partial market reform. As shall be seen, this relationship generated important dysfunctional consequences that played a significant role in undermining central power as the 1980s progressed.

4.2 Organising Space

(a) Distance and Political Authority

(i) Physical Distance

One of the biggest problems that all Chinese leaders have faced in deciding how best to organise space is the sheer size of the territory under their control. But although it is clear that authority has to spread over vast physical distances in China, the relevance of this distance for government and politics in China is much more open to debate. For example, while Whitney argues that in China:

*"the strength of the political field around the centre will vary inversely with distance from it."*³⁴⁰

Claval argues that in political systems in general:

*"Authority is exercised over vast areas without being weakened appreciably by distance."*³⁴¹

At first sight, the evidence of the 1980s appears to support Whitney's view. While the western provinces of Xinjiang and Tibet provided consistent headaches for the central leadership, the southern most provinces of Guangdong and Hainan proved the most resistant to Beijing's economic retrenchment policies by the end of the decade. But first appearances are misleading, and to assume that the evidence of the 1980s proves Whitney correct does not facilitate an understanding of centre-province relations in China. Space and distance are undeniably crucial elements in centre-province relationships, but it is administrative distance not physical distance that is the crucial factor.

Although Tibet and Xinjiang are both physically distant from Beijing, the fact that they are border regions is the central issue here. Tibet and Xinjiang are a problem because many of the local people reject the idea that the Han Chinese "colonisers" have a right to rule over them. Would the Tibetan population be no more ready to accept Chinese rule if the national capital was situated in neighbouring Sichuan province rather than in distant Beijing? I suggest not. As for Guangdong, although it was the most resistant province to central directives, it was far from alone in asserting quasi-independent policies. Geographic location and space was an important contributory factor in shaping Guangdong's relationship with Beijing in the 1980s, but because of Guangdong's close proximity to Hong Kong rather than its distance from Beijing. For the majority of the population, I believe that there is no convincing evidence to suggest that physical distance fundamentally influences political relationships. In the 1980s, Sichuan province, which borders on Tibet, proved to be an important centre of support for central leaders. Indeed in the late 1970s, Sichuan was the pace-setter for many of the agricultural reforms which were later to be implemented on a national scale.

(ii) Administrative Distance

Not only is China a large country covering vast territory and inhabited by an enormous population, it also has a complex political and administrative machinery. The hierarchical division of power in China means that a decision made in Beijing has to pass down through many layers of authority before it is actually felt by the population. The administrative (or time) distance between a policy decision being made and its implementation on the ground is an important component of decentralisation and political authority in the PRC.

The physical centre of the CCP is in the party headquarters in Zhongnanhai in the Xicheng district of Beijing. But when a decision is made by CCP leaders, that decision is transmitted to the Xicheng district through the party and state's administrative machinery. The physical location of Xicheng should not mean that the decision will be implemented any quicker in Xicheng than it will be in a comparable level administrative unit thousands of miles away. For example, as part of central attempts to take some of the heat out of the economy in 1980, local authorities were ordered to cut back on capital construction. However, capital construction in Beijing Municipality actually increased, sparking off condemnation in the national press³⁴².

Although there is normally no direct correlation between physical and administrative distance, the two can coincide. Each time an order or piece of information passes through an administrative body, its process down the chain of authority can be delayed (or even halted), reinterpreted, or manipulated. As a result, the information or order that finally arrives at the basic level unit can be very different from the initial instruction that came from the centre. Physical distance may have significance in that it will be easier for the central leadership to see with their own eyes whether or not their instructions have been correctly implemented in Xicheng.

For local authorities in more remote regions, the central leaders will not have such direct contact with the end result of their policy decision. As noted in chapter one, mechanisms do exist to ensure that policies are implemented in the spirit of the initial decision. The Ministry of Supervision oversees the work of state organisations and personnel; party units shadow state organisations at all levels to check that party policy is being correctly implemented; leading party members groups exist in state organisations, and will report to their party superiors if required; and inspection or work teams can be dispatched from the centre to check up on policy implementation in extreme cases. But just as the flow of orders downwards is slowed down by having to

pass through so many tiers of organisation, so information upwards has to follow a slow and cumbersome path.

This notion of administrative distance was an important consideration in defining a decentralisation strategy to facilitate economic growth in the 1980s. Reformers in the CCP leadership wanted to remove layers of bureaucratic red tape in two ways. Firstly, producers and enterprise managers were to be freed from administrative control and be given more responsibility to make decisions. Secondly, although provincial administrations were to stay in place, important cities were to be brought administratively closer to the centre by being given provincial level status for economic affairs. With other regions being established to coordinate economic activity across administrative boundaries, the 1980s witnessed yet another twist in the CCP's attempts to discover the best way of organising space.

(b) The Immediate Sub-National Level of Administration

The study of centre-local relations in any political system must consider their dynamic nature. As Jean Gottmann puts it:

*"In the spatial domain, the political process consists of frequent shifts in centre/periphery relationships."*³⁴³

This dynamic situation is particularly important for the study of centre-province relations in China where changes in the nature of centre-province relationships have occurred both as a result of deliberate interventions by the party leadership, and as an indirect result of the impact of economic development policies.

One of the main reasons for the changes that have taken place since 1949 has been that the CCP leadership have been unsure of the best way of organising space. In attempting to build a rational and efficient hierarchical power system, the CCP has faced difficulty in deciding both where power should be concentrated below the centre - in multi-provincial large regions, in the provinces themselves, or even at lower levels? After seizing power in China in 1949, the CCP's initial choice for the immediate sub-national unit of organisation was to group provinces together in large regions³⁴⁴. These regions formed the unit of organisation for party, state and military administration. The division of China into these large regions was largely a matter of expediency in order to consolidate national power. They roughly corresponded to the areas under the control of the various Field Armies that liberated China at the end of the Civil War. Initially, they were a tool of military rule, and were called Military Administrative Commissions. Despite the later change in title to Administrative Commissions, many of the new "civilian" leaders had been important military leaders. They were, in effect,

soldiers in civvies. Below the large regions were a number of provincial level units. Many of the largest industrial centres in China had been afforded provincial status after 1949³⁴⁵. In addition, many of the traditional provinces had been split into smaller components³⁴⁶.

The large regions were disbanded between August 1954 and July 1955 and were replaced by the provinces as the immediate sub-national level of administration. In order to ensure that power remained **relatively** concentrated, traditional provincial boundaries were restored. For example, the 'provinces' of East, West, North and South Sichuan disappeared as they merged to reform the province of Sichuan. In addition, with the exception of Beijing, Shanghai and Tianjin, the provincial status of the large industrial centres was revoked. In all, some 26 provincial level units were abolished and merged into larger provinces³⁴⁷. The provinces remained the immediate sub-national level of organisation for party and state affairs until January 1961, when large regions were re-introduced for party affairs only. These were again disbanded during 1967 and 1968 at the height of the Cultural Revolution. After this last attempt to use large regions, provincial level units have retained their position as the immediate sub-national level of organisation.

(c) Lower Level Administration

Even these changes to the sub-national level of administration do not fully depict the extent of the changes in policy as the CCP attempted to find the best way of organising space. The emphasis on the Communes as the basic level of party, state and military organisation during the Great Leap Forward can be seen as an attempt to cut down on the administrative tiers within the political administrative machinery. Unlike provincial boundaries, which more or less conformed to traditional geographical boundaries, the communes were artificial units, combining counties and townships into larger and often unwieldy organisational units. Furthermore, commune boundaries often cut across traditional areas of economic activity, separating a township from its natural economic hinterland. It is well worth noting that although communes formally continued to exist until 1982, they frequently gave way to more traditional units of administration, with production brigades taking on the *de facto* position of the lowest level of administration.

(d) Changes in the 1980s

With the separation of Hainan Island into a separate province from Guangdong, 30 provincial level units made up the immediate sub-national level of administration in

China in the 1980s. These included the cities of Beijing, Shanghai and Tianjin, and the Autonomous Regions of Xinjiang, Tibet, Ningxia, Inner Mongolia, and Guangxi. For military affairs, provinces are not the immediate sub-national level of organisation. The Military Districts (which correspond to provinces) are one step down from the seven Military Regions which are roughly geographically equivalent to the large regions of the early 1950s and 1960s³⁴⁸.

In the 1980s, the organisation of space became somewhat confused. Although provincial level units remained the major form of sub-national level administration, a plethora of other spatial organisations emerged to support the leaderships commitment to rapid economic growth. As noted above, some municipalities were granted provincial status for economic accounting purposes. Thus, the city of Wuhan remained below the province of Hubei for party and state affairs, but equal to it in economic affairs. This created problems within the provincial administrative machinery; was the Mayor of Wuhan now subordinate to the provincial governor, or his peer and equal?

The 1980s also saw the creation of a number of supra-provincial regions. The biggest of these were the three macro-regions of the Seventh FYP. These regions (which will be discussed in detail in chapter five) covered vast territory and encompassed massive populations. In practice they represented reference points for general aims and aspirations and not concrete and functioning administrative entities.

In addition, a number of special economic regions were established such as the Shanghai Economic Region and the Shanxi Energy Base. In both cases, the regions were formed to facilitate the coordination of economic activity that cut across provincial administrative boundaries, but there were important differences in what the regions were meant to achieve. The Shanghai Region was established to facilitate economic relations between Shanghai and in the neighbouring provinces of Jiangsu and Zhejiang³⁴⁹. These areas provided the natural economic hinterland for Shanghai, but inter-regional trade had been obstructed by the existence of territorial administrative borders. In many ways, the Shanghai Region increased the administrative distance between the centre and power holders, as it encouraged and facilitated market decentralisation and the devolution of power to producers and managers.

The aim of the Shanxi Region, however, was to reduce administrative distance by facilitating the centre's ability to control coal production. The Shanxi Energy Base Region was administered by an office of the State Council, and had three main aims. Firstly, to increase the centre's ability to coordinate coal production and distribution

from China's major coalfields in and around Shanxi. Secondly, to allow a multi-provincial perspective to the question of coal production, which at the same time undermined the power of the Shanxi provincial government to influence coal production and distribution within their territory. Thirdly, the office was charged with searching for foreign investors and joint ventures, and administering any successful projects. In short, the Shanxi Energy Base Region was perceived as strengthening central control and reducing the administrative distance between centre and coal producer by by-passing existing bureaucratic layers.

The issue of controlling coal production (of which the creation of the Shanxi Energy Base region was a part) provides a good example of the administrative confusion that emerged as a result of the 1980s reforms. The coexistence of vertical ministerial control with territorial administrative divisions had always caused a degree of administrative confusion in China. Taking the coal industry as the example, national mining affairs were primarily the responsibility of the Ministry of Coal Mining. But the position of the provincial agencies of central ministries was less clear. Although they were vertically responsible to the Ministry in Beijing, they were simultaneously horizontally responsible to the Provincial People's Government. The creation of offices such as the Shanxi Energy Base Office was partially a response to such overlapping responsibility, and an attempt to impose tighter control. But rather than the new Shanxi Energy Base Region replacing existing bureaucratic relationships, it was instead grafted on to an already ambiguous administrative system. This was a far from isolated occurrence. Chen Yizi notes that whenever problems occur in China, new administrative organs are established to deal with them³⁵⁰.

When organisational reform did take place, notably in 1982, the number of bureaucratic units was reduced, but the number of bureaucrats was not greatly reduced. Because there was nowhere for displaced bureaucrats to go, they were often returned to their last previous position. Indeed, rather than the bureaucracy becoming streamlined as a result of the 1982 reforms, the number of cadres employed in some local levels actually increased. As old cadres with experience in the old way of doing things were returned to their previous jobs, new younger better educated and more specialised officials were recruited to new positions. For example, by 1987, 461 "redundant" personnel were still employed in Wuhan Municipality (in a mere 41 offices). But 4,500 new workers had been hired to undertake specialised work in the city's tax, auditing and legal offices³⁵¹.

This problem of bureaucracy was compounded by the reluctance to make decisions without referring to the relevant higher authorities for permission to act. The combination of an expanding bureaucracy and bureaucratic dependency creates an inbuilt inertia into the political-administrative system:

*"If we abolish them [administrative organs], nobody will affix a seal and things cannot be done. Although a person is seen reading a newspaper, drinking tea, and doing nothing else, a seal has to be affixed by him. You cannot do without him."*³⁵²

The creation of new authorities without the replacement of old ones can lead to bureaucratic uncertainty. For example, who was in real control of coal mining in Shanxi in the 1980s; the Ministry of Coal Mining, the Shanxi Provincial People's Government, or the State Council Shanxi Energy Base Office? In theory, the Ministry of Coal Mining remained the dominant force in the 1980s. Because of the strategic importance of coal for national economic development, control of major coal mines was not devolved to provincial administrative control, let alone to colliery managers. With state ownership the dominant form in this sector, the central ministry appeared to retain the upper hand. In addition, control of the distribution of coal from Shanxi also remained firmly under central control. The province was only permitted to control the trade of two million tons of coal each year. As total provincial coal output in Shanxi was in excess of 230 million tons per annum by the end of the decade, it appears that the central ministry was firmly in control³⁵³. However, with the growth of small mines in the provinces with the active encouragement of the local provincial leadership, the non-state owned sector accounted for roughly half of the province's coal output by the end of the decade³⁵⁴. Although transporting the coal out of the province remained problematic³⁵⁵, it nonetheless marked a reduction in the Ministry's ability to control coal production in Shanxi.

The Shanxi example highlights one of the key factors regarding the organisation of space in an era of rapid economic change. Although abolishing the existing territorial division of power was never an option for reformers, its existence was nevertheless a cause of considerable economic problems. The maintenance - indeed, the strengthening - of administrative power at the provincial level often ran counter to the intention of the reforms. In the case of Shanxi, it hindered the centre's control of coal production. More commonly, it prevented the effective dissemination of power to enterprise managers and producers. In order to overcome this problem, the CCP tried to graft new economic regions such as those centred on Shanxi and Shanghai onto the existing provincial system, with only mixed results.

A more systematic approach to the problem came in February 1989, with the announcement that seven new multi-provincial economic zones were to be established³⁵⁶. These new zones would facilitate the creation of firm central macroeconomic control by preventing narrow provincial interests from impinging on wider national interests.

Although the new zones failed to materialise, the premature announcement of their establishment represented an attempt to solve the contradictions that had emerged between provincial administrative power and market reforms. It shows that the issue of organising space cannot be analysed without considering two key issues; how far should power be decentralised, and what type of decentralisation should be pursued.

4.3 Between Centralisation and Decentralisation

One of the most fundamental factors affecting centre-local relations is the degree of political power that the central elites decide that lower level units should possess. Just as there have been great changes in the organisation of space and regional development policy, so there have also been vast differences in the amount of local autonomy granted to sub-national units over time³⁵⁷. The key problem for the CCP leadership has been in finding the correct balance between central control and local autonomy. Although the central authorities are convinced that they must retain overall control over developments in China, defining a national policy in Beijing that is universally applicable is well nigh impossible. A balance has to be found whereby localities have sufficient freedom to encourage local initiative and take their local conditions into account in implementing policy, but without impinging on the centre's ability to exercise overall control over the scope and direction of policy. This has not proved to be an easy objective.

According to Liu Guoguang *et al*, the dangers of too much decentralisation are that:

*"In a country such as China, which has a vast territory and a large population, the absence of centralization will inevitably result in everybody going their own chaotic way."*³⁵⁸

But if too much power was concentrated in the hands of central authorities, different but equally problematic defects would emerge:

*"If the power of decision is not decentralized and instead a rigid pattern is imposed across the board it will be impossible to suit measures to local conditions."*³⁵⁹

These comments were made with the benefit of hindsight provided by the various experiments in balancing centralisation with decentralisation after 1949. By briefly analysing vacillations in policy after 1949 we will be able to identify some of the major issues that influenced decentralisation decision making considerations in the 1980s.

(a) Centralisation

The period between 1949 to 1952 saw a process of centralisation. The emphasis during this phase was power consolidation. The CCP needed to take control of the main levers of economic production in order to push through its policies of economic recovery. As such, the number of enterprises under direct central control was increased (from 2,800 in 1953 to 9,300 in 1957), and the number of materials subject to central distribution expanded (from 227 to 532). By the end of the first Five Year Plan, the State Planning Commission controlled some 60% of China's Gross Industrial Output Value, and 75% of the nation's financial resources were under direct central control³⁶⁰.

Although this centralisation proved successful in generating much needed economic recovery, by as early as 1955 it was clear that the policy could not be continued indefinitely. This judgement was based on two factors that are of importance for this study. Firstly, local conditions were given insufficient consideration in the implementation of policy. As economic recovery took place and the scale and diversity of economic production increased, it became increasingly difficult for central planning agencies to keep control. Secondly, local initiative had been stifled by over-tight central control. Strict central control made the process of local inputs into decision-making and implementation extremely difficult to achieve.

(b) Decentralisation

Faced with these problems, a major attempt to decentralise power occurred during 1956-1957. Decision making powers relating to planning, capital construction, financing and the disposal of resources were granted to lower level authorities. Although there was a consensus in the central elites that some form of decentralisation was required, there were stark divisions over the best way forward. The decentralisation moves transferred control over a large proportion of the nation's light industrial capacity out of the direct control of the central planners. According to Lardy, by the end of June 1958, 80% of all enterprises previously under central government control had been placed under local control³⁶¹.

Between 1957-58, the proportion of gross value of industrial output under provincial (or lower level) control increased from 54% to 73% of the national total, and while central government spending decreased by 14%, provincial government spending increased by about 150% to account for roughly half of total government spending. Similar trends in the growth of provincial spending followed decentralisation moves in the 1980s. The experience of the impact of this decentralisation of power and the

decentralising elements of the Great Leap should have left the post-Mao leadership with no illusions as to the financial implications of their decentralisation proposals. According to the Chinese Academy of Social Sciences, by the end of the Great Leap, some 88% of enterprises (around 8,000 in total) were transferred from the central to local control³⁶². With local authorities granted powers relating to planning, capital construction investment, finance and the disposal of resources, the financial resources of the central government were 20% less than the figure stipulated in the national budget.

A further element in the decentralisation programme was to reduce the number of materials under central allocation from 532 in 1957 to around 130 during the Great Leap. As shall be shown in chapter six, these trends were not only repeated, but exacerbated by the incremental and reactive nature of the reform process in the 1980s.

(c) Recentralisation

During 1961-64 central readjustment policies were implemented under the supervision of Chen Yun in an attempt to place the economy back on an even keel after the excesses of the Great Leap. Many factories that had sprung up during the Great Leap were closed down, forced to suspend production or amalgamated with other units. As proved to be the case in the 1980s, the proliferation of locally controlled units increased local profits, but did nothing to strengthen the overall national balance of industrial production.

Furthermore, there is evidence that internal blockades were set up in some areas to prevent local goods and resources being distributed around the country. Yet again, this was a precursor to events in the 1980s. According to Kane, the lack of central control and resource allocation during this period was a contributory factor in the severity of the great famine of 1959-61³⁶³. The centre simply lacked the wherewithal to ensure the transfer of grain from surplus to deficit areas.

(d) Redecentralisation

By 1964, the balance had switched back to over-centralisation being the major problem, and another decentralisation campaign was initiated in 1964. These decentralisation tendencies were increased during the Cultural Revolution with the emphasis on building self-reliant economic regions. After 1969, over 2,600 key enterprises - including such backbones of production as the massive Anshan Iron and Steel complex and the Daqing Oil-field - were transferred to local control³⁶⁴.

Crucially, local controls over material and financial resources were also introduced. Combined with the call for localities to become self-sufficient in grain production, light industrial production, and machinery supplies to heavy industry, the result was a staggering waste of resources. Production for production's sake was the order of the day - particularly in light industrial production, which generated more rapid and larger profits than heavy industry.

The result was duplication of production, waste of materials and investment capital and an increased pressure on central government coffers. The reason for the last named effect was that the decentralisation measures transferred profit making light industrial production to lower level authorities, but major and expensive projects were retained under central control.

With responsibility for military defence and research and major national projects (ie: infrastructural developments) still in the hands of the central authorities, the burden on the central government sector became heavy. In theory, this was offset by provincial authorities remitting finances under their jurisdiction to the central authorities. The extent to which provincial authorities had control over the finances collected in their area has been a subject of great academic debate. It is one of the main indicators of the strength of provincial autonomy in the Chinese political system, and is perhaps crucial to the study of centre-province relations in China. As such, it will be dealt with in greater detail in chapter six.

Thus, the reformist leadership in post-Mao China had plenty of evidence to point towards the potential problems of decentralisation power. But a crucial unknown factor was the interaction between administrative decentralisation and market reforms, an issue to which we must now turn.

4.4 Types of Decentralisation

The experiments in decentralisation between 1949 and 1976 were largely based on the twin questions of firstly how much power should be decentralised, and secondly to which level of administration. Although this type of administrative decentralisation dominated the centre-province debate in pre-reform China, other forms of decentralisation were considered. Chen Yun, for example, consistently argued for a limited devolution of economic decision making power to agricultural producers. But this question of allowing power to leak out of the part-state administrative system was

brought more sharply into focus with the gradual (and only partial) introduction of market reforms in the 1980s.

When analysing changing centre-province relations in the 1980s, it is important to recognise that market reforms in themselves represent a form of decentralisation. Where previous experiments in decentralisation moved power around within the party-state framework, market reforms devolved decision making powers to producers and enterprise managers. Schurmann rather unimaginatively distinguishes between these two forms of decentralisation by calling them *decentralisation I* and *decentralisation II*³⁶⁵, whereas Eckstein prefers the terms *market decentralisation* and *bureaucratic decentralisation*³⁶⁶. However, I would argue that the key consideration for this study is the often conflicting nature of administrative regulation of the economy and market regulation. As such, I believe the terms *market decentralisation* and *administrative decentralisation* are the most fitting in this context.

When administrative decentralisation occurs, the party remains the dominant force in the decision-making process. Even if power is territorially decentralised to lower level administrative units such as provinces, it remains sectorally concentrated in the hands of a small party-state elite. Administrative decentralisation merely shifts the locus of power within a relatively small party-state elites rather than dispersing it to include non-party figures.

The impact of market reforms is not only to decentralise power, but to disperse it amongst a much wider sector of the population. As noted in chapter one, the party ensures that key economic actors remain under its jurisdiction through its control of the nomenclature system. But the party's direct control of economic decision making is weakened, if not removed. Nevertheless, this does not necessarily mean that the centre will lose control over the economy, nor, in itself, does market decentralisation explain the changing centre-province relationship during this period. The key issues here are not so much the use of market decentralisation, but the incomplete removal of bureaucratic control over the allocation of goods and resources, and the way that market and administrative decentralisation interacted with each other during the 1980s.

4.5 Decentralisation in the 1980s: A New Shift in the Balance of Power

In an economic system characterised by scarcity of inputs (notably investment finance, raw materials and energy) and transportation facilities, the maintenance (indeed, strengthening) of administrative economic regulation in the 1980s prevented market decentralisation policies from always reaching their intended target. Because of the

only partial removal of bureaucratic management of the economy, provincial level administrative units remained a dominant element in economic decision making in China. Indeed, for Chen Yizi, the residual strength of administrative power posed the biggest obstacle to economic reform in the 1980s³⁶⁷. Without a clear separation of the state from economic decision making at all levels, then the long term benefits to the Chinese economy of market reforms would not be felt.

The devolution of power coupled with the semi-dismantling of the command economy and changes to centre-province financial relations (see chapter six) created a situation in the PRC in the 1980s where some provinces had both the desire and ability to attempt to maximise the retention of profits within their territory. As a result, many of the economic benefits of regional specialisation and utilising comparative advantage of regions were not forthcoming. Many of the problems associated with the period of local self-sufficiency (duplication of production; the construction of inefficient production facilities in one area while more efficient units elsewhere are under-utilised due to lack of resources etc) were replicated, rather than eradicated. One of the key determinants of this situation was the gradual and partial nature of market reform.

(a) Market Decentralisation: How Far? How Fast?

With the abandonment of many of the Maoist principles of development after 1978, the CCP set about re-assessing the experience of the post-1949 period. In the process, many "errors" were uncovered that the new development strategy was designed to correct. On the question of decentralisation policy, Liu Guoguang, President of the Chinese Academy of Social Sciences concluded that:

*"When the relationship between centralization and decentralization was considered in the past we regarded it as merely one between central and local authorities. But there is another aspect to this problem - the relationship between the state and the enterprise."*³⁶⁸

As a result, economic decision making power had become lodged in bureaucratic echelons and:

*"the enterprises - the cell of social economy - was deprived of its inherent motor force."*³⁶⁹

This analysis should be taken with a pinch of salt. As noted above, Chen Yun had consistently argued that some decision making powers should be devolved to the enterprises themselves. Indeed, in many ways, what occurred in the early years of reform after 1978 was the culmination of the debates over decentralisation that began

in 1956. At that time, Chen Yun's favoured policy of combining bureaucratic decentralisation with market decentralisation had been sidelined by Mao's suspicion and rejection of devolving power to production units. With Mao and the majority of the residual Maoist left gone, the time was ripe for Chen's concepts to be put in practice after a 20 year hiatus.

Although Liu Guoguang *et al* give the impression that encouraging market decentralisation was all but inevitable, it was by no means clear in 1978 that the new leadership would accept this orthodoxy. In particular, Deng's position on decentralisation over the years is difficult to pin down. Bachman's analysis of competing reform packages since 1976 concluded that Deng had supported all of the main (often conflicting) policy programmes at various times³⁷⁰. As shown in chapter two, this changing stance was at least in part a consequence of Deng's attempts to play a delicate balancing act between the various groups that exist in an uneasy coalition in the CCP elite. In the early post-Mao period, Deng's acceptance that market decentralisation was needed was crucial for shaping the nature of decentralisation trends in the 1980s. As Meisner and Blecher put it in 1982:

*"The present policy that looks very much like a victory (finally!) for Decentralisation I may have been achieved by the shift or absorption of the advocacy of Deng Xiaoping and like-minded colleagues from the decentralised compromise of the centralists (ie: Decentralisation II)"*³⁷¹

But one change in direction does not rule out the possibility of later changes. Given Deng's apparent lack of commitment to a specific policy, it perhaps makes later changes even more likely. A coalition that is built around "defections" can be blown apart by further "defections" if the promised benefits are not readily and quickly seen.

So rather than the party leadership embarking on a planned and inevitable decentralisation programme as Liu Guoguang suggests, the central leadership was more often forced to respond and react to the pervading political and economic issues of the time. This meant that the move towards market decentralisation was far from smooth and linear, a factor which was very important in shaping the relationship between provincial administrations and market decentralisation.

Chen Yun used the analogy of a bird-cage to outline his concept of the relationship between central planning and market decentralisation. If the cage (central administrative controls) was too tight and the bars too close together, then the bird (market decentralisation) would not be able to move. It would be stifled and might even die if the cage was over-tight. But if the bars on the cage are too loose and too

wide apart, then the bird will fly away - the cage will be unable to hold it. Although this analogy is useful in identifying some of the problems in defining the correct relationship between plan and market, it in no way suggests exactly what the relationship should be. To stretch his metaphor a little further, you can spot that the bird is getting ill and rectify the problem before it dies, but you only know that the bars are too loose once the bird has gone.

This has been a crucial problem for central leaders in the 1980s. As the cage got too loose and central control was diminished, the centre responded by trying to exercise more control. Thus, there were periods of retrenchment during the 1980s when the centre attempted to restore administrative control over the production and allocation of some goods and resources³⁷². But these policies were only successful (if at all) in providing short term remedial action. Once the immediate problems were resolved, then the momentum for change soon picked up again. A key element in this momentum for change was the strategy of some provincial authorities which exploited (or intercepted) market decentralisation measures for ends other than those initially intended by central reformers.

(b) Market Decentralisation and Provincial Administrative Control

The evidence from chapter three is that there was a considerable loss of central economic control in the 1980s. What is less clear is who were the benefactors of this shift in the balance of power. Did market decentralisation reforms reach their intended target, or did devolved power became lodged in provincial bureaucracies? A central issue here is the question of the extent to which market forces were operating as effective economic control mechanisms by the end of the decade. In general, the greater the role for market forces, the greater the power and autonomy of enterprise managers.

Writing in 1988, Byrd argued that the Chinese economy:

*"is well on the way toward becoming an economy where the allocation of goods is determined primarily by the market, rather than by directive plans and administrative control."*³⁷³

Implicit in this statement is the assertion that enterprise managers have a considerable degree of autonomy in economic decision making. Although administrative management remained for key goods and resources, Byrd argued that:

*"Buyers need not accept high-priced goods allocated to them through the plan, since a lower price can be obtained on the open market."*³⁷⁴

I believe that Byrd's assertions overstate the case for enterprise autonomy. His argument **must** be based on the assumption that there are sufficient quantities of goods and resources available on the open market to meet demand. It also assumes that the enterprises are generating sufficient profits to pay for the much higher price that goods fetch on the market. And thirdly, it assumes that even if the two preconditions mentioned above are met, that the enterprise can ensure the transportation of inputs from suppliers and outputs to markets. By investigating the validity of these three assumptions, we will see that administrative regulation remained a strong force in the Chinese economy despite the move towards market decentralisation.

Firstly, the question of adequate supplies must be addressed. China's economic development in the 1980s was characterised by a chronic shortage of raw material supplies. Most notably and importantly, there were simply insufficient energy supplies to go around. The situation was exacerbated by the proliferation of productive capacity that placed increasingly heavy strains on the energy sector. As a result, the 1980s witnessed a number of mini energy crises that had a detrimental effect on production and output.

Gaining access to scarce materials was extremely difficult, but could be eased by the complicity of a sympathetic local authority. As shall be shown in chapter six, the revenue sharing arrangements between the centre and the provinces link a province's financial resources with the profits of enterprises not under central government control. Therefore, local authorities were not only able, but often willing to divert resources to local enterprises to guarantee production for that enterprise, which generate income through taxation for the local authority.

Without the helping hand of local authorities, it is not only difficult to gain access to scarce goods, but also all but impossible to arrange transportation. With the rail system in particular unable to cope with the demands of transferring raw materials allocated through the plan, finding available lines and trucks to move goods is a highly skilled job. Those officials who control access to transportation can and do find a way through the mess. Rolling stock intended for enterprises not under local control can be diverted to serve the needs of local enterprises. The Occidental Corporation cited the failure of ordered and promised rolling stock to be provided as one of the reasons why it pulled out of developing the Antaibao coal-mine in Shanxi.

The other possibility is to add on rolling stock to existing trains. According to an energy specialist at the Chinese Academy of Social Sciences, Shanxi Province has 2,000 coal cars that it hitches on to trains to transport out of plan coal to other areas. These cars have markings that make them indistinguishable from official cars, and are mixed in with normal freight cars³⁷⁵. Such an arrangement necessarily requires the complicity of officials at both ends of the line.

The simple explanation could be that this is just a matter of corruption. Indeed, it would be naive in the extreme to argue that corruption by government officials acting on their own initiative is not an important consideration. But I believe that this is not the full story. As mentioned above, local fiscal and financial autonomy is linked to the profits of local enterprises. It is economically rational for the locality to ensure that local producers are supplied with what they need, especially if this is at the expense of enterprises in other localities, or of state controlled complexes where profits do not accrue to the locality.

The argument that this is a consideration in local resource allocation can be shown by the battles fought over access to a number of scarce raw materials during the 1980s. Rather than see raw materials flow out of the locality to contribute to development elsewhere, localities have encouraged investment in production facilities that utilise local raw materials. Thus textile production increased in wool producing areas at the expense of supplies to existing enterprises in the coast. The fact that the existing factories were more efficient than the new enterprises, could exploit economies of scale, produces higher quality finished garments, and had established markets did not apparently enter into the decision making process in the wool producing localities³⁷⁶. Similar disputes emerged in 1988 over access to scarce silk cocoons. Unable to secure sufficient supplies to meet demand, military vehicles were dispatched from Guangdong to Sichuan to buy silk cocoons on the open market. Fearing that this would undermine local production of manufactured products, the Sichuan authorities sent armed police and militia to guard the main roadways out of the province in an attempt to keep the cocoons within the province for local use³⁷⁷.

The case of the "Silk War" highlights an important factor in this discussion. The price of goods on the free market is much higher than the state set price. For key economic inputs such as coal, the cost of coal purchased on the free market is much higher than the price of coal under unified allocation. With demand for coal vastly in excess of supply, the free market price is being forced ever higher. Furthermore, the strains on

the transport system means that huge arbitration costs have to be paid to ensure the supply of coal from mines to production centres.

For example, the production cost of coal in small locally owned mines in Shanxi in 1990 was RMB 10-15 per ton. The mines get RMB 20-30 per ton at the pithead. But the same coal costs production units in Shanghai a staggering RMB 180-200 per ton. As a result, many enterprises and even localities cannot afford to secure out-of-plan coal. Enterprises in richer provinces like Guangdong may be able to find the capital to buy coal on the free market, but this is not a universal practice. Unable to secure supplies of scarce resources for local production on the free market, poorer enterprises and localities are forced to depend on the amount that they are allocated within the plan. As Christoffersen notes:

*"According to the Chinese interviewed, wealthy provinces such as Guangdong can afford out-of-plan energy supply, and only poor provinces let themselves be coordinated by the centre to obtain resources at state allocated prices."*³⁷⁸

Thus, Byrd's assertion that enterprises could purchase what they need on the free market does not hold true for all enterprises for all supplies. Indeed, one of the important conclusions of the above is that the decline in the centre's power was not evenly spread across relations with every province. Poorer provinces that were and remain deficient in supplies of essential produce (eg: grain, energy) were forced to be more dependent on central allocation than richer provinces. This also holds true for the relationship between provincial and enterprise autonomy. If an enterprise has the financial wherewithal to secure inputs, then it has more autonomy than other enterprises that are dependent on administrative intervention to secure supplies or protect markets.

Thus, it can be seen that there is no simple, clear cut and common situation regarding the extent of the centre's loss of control, nor over where power now rests. However, given the scarcity of supplies and the incentives for localities to maximise the profits being earned in that locality, it can be generalised that there was often a congruence of interests and mutual dependency between enterprises and administrative units.

(c) Power to the Provinces?

Bureaucratic decentralisation combined with only partial introduction of price reform and the scarcity of key industrial inputs meant that market decentralisation was only a partial success. Considerable economic power remained in the hands of administrative units, but even this generalisation leaves questions unanswered. The process of

bureaucratic decentralisation did not stop with powers being devolved to provincial level units. With provinces free to make their own fiscal arrangements with lower level authorities, the process of linking the local economic base with local financial autonomy was replicated throughout the system. Each level of government makes a contract with the next level up to meet income and expenditure targets. Any additional revenue outside the plan is then shared at an agreed rate between the locality and the higher level³⁷⁹.

Thus, a key question is whether devolved power that failed to reach enterprise managers became lodged at the provincial level, or at lower levels such as the county, township or collective? A 1990 World Bank study argued that the provinces had been the main the winners from decentralisation policies:

*"The locus has shifted down from the central ministries and their powers reduced, but the gains achieved by enterprises in areas such as investment, wage setting, product composition and personnel management, are circumscribed."*³⁸⁰

Another report from the World Bank argued that provincial bureaucracies have intercepted powers handed down by Beijing and intended to enterprise managers³⁸¹.

But the World Bank does not suggest that the provinces are all powerful. The provinces gained from the reforms, but so did lower level authorities. Power cannot be identified as lying at any one level, but *"power tends to become lodged in provincial and local bureaucracies"* [emphasis added]³⁸². This idea is also an important consideration for Donnithorne. Writing in 1981, she argued that:

*"The national government's loss of authority....is only to a minor extent the province's gain because they, in turn, are unable to control investment by lower authorities and by enterprises."*³⁸³

Both provincial and lower level administrative units remained important power brokers within the new economic order. Although the provincial authorities cannot control everything that goes on within their jurisdiction, they do set the general economic environment, and also benefit from the profits earned by enterprises and lower level authorities. Zhou Shaohua believes that the fiscal reforms of the 1980s placed too much power in the hands of the provinces. Although the centre devolved a considerable degree of autonomy to the provinces, the provinces did not respond by reorganising their relations with lower level authorities:

*"The current system (1987) is one of hierarchical control: the central government controls finances only down to the provincial level, while financial matters below the provincial level are controlled by the provinces."*³⁸⁴

It is interesting, although not always totally illuminating, to look at the way in which the central authorities aired their grievances against enterprises, localities and provinces after the September 1988 decision to implement retrenchment and recentralisation policies. In his report to the Third Plenum of the 13th CC in September 1988, Zhao Ziyang made it clear that the onus for ensuring that central directives and orders were followed fell on provincial leaders:

*"Provincial party secretaries and governors will be held responsible for any anarchic and undisciplined acts that deny the unified management of the CCP CC. Here I want to make this point very clear."*³⁸⁵

However, this does not mean that the CCP central leadership felt that all the problems stemmed from the activities of provincial leaders. Rather, it is to do with notions of responsibility. Provincial leaders are the link between the centre and the grass roots. Provincial leaders must bear the responsibility for activities in their locality even if they are not actually responsible for the problem. In the same way that the Minister of Transport accepts responsibility for deaths resulting from a bomb placed on a train, the provincial leaders are ultimately responsible for problems in areas under their jurisdiction.

Within provinces there are wide variations in the level of economic development. The level of administrative control at sub-provincial level therefore varies in accordance with the level of economic development of that area, and the ability of local enterprises to assure access to scarce goods and resources without the intervention of local administrative units. A clear example is the special foreign currency retention rights granted to SEZs, which gives them far greater financial clout than "ordinary" areas within the same province.

But the province itself remains an important unit in the nature of sub-provincial level development. The province sets the general tone and scope of sub-provincial economic affairs. It is further charged with ensuring that lower level units and enterprises do not stray too far from central directives, or even ignore them altogether. I would argue, therefore, that there is no clear relationship, nor any easy or comprehensive way of identifying the balance of power between provincial and lower level authorities. But the provinces are the key indicators of the way in which lower levels respond to central

initiatives. Furthermore, the provincial leadership tier is crucial in setting the agenda of economic development within the province, and setting parameters on the limits of legitimate activity.

(d) Decentralisation - a Means to Which End?

One final area that must be considered in relation to decentralisation policy in the 1980s is whether decentralisation was an end in itself, or a means to other ends. Clearly, a dominant aim for policy makers was to stimulate economic development. In this sense, market decentralisation can be seen to be an end of policy making. However it is also the case that decentralisation policies in general, and the administrative decentralisation of 1984 in particular, were means to attaining the end of greater market decentralisation.

The devolution of power to lower level authorities was in part an attempt to undercut the authority of more conservative central planners who were seen as being a potentially powerful block on further reform, and simultaneously build a reform coalition with provincial leaders³⁸⁶. Thus, decentralisation was not only an end in itself, but also a means to achieving other ends. Indeed, it can be hypothesized that administrative decentralisation in the 1980s was perceived as a means of facilitating the expansion of market decentralisation.

Writing on the attempts to recentralise power after 1988, a World Bank report commented that:

*"Beijing has opted for growth by permitting the richer and more industrialized coastal provinces to retain more of their resources....This is all a matter of deliberate choice and not inadvertence. The Center cannot, therefore, chafe over the loss of financial resources."*³⁸⁷

Although this argument contains some truth, it also oversimplifies the issues. The growth in power of some provinces was a deliberate central tactic. The loss of central power was in part deemed a necessary price to pay for undermining the power of central cadres and leaders who were sceptical about the scope and nature of the reform process. Nevertheless, the evidence of the attacks on wayward provinces from even the most reform minded central leaders (See chapter three) suggests that the extent of the loss of control went beyond their expectations. The consequences of extending administrative decentralisation alongside the expansion of market decentralisation had not been fully thought through. In this respect, the World Bank analysis is correct, as the central leadership - through a combination of political manoeuvring, inexperience

and ignorance - helped create the conditions where some provinces were able to exercise a degree of financial autonomy by the end of the 1980s.

However the World Bank explication is ultimately flawed because it is based on a false definition of "*Beijing*" or "*the Center*". Those leaders who, in the autumn of 1988, were trying to claw back powers from the provinces were not the same people who had given the powers away in the first place. As we saw in chapter three, the composition of the central leadership changed with the fall of Hu Yaobang, and in particular, with Li Peng's elevation to Premier. Although the retrenchment policies of 1988 were clearly motivated by a degree of crisis management prompted by the overheating of the economy, they also marked an attempt to claw back some power into the hands of the central planning machinery. Just as the decentralisation policies earlier in the decade contained a political sub-plot in terms of the relationship between opponents and advocates of further market reforms, so the retrenchment policies of 1988 represented another battle in this long running conflict.

4.6 Summary

The issue of centralisation and decentralisation has proved a to be a continual thorn in the CCP leadership's side since 1949. Not only has there been indecision on how much power to devolve from the centre, but also on where to devolve power to. Given the experience gleaned from the various changes in policy between 1949 and 1976, the reformers in the post-Mao central leadership had clear indications of the potential difficulties they would face if they perused decentralisation measures. These lessons were either not heeded, or more likely, deemed to be an acceptable price to pay for undermining the power of more conservative leaders in the central planning machinery.

The debates over the scope and direction of decentralisation measures were complicated by the partial introduction of market mechanisms and the dismantling of administrative economic controls in the 1980s. But crucially, the loss of decision making power that market decentralisation entailed was far from complete. Lacking efficient macro-economic mechanisms to control the emerging market forces, local administrative organs gained new powerful positions in controlling and manipulating market forces within their territory. Crucially, not all provincial (and lower level units) gained the same amount of power as a result of these trends. Two key determinants of how much power the provinces gained and how they exploited this power were national regional development policies and changes in the nature of centre-province financial relations - issues that will be addressed in chapters five and six respectively.

CHAPTER FIVE: REGIONAL DEVELOPMENT POLICY

5.1 Introduction

The discussion of decentralisation policies in chapter four goes some way to explaining the changes in centre-province relations in the 1980s. However, it is not sufficient in itself to explain the extent of the changes. Nor does it give a clear explication of provincial variations in centre-province relationships. In order to rectify these omissions, it is essential to analyse crucial changes in other policy areas that shaped the environment within which decentralisation took place.

Two areas stand out as warranting closer attention. Firstly, changes in fiscal and revenue sharing arrangements were important determinants of variations in degrees of provincial financial independence in the 1980s. Given the importance of this issue, it will be dealt with in detail in chapter six. Secondly, and the focus of this chapter, changes in the CCP's regional development policy had major consequences for the nature of individual provinces' relationships with central authorities.

In this chapter, I will assess why the east to west development strategy was chosen as the cornerstone of regional policy in the 1980s, and the effect of this policy on centre-province relations. The strategy not only played a major role in contributing to the shift in the locus of economic power to the coastal provinces (and particularly those of the south east), but it also enhanced some provinces ability to attain financial autonomy from the centre. The impact of the perceived (if not always real) polarisation of economic growth on interior provinces' attitude to both the central authorities and the coastal provinces will also be considered in some detail.

Before moving on to look at the specific policy changes of the 1980s, it is important to place post-Mao policy in its historical context. The main intention of this analysis is not to investigate the 1949-79 period for its own sake, but to both illuminate the various (and frequently competing) considerations that contributed to the formulation of regional development strategy, and to highlight those defects in the system that the policies of the 1980s were specifically designed to redress.

5.2 Historical Decision Making Criteria

The regional development strategy adopted after 1978 is often characterised by Chinese academics as simply marking the replacement of an irrational policy with a rational one. In particular, the "*absolute egalitarianism*" of old strategies is blamed for retarding China's development in the pre-reform era³⁸⁸. This interpretation is based on an over-simplistic and one sided notion of rationality. The rationality of regional development strategies should not solely be judged on whether they facilitated rapid economic growth. Whilst economic development was an important consideration for decision makers, other goals and factors also informed the decision making process. A brief analysis of the situation before 1978 will show that what may appear irrational viewed from the 1980s was, in fact, much more rational given the priorities and wider environment of the day.

Furthermore, even a cursory examination of this period shows that "*absolute egalitarianism*" was neither practised nor aspired to. Some of the wealth of the more developed areas was utilised to generate development in the interior, but this was not purely motivated by ideological considerations. As we shall see, economic motives and (more importantly) strategic considerations also informed the decision making process. Indeed, rather than striving for absolute regional equality, the regional self-sufficiency policy of the Cultural Revolution positively reinforced spatial inequality.

Leaders from developed areas such as Shanghai claim that they could have done more for national development had they been allowed to fully utilise their strengths rather than providing investment capital for the rest of the country³⁸⁹. Whilst this argument may indeed be true, the pre-1976 policy was clearly not one of '*absolute egalitarianism*'. Leaders from Shanghai like to portray it as such to reinforce their calls for more locally raised finances to remain in Shanghai for local projects. For reformist leaders at the centre, the egalitarian explanation is essentially a way of building support for the east to west development strategy of the 1980s. By creating the evil of "*absolute egalitarianism*" and equating it with economic stagnation, then anti-egalitarianism becomes equated with growth.

When the CCP came to power in 1949, it inherited a spatial pattern of industrial activity that had developed almost entirely in response to external forces. In developing their own indigenous regional development policy, the CCP had to consider a number of crucial factors. In relation to industrial location policy, Eckstein argues that the four main decision making criteria were the availability of sources of raw materials, proximity to major domestic markets, security considerations, and a commitment to narrowing regional inequalities³⁹⁰. If we take Eckstein's criteria as a starting point and

distil them into less specific points, we are left with three main areas that influenced regional development decision making processes in China; national defence considerations, ideological considerations, and economic considerations.

(a) National Defence Considerations

With the benefit of information that only came to light in the west in the 1980s, we now know that national defence considerations were a major factor in shaping China's regional investment strategy for much of the 1950s, 60s and 70s. Fearing that tactical nuclear strikes could quickly and easily, destroy China's entire industrial capacity, the decision was made to establish "*a strategic defence in the rear*"³⁹¹. In what became known as the "third front" strategy, industrial capacity and manpower was transferred from the more developed regions of the east to the safer havens of the west. According to Naughton, little or no attention was paid to economic considerations with the potential for withstanding all-out aggression from external powers the primary decision making criterion³⁹².

The newly available evidence regarding the scope and extent of third front industrialisation has important consequences for existing studies of China's regional development. As Cannon comments:

*"All analyses of the country's economy until fairly recently have had no knowledge of this factor and so are fundamentally flawed."*³⁹³

For example, having assessed the proportion of investment directed towards the interior in the pre-reform era, Cheng and Lardy both built their analyses on the contradiction between an ideological commitment to equable growth and the desire to generate rapid growth³⁹⁴. Whilst this dichotomy remains worthy of consideration, it must be remembered that the figures for investment in the interior include that proportion of investment utilised by third front industrialisation. As such, figures showing an uneven share of investment for the interior over the coast must be considered are not the clear cut signs of the primacy of ideological goals as they may have appeared at the time.

The economic costs incurred by stressing defence considerations were enormous. Investment that would have reaped much higher and quicker returns in relatively developed areas was poured into the black hole of third front industrialisation. Naughton calculates that the proportion of investment earmarked for third front industrialisation was 38.2% during 1963-65, rising to 52.7% during the Third FYP (1966-70), before decreasing slightly to 41.1% during the Fourth FYP (1971-75)³⁹⁵.

But even these figures do not tell the full story. The relocated industries were moved to mountainous and remote areas, so supplying them with energy and raw material supplies was difficult and expensive. There were similarly huge problems in transporting finished products to markets.

(b) Ideological Considerations

As the example of third front industrialisation demonstrates, the establishment of a centrally planned system in the PRC gave leaders considerable power to alter the character of national economic activity. Furthermore, the power of the central planners was aided in the early years by the resources placed at the centre's disposal by the Soviet Union³⁹⁶. For example, deciding where to site the 188 plants constructed either by or with the aid of the Soviets during the First FYP was an important component of the new regional development strategy³⁹⁷.

It is without question that ideological goals and motivations did play an important role in the centre's spatial regional development policy. Firstly, there was a degree of what we might normally call national pride or national chauvinism which constitutes an important strand of Chinese Marxism. According to Vermeer³⁹⁸ and Donnithorne³⁹⁹, there was a strong desire to target development away from the coast and the northeast, where growth had been achieved through Japanese and western imperialism, and the Chinese comparador and bourgeois classes were perceived to be relatively firmly entrenched.

Secondly, China's isolation from the international community (which perhaps owed more to American ideological convictions than it did to Chinese) made the emphasis on coastal development less rational from an economic viewpoint. With domestic markets and China's international trade priorities now orientated towards the Soviet Union and other communist party states, the economic rationale of developing the coast was much reduced.

Thirdly, regional development strategy was also influenced by a commitment to creating a more egalitarian society. A desire to even out income levels both across regions and across sectoral groups clearly influenced investment decisions. The extent to which these ideological commitments influenced policy varied as the balance within the central leadership changed. The Gang of Four, for example, advocated a breaking down of all divisions in society - town versus country, coast versus interior, mental versus manual labour etc - that was anathema to leaders such as Chen Yun and Liu Shaoqi. Whilst the latter two leaders were in ascendancy in the early 1960s,

differentials were allowed to grow (both across sectorally and spatially) as a means of facilitating recovery from the Great Leap. At the risk of oversimplification, ideological imperatives were more important when Mao was in command than when other leaders controlled the planning machinery.

Even ignoring what we now know about third front industrialisation, it is difficult to ascertain the extent to which ideological considerations ever influenced decision making. Kueh argues that:

*"No Chinese government would find it easy to weigh the relative urgency of promoting the industrial development of the north-east and south-west against the potential benefits of concentrating investment in the already advanced coastal regions, where there are potential economies of scale to exploit."*⁴⁰⁰

Even writers such as Lardy, who generally supports the idea that egalitarian principles played leading role in shaping regional development policy, is qualified in his conclusions:

"Over the past twenty-five years [1955-1980] the leadership has consciously chosen to sacrifice some economic growth in return for achieving improved regional economic balance." [emphasis added]⁴⁰¹

What is clear, and what is very important here, is that with the possible exception of the Gang of Four, conflict was not between leaders advocating egalitarianism versus leaders advocating economic growth, but between leaders who disagreed on where to place the balance between the two.

(c) Economic Considerations

Although the rhetoric of communist party rule may have reflected a higher stress on egalitarianism than on development, the CCP's commitment to turning China into a modern developed economy has always had a high priority. Notwithstanding the highly charged political environment of the Great Leap Forward, perhaps the loudest of the many the clarion calls at this time was to overtake Britain's economy within 15 years. Ever since the British gunboats arrived off the coast of southern China, the Chinese have been striving to restore the Middle Kingdom to its rightful place in the world order. From the policy of "self-strengthening" (*zhiqiang*) of the Tongzhi Restoration to the economic reforms of the 1980s⁴⁰², one of the ways to achieve this goal was to turn China into a modern and powerful global economic force. Any interpretation of Chinese politics that ignores the very strong nationalist element of Chinese Marxism is fundamentally flawed.

With hindsight, the policies of the Great Leap can be seen as running counter to the requirements of building a strong economy. But whether Mao's strategy was correct or not, I believe that it is important to remember that he believed that the communes would generate faster growth than the strategy favoured by his opponents in the central elites.

When analysing the choices facing CCP leaders over regional development strategy, a common, but flawed assumption is that the CCP's leaders faced a stark choice. They could either choose a strategy of pursuing the most efficient and rapid economic development possible by concentrating development on the already advanced areas of the north east and the coast, or alternatively, they could follow a policy of decreasing inter-regional disparities of income by spreading industrial development more evenly across the nation. Cheng argues that:

*"The geographic distribution policy represents a trade off between optimum industrial location and maximum growth."*⁴⁰³

Cheng hypothesizes that concentrating resources of the coastal areas would have led to the highest possible rate of industrial growth, and that:

*"the rejection of that strategy reflects the leaderships determination to prevent the reemergence of a dualistic society."*⁴⁰⁴

As with many such stark divisions between alternatives portrayed as polar opposites, Cheng's hypothesis is incorrect. The assertion that China could have maximised its industrial growth by concentrating resources on the existing industrial centres is not as clear cut as Cheng appears to suggest. Although such a policy may have achieved rapid returns in the short run, it would not have been sustainable in the long run. For example, the existing concentration of industrial capacity on the coast meant that they were divorced from raw material and energy supplies. As Lardy notes:

*"some plants were located so far away from domestic sources of raw materials that imported materials were cheaper."*⁴⁰⁵

The patterns of economic activity that existed in 1949 had developed in such isolation from each other that if the pre-revolution spatial pattern had been continued, then the development of the interior would have been almost impossible. It was essential that industrial centres should be integrated into the raw material centres and markets of the nation as a whole if long term development was to be sustainable. Given the relative backwardness of the interior, this meant that it was necessary for the central authorities to try and "jump start" development in the interior. As a result, developing small and medium sized cities in the interior to act as "growth poles" of the socialist economy

had economic as well as ideological and strategic rationales⁴⁰⁶. This idea was to re-emerge as an important component of regional development strategy in the 1980s.

Despite the transfer of resources to the interior that clearly took place during the First FYP, utilising the productive forces of the coast to help generate national economic development was not wholly rejected. According to Berger, the central leadership, and Mao in particular, soon conceded that they had placed too great an emphasis on developing the interior⁴⁰⁷. In "On the Ten Great Relationships" in April 1956, Mao reaffirmed the principle that the majority of new industry should be located in the interior, but at the same time acknowledged that:

*"we have underestimated coastal industry to some extent and have not given sufficient attention to its development."*⁴⁰⁸

China simply did not have enough investment capital at its disposal to continue neglecting the development of the developed regions. Investment had to be utilised wisely to ensure that sufficient returns were available for re-investment in the future.

Writing in 1967, one of the striking conclusions for Wu was that:

*"This great disparity between Shanghai and all other industrial centres confirms that the Communist authorities rely on the industrial capacity of Shanghai to a far greater extent than they have admitted."*⁴⁰⁹

More recent figures show that this was indeed the case with Shanghai contributing 41.9% of China's total capital investment between 1950 and 1976⁴¹⁰. Wu also noted that although the interior had been favoured during 1949-67, the trend should not be exaggerated and:

*"no radical departure from the pre-Communist spatial pattern can be observed."*⁴¹¹

Half of China's modern industrial capacity was located in Jiangsu, Hebei and Liaoning provinces - roughly the same spatial distribution as the pre-Communist era.

(d) Balancing Competing Considerations

Although egalitarian principles were a factor in defining spatial economic policy before 1978, ideological concerns were never pushed to the total exclusion of economic concerns. The leadership may have been prepared to sacrifice *some* economic growth to smooth out inter-regional variations in development, but would rather accept a degree of polarisation of regional income than create an equality of poverty.

Economic considerations also informed the decision to undertake a partial transfer of resources from coast to interior. play a part in the transfer of investment into the interior. It was recognised that in order to create an economic system that could sustain long term development based primarily on internally generated growth, it was necessary to build on the existing economic base. But it was also important to sponsor development in the interior to both create markets and build a heavy industrial and raw material base for national development.

But the already delicate process of balancing ideological and economic criteria was further complicated by the addition of national defence considerations. The decision to build a third front in the interior explains more than anything else the extent of investment capital that went to projects in the interior in the 1950s, 60s and 70s. The removal of this threat (or at least the perception that the threat was gone) thus paved the way for a re-assessment of regional development strategy in the post-Mao era. The death of Mao and the overthrow of the residual Maoist left also removed a formidable obstacle to placing more stress on the importance of economic factors.

5.3 The Historical Legacy

Given the CCP's perceptions of threat and its desire to generate relatively equable levels of growth, the regional development strategies of the pre-reform era were rational. Nevertheless, they left the post-Mao leadership with a number of problems to be resolved, and it is in addressing the specific failings of the past that the germs of many of the post-Mao reforms can be found.

(a) Economic Growth Foregone

The legacy in terms of economic growth foregone was something of a mixed blessing for the post-Mao leadership. On the negative side, it contributed to a popular loss of faith in the party's policies. Having been promised so much in the 1950s, the average Chinese citizen was no better off when Mao died than at the onset of communisation. But paradoxically, this disaffection contained within it a source of strength for the post-Mao leadership. As Hua Guofeng discovered, simply not being the Gang of Four helped generate popular support in the short run. But he also discovered that it was not, on its own, a source of stability.

What was required, and what was ultimately provided by Deng Xiaoping, was a more fundamental rejection of the Maoist framework of policy making. By stressing the difference between the politicised framework of the immediate past and a new economic framework, then a renewed hope in the ability of the CCP to provide economic advances was generated⁴¹². In order to strengthen this source of support, it proved advantageous to emphasise the extreme ideological stance of the Gang of Four as the cause of as many prior failures and problems as possible. Hence the false assertion in Chinese sources that the problem in previous regional development strategies was the policy of absolute egalitarianism.

Although it is clear that a degree of development was foregone as a result of developing the interior (and the third front strategy in particular) the extent of this loss of growth is far less clear. For example, Naughton suggests that the costs of developing the third front restricted Chinese economic development to an extent that *"was certainly more far-reaching than the disruption of the Cultural Revolution"*⁴¹³.

Other analyses are more reserved in their judgement. A team from the Chinese Academy of Social Sciences calculated that every RMB 100 million invested in the coastal region generated a net RMB 97 million increase in output value. In the interior, the net increase yielded was only RMB 41.4 million⁴¹⁴. It cannot simply be assumed

that if all the investment had gone to the coast, then it would have continued to generate a 97% return in investment. At the very least, without the raw material supplies from the interior, returns on profits in the coast would have declined.

A 1990 World Bank report's attempt to calculate "what might have been" presented a cautious assessment of the 1949-1980 period. During this time, 58% of fixed capital investment went to provinces in the interior, which had an average growth rate (Gross Domestic Product) of around 5% per annum. Their calculation is that:

*"if most investment in the modern sector had gone to the coast instead of the interior [then] that reallocation alone might have raised national growth close to 7% a year" [emphasis added]*⁴¹⁵

Although these assessments are important, they are based on investigations of the entire pre-reform era. Far more important in terms of the specific problems facing the post-Mao leadership were the particular issues arising from the implementation of the regional self-sufficiency policy of the Cultural Revolution.

(b) Regional Self-Sufficiency

Economic development during the Cultural Revolution was severely obstructed by political and social (not to mention physical) conflict. It was also hampered by the regional development strategy of the day, which placed an emphasis on building small self contained and self sufficient economies. Becoming self sufficient was the target of all levels of administration - and if the barren land of Dazhai commune in Shanxi Province could be turned into a productive "oasis" entirely through the endeavour of the local population, then there was no excuse for better endowed areas.

The rationale for the policy was, for Kueh, found in national defence considerations:

*"In the consequent scramble to create a comprehensive network of self-sufficient local industries, which would meet China's defence requirements, economic rationality, based on regional and locational specialization and co-operation, was largely ignored."*⁴¹⁶

If there was an economic dimension to the choice, then it appears to lie in a desire for short term gains irrespective of the long term impact. Quick advances in production and output based on the harnessing of local initiative did result from the emphasis on local self-sufficiency.

But from virtually every other economic criteria, the policy was indeed irrational. Any gains could not be sustained for long, and even those positive results in the short run contributed to bigger problems for long term and sustainable development. Chief among these was the duplication of productive capacity. With every region striving to become self sufficient, no attention was paid to comparative advantage or utilising economies of scale in local decision making. Even within individual regions, administrative controls over the distribution of produce meant that there was no incentive to increase efficiency.

The net result was colossal waste of raw materials and investment capital. A good example of the long term legacy of this waste is that 40% of coal prospecting manpower was devoted to the area south of the Yangtze River, even though it was well known that the resources in that area were limited⁴¹⁷. With this approach to economics replicated across all sectors of the economy and across all regions, then it was clear that if the post-Mao leadership wanted to build legitimacy on economic performance, then reversing the impact of the self-sufficiency period provided both the immediate and long term challenge.

5.4 The 1980s: An East to West Development Strategy

(a) Defining a New Regional Development Strategy

With the eradication of the residual Maoist left in the early 1980s, the CCP set about re-defining its regional development strategy. The environment in which this strategy was developed was far removed from that of the 1950s, 60s and 70s. The death of Mao was followed by the slow but steady eradication of the residual Maoist left from the power structure - a task that was more or less completed at the 12th Party Congress in 1982. Furthermore, as both the American and Soviet threats were both all but gone, third front industrialisation could be abandoned, thus removing a crucial constraint from decision making. The changes of the 1980s stemmed in large part from a re-prioritisation of decision making criteria - defining a new balance between growth and equity - but the importance of the removal of national defence considerations should not be ignored.

The relationship between the new emphasis placed on economic considerations and the end of the threat perception is a complicated one. Once it was decided that China should become more integrated into the international system, and that a peaceful regional environment was beneficial for economic prosperity, then China's external relations had to be reformed. In some ways, China perceived the world to be less

hostile because it needed it to be less hostile - and because China now treated other nations in a less belligerent manner, they also began to see China as less of a threat. But this is not to say that the change was entirely generated from within China. Shifts in the international system, and in particular internal changes in the Soviet Union, also played important roles in facilitating a new strategy in Beijing.

(b) Decision Making Criteria after 1978

With the decline in importance of strategic motives, the three broad considerations of the pre-reform era were reduced to two. However, as we shall see below, it is difficult to isolate purely economic considerations from purely ideological motivations. Essentially, whether primarily economic or ideological in their conception, all considerations eventually boil down to notions of legitimacy.

(i) Economic Considerations

The economic considerations for the post-Mao leadership were primarily defined by the failings of the immediate past. The regional self-sufficiency strategy of the Cultural Revolution had resulted in a waste of investment and manpower that had to be reversed. In addition, the quick growth policy associated with Hua Guofeng's 'mini-Great Leap' had exacerbated existing bottle-necks in the industrial system.

Whilst identifying problems was a relatively simple matter, putting solutions into practice was an entirely separate affair. In order for the new policy to be economically effective, reforms had to be coordinated to ensure a logical evolution of policy. Unfortunately, this was not the case. Regional development strategy was undermined by reforms (or in the case of pricing, the lack of reforms) in other areas of the economy. Although lack of experience and knowledge contributed to this lack of coordination, considerations of elite stability and cohesion also played their part.

(ii) Ideological Considerations

The pressing need to overcome the economic problems of the day cannot be entirely separated from ideological considerations. With the CCP suffering from a crisis of legitimacy after the Cultural Revolution, it was necessary to define a policy that would rebuild confidence in the Party's ability to govern successfully. The charismatic basis of legitimacy that had characterised the Maoist period gradually gave way to an economic basis. Although the charismatic appeal of Deng the great reformer was an important component of the attempts to rebuild legitimacy after 1978, the economic basis of legitimacy was given a new importance⁴¹⁸. The CCP's ability to successfully manage the

national economy and meet the demands of the population became an important component of CCP leadership in the 1980s.

But although economic growth was now emphasised to an unprecedented degree, the CCP could not totally abandon its obligations to less developed areas. The increased growth of the already well endowed areas might well buy support for reforms in those areas, but this consideration had to be offset by the potential opposition and hostility to the reforms in areas that were less fortunate. Grievances patiently endured over the years take on a renewed importance when people feel that they are becoming relatively deprived. Merely maintaining the position of the people in the interior while the coastal provinces developed rapidly would jeopardise support for the reforms in the more backward areas⁴¹⁹.

(iii) Economics, Ideology and Legitimacy

The balance between stressing new economic priorities or more traditional ideological considerations was a delicate balancing act for the new leadership. Any leader who overtly embraced free market capitalism and/or multi party democracy would soon find a powerful coalition of leadership forces coalescing against him. Reforms had to be portrayed in socialist terms for the purpose of both legitimating the leading role of the CCP, and perhaps more importantly, for maintaining a grip on power in the divided and fractious leadership. Whatever policy was chosen, it had to be espoused, and then implemented, in a manner that would minimise opposition from less reform minded leaders. This already complex task was further aggravated by the simultaneous need to satisfy the increasing demands of both local leaders, and the population as a whole. As Hu Yaobang found to his cost (and to an extent, so did Zhao Ziyang) this proved to be an almost impossible task.

5.5 Comparative Advantage, Specialisation and Regional Development

Having identified the policies of the Cultural Revolution as being the cause of most of China's economic problems (and also of most of the CCP's legitimacy problems) the post-Mao leadership embarked on a process of reversing much of what went before. There was no single blueprint for these changes, and policy evolved during the course of the reform process. Nevertheless, three main ideas can be identified that provided the basic principles of the new strategy⁴²⁰. Firstly, to encourage regional division of labour and to make full use of local comparative advantages. Secondly, to increase inter-regional economic activity and coordination. In combination, this created a policy line that Meisner and Blecher characterise as one:

*"that no longer stresses self-sufficiency in grain production, that allows for local and regional specialization from the point of view, presumably, of comparative advantage, and by implication, calls for an expansion of exchange among areas to make up for local deficiencies."*⁴²¹

But thirdly, there was a commitment to ensuring that economic modernisation took place under the general umbrella of national coordination, which would ensure that no group or area was too detrimentally affected.

In particular, central coordination would ensure that the goals of a more efficient economy did not lead to too wide disparities in regional income. A principle of "compensation" should be employed which depended on the maintenance of strong central financial redistributive powers to ensure that the gap between the rich and the poor did not become too great⁴²². In short, although local economic conditions should play a large role in shaping local economic development, the centre would retain

overall control and guidance. It would continue to set priorities and targets and ensure that local interests did not impinge on national interests.

(a) The East to West Development Strategy and The Seventh Five Year Plan

The most concrete expression of a new regional development policy came at the Third Plenum of the 12th Central Committee in October 1984. A policy of reforming the economic structure was espoused which was to prove the basis of the regional development policy announced in the Seventh FYP. The policy was built around dividing China into three large economic regions - the Eastern or Coastal Region, the Central Region and the Western Region. Each region was to have its own priorities for development during the course of the plan which would benefit the long term development of the whole nation. Although development was to be concentrated initially on the coast, the CCP leadership was eager to promise the central and western regions that they would not be forgotten. In the short run, they too would reap the benefits of rapid development in the coast. In the medium-to-long term (a deliberately vague time-scale was always deployed), the focus of development would be shifted to encourage growth away from the coast.

In essence, the coastal region was to be the main focus for economic development, whilst the central region concentrated on supplying raw materials and foodstuffs. As for the western region, there was to be limited development with an emphasis on reducing its financial and economic burden on the state. The specifics of the plan for each region, as outlined by Cannon⁴²³, are shown in table 5.1.

A number of points need to be made concerning the regional development policy of the Seventh FYP. Firstly, the regionalisation was in some ways, pointless. Each region has the physical size and population of a large country - if Sichuan on its own were an independent country, it would rank about eight in the list of the world's largest nations. The regions are so large, that the proposals can be seen as nothing more than general guide-lines for development policy. Within the regions, there are vast differences in levels of development, raw material supplies, access to foreign markets and so on.

Notably, different degrees of local autonomy were granted to different provinces within the same macro-region. For example, the system of sharing locally collected revenues with the centre developed for Guangdong province gave it a much greater degree of financial autonomy than those systems adopted for Beijing, Tianjin and Shanghai. Given this factor, the regionalisation policy of the Seventh FYP must be seen more as an enunciation of aspirations and general aims than a concrete programme for change. As Kueh notes:

*"The Seventh Five Year Plan's envisaged gradual infiltration of coastal industries to the interior seems more a conceptual scheme than an operational programme."*⁴²⁴

Rather than setting the agenda for future policy directions, the Seventh FYP regionalisation was more an official recognition of what had already happened as a result of other economic reforms. The development of Special Economic Zones (SEZs) and the opening up of coastal cities to foreign investment and trade had already set in motion the re-orientating of development to external markets and supplies. Perhaps more crucially, the emergence of a dual price system meant that the low state set prices for raw materials helped generate higher profit margins for light industrial producers. Given that the majority of China's raw material and heavy industrial centre are in the interior, this resulted in the interior effectively subsidising the coastal region.

If the plan was meant to do anything, it was not to map out the development of the coast - this was already happening anyway. The rationale behind the policy announcement was threefold. Firstly, as has often been the case in the PRC since 1949, the CCP leadership felt that it needed to justify what was the *de facto* situation by issuing a policy announcement in keeping with the momentum of change from below. The CCP's attempts to keep up with the rapid wave of communisation during the Great Leap Forward is another example of this process. The CC continually issued

announcements of targets for communisation that were actually one step behind what was already happening.

Also, to announce a plan before it has been implemented gives opponents to the line an opportunity to block moves before they have been made. Coming out with a strong policy line can be dangerous insofar as it provides something for opposition groups to coalesce around. It is far safer to set the ball rolling by making incremental change at the margins, and subsequently announce a firm policy line once it has gained an unstoppable momentum.

Secondly, earlier reforms had aroused fears in some less developed areas in the interior that the new regional development strategy that their interests were being ignored. Although the Seventh FYP policy reinforced the emphasis on developing the coast first, it did hold out the promise of development for the centre and the west. By defining the current wave of changes in terms of a rational strategy with priorities and targets, the leadership sought to assure the central and western regions that they had not been forgotten. In particular, the emphasis placed on outlining proposed developments in the western region was a sign that although the coast was to make the biggest strides forwards, the western region's development was also a central priority.

Furthermore, the policy also emphasised developments that would take place in the central region. For many in the centre, the wave of reforms appeared to be creating a situation where they were becoming something of an internal colony for the coast. They would supply cheap raw materials and act as markets for finished products from enterprises in the coast. Although the emphasis for the centre was clearly on developing raw material and in particular energy supplies, the internal development of the region was also highlighted.

Thirdly, the plan showed the reformist coalition's desire to demonstrate that they actually had a policy and were in control of events. As became clear in chapter three, economic reform in the 1980s frequently gave the impression of a reform policy that was reactive and almost out of control. This gave rise to opposition from conservative groupings in the central elites who bemoaned the centre's loss of control over economic affairs. The plan can thus be seen as an attempt by the CCP reformist leaders to show that they were in control, and could actively intervene to shape the scope, nature, direction and speed of the reform process.

If this was the reformers' intention, however, the policy initiative failed. The fears of the interior provinces were now enshrined in print, and intense lobbying from interior leaders followed. The proposals were opposed from more conservative leaders reluctant to jettison commitments to equality and balanced development. Not surprisingly, these conservative central leaders found allies in provincial leaders from areas who perceived that they were going to fare badly in competition for the allocation of scarce central government controlled investment finance. Conversely, provincial leaders from the coastal region supported the reformist line which emphasised developing their area first.

The situation was thrown into further confusion after a cost benefit analysis reported that the overall gains to the national economy were not as great as the reformers had initially believed. As a result, a number of reformist central leaders changed their stance and began to oppose the new development strategy. Notable among these leaders was Yao Yilin, who was later to become an important ally for Li Peng in his conflict with Zhao over the correct handling of the economy in the autumn of 1988⁴²⁵.

(b) The Role of Zhao Ziyang

The above analysis has emphasised the reactive nature of CCP regional development policy. But conscious attempts to change the spatial pattern of development should not be ignored. In particular, the preferred policy options of individual leaders' (policies that did not always have the full support of the rest of the central elites) had important spatial consequences.

For example, the hand of Zhao Ziyang can be clearly seen as a guiding force in the development of a regional development strategy favouring the south east. It should be noted that before the Cultural Revolution, Zhao enjoyed a successful provincial career serving in Guangdong, which emerged as the main winner from the 1980s reforms (as well as the main headache for conservative leaders in the centre). Zhao's active pursuance of a Gold Coast strategy was an important component in forging a new regional development policy. Furthermore, his apparent conviction that development should be based on city centred economic regions that cut across administrative boundaries also influenced policy formulation in the 1980s⁴²⁶.

This last point requires amplification. One of the key defects of the local self-sufficiency system was the lack of flows of goods and resources across regional boundaries⁴²⁷. Despite the change of emphasis in the 1980s, bureaucratic

decentralisation coupled with the infrastructural inadequacies had prevented the effective inter-provincial transfer of goods and resources. For Zhao, the solution lay in creating economic regions based on the exploitation of the comparative advantage of these growth poles. The core areas should be allowed to make full use of their natural economic hinterlands irrespective of whether those areas came under the jurisdiction of other administrative units. In essence, the rationale was to overcome the autarkic tendencies inherent in a political administrative system built around strong provincial leadership and controls.

For the new regional development strategy to work effectively, administrative boundaries had to be broken down. A considerable degree of decision making power had been transferred from central ministries and planning agencies to the provinces. But although "*vertical dictatorship*"⁴²⁸ had been greatly reduced, administrative controls persisted in the allocation of key industrial inputs and transport facilities. Thus, the weakening of vertical dictatorship had been at the cost of strengthening "*horizontal dictatorship*"⁴²⁹. The precondition for the removal of provincial administrative barriers was (and, indeed remains) removing administrative controls from the pricing, ownership and allocation of key industrial inputs.

However, the full removal of administrative controls was not feasible for political reasons. Damaging side effects of economic reforms had been seized upon by opponents and reformers were forced to resort to short term remedial measures. In a political elite characterised by disunity, it would probably have been impossible to push through the total dismantling of administrative controls and the introduction of comprehensive price reform. The city centred macro-regions favoured by Zhao can be seen as the second best alternative. Or alternatively, they may have been an attempt by Zhao and his colleagues to set in motion what would eventually become an unstoppable force for the total abolition of administrative controls. If the city based regions proved successful in generating economic growth, then they could be used as evidence to support more radical reforms later on.

Research on the roles of cities had begun in mid-1980. In 1982, Zhao initiated discussions on the establishment of economic macro-regions in Shanxi and Shanghai⁴³⁰. By 1983, three regional planning offices of the State Council had been established: the Shanxi Energy Base Planning Office; the Shanghai Economic Region Planning Office; and the Northeast Energy and Communications Planning Office⁴³¹.

The idea of economic macro-regions was in keeping with the emphasis placed on exploiting regional comparative advantage and specialisation. Each area was to concentrate on its own strengths, and build vibrant local economic systems central to the establishment of a coherent national economic development programme.

5.6 The Regional Pattern of Growth

(a) Provincial Fears of Polarisation

Defining a new regional development strategy had an important impact on inter-provincial tensions. The new east-to-west scheme entailed a re-orientating of investment priorities which would appear to suggest some redistribution of the winners and losers in the Chinese political-economic system. This is half true. New winners emerged, but this does not necessarily mean that the old winners became losers in absolute terms.

Inter-provincial relationship in the 1980s should not be viewed in terms of a zero-sum relationship. The gains of some areas do not have to be made at the expense of losses somewhere else. Indeed all areas should benefit from the strategy of exploiting regional comparative advantage. However, two considerations must be kept in mind. Firstly, exploiting comparative advantage should not benefit all areas equally in the short to medium run. Although all areas should gain, some should gain more and quicker than others. This can lead to feelings of relative deprivation⁴³² which are at least as powerful generators of resentment than absolute deprivation - particularly when previously favoured areas slip down the league table of favoured areas.

Secondly, the incremental nature of reform in the 1980s provided a fertile ground for lobbying and *ad hoc* centre-province bargaining in the decision making process⁴³³. According to Hamrin, this created great strains on the central decision making machinery and on centre-province relations as cities and regions tried to lobby for the promotion of their areas in the centre's lists of priority areas. For example, the decision to expand open areas came after an inspection tour by Deng to the South in February 1984. The initial intention was to open up five cities to add to the SEZs as centre's of enhanced foreign investment and trade. However, during a special SC and Secretariat forum, representatives from other cities argued their case, resulting in a total of 14 cities being opened up⁴³⁴.

Competition between regions for preferential central treatment has always occurred. But the higher potential gains made possible by the market reforms of the 1980s

enhanced this competition. The problem was particularly acute for those heavy industrial bases (particularly in the northeast) that had previously been the recipients of special treatment, but which now found themselves saddled with increasingly obsolete and inefficient productive capacity. As will be discussed in more detail in chapter six, the commitment to maintaining employment and production in these areas (or at least to stagger their demise) had important consequences for national finances as the 1980s progressed.

(b) The Official Rationale for the Reforms

The impact of the new regional strategy on perceptions of privilege in the provinces was not lost on the central leadership. They responded to the problem in two ways. Firstly, a considerable proportion of the national budget was spent offsetting the harmful impacts of reform. The extent and impact of this financial dimension to centre-province relations will be dealt with in detail in chapter six. Secondly, as we saw in chapter three, central leaders went to great lengths to explain the official rationale for the reforms, and how they would benefit the entire country, and not just the coast.

Two different approaches were taken to justify the new strategy, and the emphasis on developing the coast first in particular. The first approach was to proclaim faith in the trickle-down theory of economic development⁴³⁵. The wealth generated on the coast would inevitably find its way into the interior through the expansion of natural economic ties with their hinterlands⁴³⁶. The second approach was to maintain a millenarian promise of future good for the interior and west. Once the development of the production centres in the south-east was complete, the CCP would voluntarily change the orientation of economic policy to emphasise the development of the central and western regions.

When taken together, these two approaches seem to conflict with each other. If natural economic ties will eventually eradicate inter-regional disparities in development, then why will the centre have to intervene to aid the development of the west? But rather than contradicting each other, the combination of these two rationales reflects a practical approach to a difficult situation rather than an unrealistic faith in totalities. Whether coming from a liberal perspective⁴³⁷ or a radical/structural interpretation of development⁴³⁸, the need for government intervention in spatial policy is recognised. For Hirschman, governments must intervene to ensure that investment is spread across the country to "kick start" development in the peripheries⁴³⁹. For Friedmann, Smith and others, intervention and effective planning are essential to offset the natural polarisation of growth inherent in a capitalist economic system⁴⁴⁰.

Both the liberal and structural perspectives share some of the features of the CCP's concept of a socialist market economy where the market regulates the economy and the state regulates the market. The latter approach - what Friedmann and Weaver call "*the Perrouvian theory of the polarized economy*"⁴⁴¹ - is perhaps the most closely related to the theoretical basis of reform in post-Mao China. However, as with many elements of the 1980s reform programme, the leaderships' theoretical basis for the new regional development strategy appears to be based at least as much on aspiration and hope than on any concrete and coherent strategy. As Kueh commented on the policy towards regional development:

*"The Seventh Five Year Plan's envisaged, gradual infiltration of coastal industries to the interior seems more a conceptual scheme than an operational programme."*⁴⁴²

He argues that the official trickle-down explanation was more a means of keeping the interior provinces happy than it was a statement of a clear and well-developed theoretical rationale for reform.

(c) Regional Differentials in Growth

If an analysis of China's spatial economy in the 1980s was based solely on the comments by provincial leaders from the interior then the conclusion would be that a significant degree of polarisation had taken place. Indeed, as Table 5.2 shows, there were considerable variations in provincial per capita Gross National Product (GNP) by the end of the decade.

Table 5.2
Provincial GNP Per Capita, 1990

<u>Rank</u>	<u>Province</u>	<u>GNP per capita (RMB)</u>
1	Shanghai	5,570
2	Beijing	4,610
3	Tianjin	3,400
4	Liaoning	2,430
5	Guangdong	2,320
6	Zhejiang	2,010
7	Jiangsu	1,940
8	Heilongjiang	1,790
9	Xinjiang	1,650
10	Jilin	1,590
11	Shandong	1,570
12	Fujian	1,530
13	Qinghai	1,500
14	Hubei	1,460
15	Hainan	1,430
16	Shanxi	1,370
17	Hebei	1,330
17	Inner Mongolia	1,330
19	Ningxia	1,300
20	Hunan	1,150
21	Shaanxi	1,130
22	Tibet	1,100
23	Anhui	1,070
24	Jiangxi	1,060
24	Sichuan	1,060
24	Yunnan	1,060
27	Gansu	1,040
27	Henan	1,040
29	Guangxi	920
30	Guizhou	780

source: State Statistical Bureau (1991a) Zhongguo Tongji Nianjian, 1990 (China Statistical Yearbook 1990) (Beijing: State Statistical Bureau).

What these figures show is that at the end of the 1980s, the coastal region was the richest in China. The seven provinces with a higher GNP than the national average all came from the coast⁴⁴³, and 11 out of the top 12 ranked provinces came from the eastern coastal region. and the ratio of the richest province's (Shanghai⁴⁴⁴) per capita GNP to the poorest (Guizhou) was 7.14:1. In order to avoid the distorting impact of comparing outlying extremes, it is perhaps more useful to view the differential between the top five and bottom five provinces, which gives a much lower ratio of 3.79:1.

The extent of the disparity between coastal region and interior is even less dramatic than the provincial comparisons suggest. The ratio of the Eastern Coastal Region's per capita GNP to the Western Region's was 1.96:1, and the ratio of the coast to the combined western and central interior 1.94:1.

Table 5.3
Regional GNP Per Capita 1990

<u>Rank</u>	<u>Region</u>	<u>GNP per capita (RMB)</u>
1	Eastern Coastal	2317.1
2	Central	1211.4
3	Western	1180

key

Eastern Region = Heilongjiang, Jilin, Liaoning, Beijing, Tianjin, Hebei, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong, Hainan and Guangxi.

Central Region = Inner Mongolia, Shanxi, Henan, Anhui, Hubei, Hunan, and Jiangxi.

Western Region = Xinjiang, Tibet, Qinghai, Gansu, Ningxia, Shaanxi, Sichuan, Guizhou and Yunnan.

source: State Statistical Bureau (1991a) Zhongguo Tongji Nianjian, 1990 (China Statistical Yearbook 1990) (Beijing: State Statistical Bureau).

But although these figures show the existence of variations in income between coast and interior, they do not by themselves say anything about the specific impact of the 1980s reforms on regional differentials of income. Post-Mao regional development did not start from a position of zero polarisation of wealth. On the contrary, the gap between the coast and the interior was slightly reduced between 1978 and 1990. Even accounting for the vagaries of Chinese accounting and the possible impact of Li Peng's retrenchment policies, we can see that a region by region comparison provides no clear

evidence that the new regional development strategy resulted in any significant polarisation of wealth.

Table 5.4
Regional Differentials in Per Capita Income, 1977-1990

<u>Area of Comparison</u>	<u>1977-84</u>	<u>1984-89</u>	<u>1990</u>
Coastal:Western	2.47:1	2.32:1	1.96:1
Coastal:Central	2.03:1	1.93:1	1.91:1
Coastal:Interior	2.23:1	2.11:1	1.94:1

key

Eastern Region = Heilongjiang, Jilin, Liaoning, Beijing, Tianjin, Hebei, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong, Hainan and Guangxi.

Central Region = Inner Mongolia, Shanxi, Henan, Anhui, Hubei, Hunan, and Jiangxi.

Western Region = Xinjiang, Tibet, Qinghai, Gansu, Ningxia, Shaanxi, Sichuan, Guizhou and Yunnan.

Interior = combined central and western regions

source: State Statistical Bureau (1990a) *Quanguo Gesheng Zizhiqu Zhixiashi Lishi Tongji Ziliao Huibian (Collected Historical Data on National Provinces, Autonomous Regions and Self-Administered Municipalities)* (Beijing: State Statistical Bureau) and State Statistical Bureau (1991a) *Zhongguo Tongji Nianjian, 1990 (China Statistical Yearbook 1990)* (Beijing: State Statistical Bureau).

The regional differentials in income that existed at the start of the reform process remained more or less intact because the growth rates of the three regions was relatively even. From 1988 to 1990 (inclusive) the coastal region grew by 14.47%, the central region by 13.39% and the western region by 13.89%⁴⁴⁵.

However, an important caveat has to be made. Region by region comparisons hide the different levels of growth that occurred within regions, and even within individual provinces. For example, whilst Shanghai came top of the ranking of provinces by per capita GNP, another coastal region province, Guangxi, came 29th. The income differential of these two coastal region provinces was 6.16:1.

Of special note is the considerable growth attained in Guangdong province, particularly towards the end of the decade. In the 1980s, Guangdong's average annual rate of growth was over 12% as opposed to a national average of 8.4%. Similarly, while Guangdong's per capita national income was 101.3% of the national average at the start of the decade, the figure had risen to 156.2% by 1991⁴⁴⁶. For various reasons, it

was not possible for other provinces to emulate Guangdong's performance - it was granted special financial rights, allowed to experiment in policies denied to others, was the host of three of the four SEZs, and possessed "natural" links with neighbouring Hong Kong.

It is doubtful that provincial leaders in the interior went to the trouble of working out region by region growth rates when assessing their relative treatment and success during the reform process. The natural unit of comparison would be with the most successful individual province, particularly given the "unfair" advantages that that province had been allowed to exploit. Thus, we can hypothesize that Guangdong's success on its own may have been a cause of provincial envy and fears of polarisation - indeed, given the extent of the preferential treatment granted to Guangdong, perhaps the startling factor is that there was not more opposition from other provinces.

Furthermore, it was not only provinces in the interior that viewed Guangdong's development with a mixture of jealousy and resentment. There was considerable displeasure with the special treatment granted to Guangdong from other provinces within the coastal region itself. Indeed, as shall be shown in chapter six section 6.3(b), Shanghai officials lobbied forcefully (and successfully) to get the centre to grant it some of the financial privileges bestowed upon Guangdong. As such, although the 1980s reforms may not have generated significant regional polarisation of wealth, we can see that grounds for resenting the spatial wave of growth did exist.

5.7 Explaining the Regional Pattern of Growth

Notwithstanding the special case of Guangdong, the relatively even spatial wave of development in the 1980s was an important feature of provincial politics in the 1980s. In attempting to explain how this pattern of development fits into the general question of centre-province relations, three explanations of the pattern of growth will be assessed. Although the trickle down and government intervention interpretations both contain elements of truth within them, I believe that the most convincing explication is provided by what I have termed "the provincial autarky" explanation.

(a) The Trickle Down Explanation

The lack of a significant regional polarisation of income in the 1980s may be taken as a signal that wealth has indeed trickled down from the more developed coast to the less developed interior. Although there is some evidence to support the trickle down explanation, it cannot be considered to be a full answer.

The trickle-down theory suggests that spatial development is best served by the creation of key economic centres or growth poles to generate economic growth⁴⁴⁷. In the long run, wealth will trickle down from these core places to the peripheries leading to a relatively equable spatial distribution of growth. But in order for regional disparities to diminish in the long term, they must widen in the short term as the economic core attains the levels of development and comparative wealth necessarily for power to begin to trickle down - what Hirschman calls "*the tunnel effect*"⁴⁴⁸.

Trickle down can only function in this way if market forces are allowed to influence economic activity unhindered by government (or other administrative) interference. Despite an official central commitment to breaking down provincial barriers to trade, the internal market was not sufficiently developed to allow natural economic forces to facilitate trickle down. Although market forces played a much greater role in the Chinese economy in the 1980s than at any other time since 1949, considerable constraints on the effective functioning of market forces remained.

By the end of the decade coastal provinces were signing joint ventures with provinces in the interior. In addition, steps were being made to create integrated industrial corporations creating a chain from raw material centres through components manufacturers to the assemblers of the finished products. Interior provinces began to openly tout for business in competition with each other through representative offices in major economic centres, and by holding trade fairs to attract coastal producers⁴⁴⁹.

Despite these factors, it is difficult to see how natural economic contacts by themselves could have caused the wave of spatial differentials in income noted above. The creation of joint ventures between coast and interior only began to emerge in the second half of the decade. And rather than the agreements being the result of natural economic contacts between core and periphery, they were normally the result of central government intervention aimed at voluntarily changing the spatial pattern of investment and trade. Furthermore, there is evidence to suggest that inter-provincial cooperation actually declined towards the end of the 1980s. Investment from Zhejiang in other provinces decreased from RMB 85 million in 1986 to RMB 52 million in 1987, and further decreased to RMB 31 million in 1988⁴⁵⁰. A further example comes from the March 1988 special conference on inter-provincial trade. Although over 300 investment projects were signed under the watchful gaze of the central authorities that convened the conference, the coastal provinces honoured "*virtually none*" of their commitments⁴⁵¹.

The development of supra-provincial regional organisations clearly facilitated the growth of trade within those regions. However, the expansion of inter-regional trade across regions was a slower process⁴⁵². For example, less than 4% of the Northeast Economic Zone's investment capital came from contacts with external bodies or institutions (ie: neither from within the region itself nor from central financial institutions)⁴⁵³. The new regional economic organisations can thus be seen as stepping stones towards the creation of a more open Chinese economy at some stage in the future. For Ji Chongwei and Lu Linshu, the next stage is to expand and merge existing regional organisations to create five much larger regional entities⁴⁵⁴. But given the strength of administrative barriers to trade in China in the 1980s, the main task of the various existing supra-provincial regions was to expand economic contacts within those regions themselves. If contacts with the rest of the country could be expanded during this initial stage, then all well and good, but the primary task was to break down provincial barriers within the region.

(b) The Government Intervention Explanation

According to Hirschman, development entails a trade-off between the optimum rate of growth and social cohesion. Governments therefore have to decide what level of growth they are prepared to sacrifice to maintain their vision of what growth should achieve. This short termism was largely a consequence of balancing the many and competing pleas for special treatment from a variety of social groups, including representatives of regional interests:

*"the reluctance of many governments in underdeveloped countries to pick priorities and maintain them in a consistent manner can perhaps be explained by a basic feeling that progress ought to be equally shared by all sections of the community."*⁴⁵⁵

Notwithstanding the official condemnation of the "egalitarianism" of the past, such considerations did play a role in shaping the spatial wave of economic modernisation in the 1980s.

Hirschman argues that in a developmental state:

*"The role of the state is to ensure the simultaneity of investment in a large variety of enterprises."*⁴⁵⁶

This state function was partly facilitated in China by the city centred development strategy⁴⁵⁷. Developing key cities allowed them to become growth poles of the national

economy, and served the function of assuaging some of the fears of polarisation from provincial leaders and other groups in the interior⁴⁵⁸.

With each city serving as the centre of economic activity in surrounding areas, a network of small economic regions would grow which would eventually merge into a larger region (and ultimately an integrated national economic system). Cities were divided into three ranks depending on their extent of economic development. Table 5.5 shows the ranking of different cities in northern China⁴⁵⁹.

Table 5.5

The Tripartite Ranking of Cities in Northern China

<u>First Level</u>	<u>Second Level</u>	<u>Third Level</u>
Beijing	Xingtai	All county-
Tianjin	Handan	level towns
Tangshan	Qinhuangdao	and cities
Taiyuan		
Zhengzhou		
Shijiazhuang		

source: Ji Chongwei and Lu Linshu (1988) "*Jiaqiang Yanhai Yu Neidi Jingji Xiezu De Gouxiang* (On Strengthening Economic Cooperation Between the Coast and the Interior)" in *Qiushi (Seeking Truth)* No 2, pp.16-21.

Another element of government intervention was maintaining the employment and purchasing power of the urban working class (and particularly the permanent state employed urban working class). The maintenance of jobs and relatively equable living standards was considered more important than facilitating the fastest possible economic growth. This was disproportionately beneficial to traditional heavy industrial centres (the north east and central China) at the expense of the more efficient and light industrial orientated eastern seaboard from Shandong south.

In combination, these two factors go some way to explaining why regional income differentials did not widen in the 1980s. They also show that despite the loss of central economic control in the 1980s, Beijing retained a significant degree of power to shape the direction of economic trends - not least through its power to formulate macroeconomic policy. Once it set the policy in motion, however, central ability to retain control of affairs was much weakened. Government intervention and direction did help prevent the regional polarisation of wealth in the 1980s, but at least of equal importance was the tendency towards provincial autarky that emerged during the course of the reforms.

(c) The Provincial Autarky Explanation⁴⁶⁰

The basis of the provincial autarky explanation is perhaps best summed up by the following quote from a 1990 World Bank report:

*"Decentralization has generated a race to industrialize between the provinces, each of which is trying to gain a larger share of resources"*⁴⁶¹

Despite efforts to sponsor inter-provincial trade in the 1980s, the process was not an unqualified success. Considerable obstacles to trade remained throughout the decade which acted as powerful forces to prevent the emergence of comparative advantage and economies of scale.

A physical obstacle to trade was provided by the lack of an adequately developed infrastructure. In particular, China's heavy reliance on coal as a primary source of energy placed great strains on the railway system. Even over relatively short distances, non-coal rail-freight transportation could be obstructed and at the very least delayed by difficulties in appropriating spare transport capacity. The growth in cross provincial trade was also hampered by the slow emergence of supporting reforms in the service and financial sectors (insurance, banking, taxation etc).

Another fundamental obstacle to increased trade was the dual track pricing system. On its own, the maintenance of low state set prices for key raw materials and semi finished products created irrationality in the "normal" flow of goods and resources which were supposed to be increasingly based on objective economic laws. When combined with the new arrangements facing local authorities for collecting revenue through taxes on profits, it created an incentive to strengthen local economic bases irrespective of productive capacity elsewhere and the logic of regional comparative advantage.

For example, the Dongting District of Hunan Province was developed as a sugar cane centre during the regional self-sufficiency policy of the Cultural Revolution. But when a wider non-provincial outlook is used, it makes little sense to grow sugar cane in Dongting. When compared to Guangdong and Fujian provinces, it can be seen that while rice planting conditions are roughly the same in large areas of Guangdong and Fujian as they are in Dongting, the conditions for planting sugar cane in Guangdong and Fujian were much better. So from a national viewpoint, and in keeping with the principles of regional comparative advantage, it would make economic sense to grow grain in Dongting, and sugar cane in Guangdong and Fujian⁴⁶².

But with the price of grain remaining under state control and kept low relative to the market prices of other agricultural produce, there was a strong incentive for Dongting to remain a sugar cane centre. Indeed, it may be more rational from a local viewpoint for Dongting County to produce neither grain or sugar cane, but instead to grow tobacco and construct local cigarette factories, which could then generate even higher local income - a policy pursued in many areas due to the quick and relatively high returns on profits.

Faced with a need to meet central targets for revenue collection, local authorities moved to create and defend local producers of high profit yielding produce. This local intervention took two forms. Firstly, in some provinces locally produced (or controlled) raw materials were earmarked for local enterprises to ensure production. Secondly, internal trade barriers were also built to protect local industries, such as imposing "import" tariffs on goods from other provinces⁴⁶³. In combination, this allowed local produce to find a market irrespective of the comparative efficiency of production or the quality of produce of competitors. Local profits were maintained and income for the local authority while high quality and more efficient producers were forced to cut back on production either because of shortages of raw materials, artificially shrinking markets, or both⁴⁶⁴.

In addition, some provinces erected more subtle forms of barriers to obstruct trade. As mentioned above, the service industries required to support trade were weak and underdeveloped which mean that face-to-face meetings were all but a prerequisite to trade. This entailed establishing provincial representative offices across the country to act as provincial trading agencies. As the host local government controlled both the allocation and rent of such representative offices, some interior provinces increased rents to prohibitive levels in an attempt to stop richer provinces getting hold of their treasures.

Although this type of action is irrational given the goals and priorities of the state in the 1980s, it was rational from a local viewpoint given the environment they had to operate in. Returning to the World Bank analysis cited at the start of this section, the root cause of autarkic tendencies was the failure to establish effective mechanisms to regulate economic activity to replace newly defunct state administrative mechanisms:

*"Decentralisation encouraged the provinces to aggressively pursue their own industrial ambitions and exploit fully the financial avenues provided by the reform of banking. Without a national industrial strategy to coordinate provincial objectives and spending, or price reform to signal which investments were socially beneficial, this has resulted in much duplication and waste of capital."*⁴⁶⁵

Thus, one of the reasons why the regional disparities of income at the start of the 1980s was not fundamentally altered was because natural economic forces were not allowed to fully impact on the Chinese spatial economy. For Li Xianguo, a second

reason was a lack of a clear strategy for regional development in each area⁴⁶⁶. The regional implications of the Seventh FYP was more a statement of aims than a systematic programme for reform. Specific plans for the development of the various regions (either using regions to describe a province or a larger group of provinces) were not developed. As a result, once it became clear that the strategy followed in Guangdong and the coast was generating growth, then other areas simply followed suit as closely as possible.

According to Ji Chongwei, news of any successful project was soon followed by its emulation across the country:

*"Whenever one chunk [of the country] starts to produce something, every other chunk wants to get into the act, fearing it will be left out. Latex medical gloves, for example, have recently been selling well on the American market, so in a flash 200 plus production lines went up in China."*⁴⁶⁷

To make matters worse, 10 projects were under construction in America which would provide all America's domestic needs on completion. So even those Chinese manufacturers that had a foothold in the American market faced the contraction (and ultimately the removal) of its demand. In a desperate bid to make money in the short run, long term sustainable development was threatened:

*"The poorer we are, it seems the more we squander investment"*⁴⁶⁸

For Li Xianguo, such a duplication of regional economic activity:

*"has destroyed regional specialisation and division of labour."*⁴⁶⁹

Short term gains may have been made in the short run, but at the expense of placing further strains on already stretched energy, raw material and transport sectors. As such:

*"The result of indiscriminate copying is actually a non-development policy"*⁴⁷⁰.

5.8 Polarisation: Real or Imagined?

The coastal region in general, and the area from Beijing in the north to Guangdong in the south in particular (which I have termed Bei-Guang in table 5.6 below), was the motor of the Chinese economy in the 1980s. As table 5.6 shows, it was the most energy efficient region, had the most productive workers, and generated the highest profit and tax rate of all the regions.

Table 5.6

Productivity, Profitability and Energy Consumption by Region, 1989

<u>Area/Region</u>	<u>Unit of Comparison</u>		
	Labour ^a Productivity (RMB/pc)	Profit and ^b Tax Rate (%)	Energy ^c Consumption (tons/coal)
National	18,916	19.41	4.82
Eastern/Coastal	21,022	20.40	4.45
Bei-Guang	25,096	22.61	3.19
Central	15,192	18.40	6.52
Western	15,392	15.24	7.82
Interior	15,292	16.82	7.17

Key

^a = Labour productivity of all industrial workers

^b = Profit and tax rate on industrial capital

^c = Energy consumption per 10,000 tons of industrial
output value in tons of standard coal

Eastern/Coastal = Heilongjiang, Jilin, Liaoning, Beijing, Tianjin, Hebei, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong, Hainan and Guangxi.

Bei-Guang = Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Shandong, Fujian and Guangdong.

Central = Inner Mongolia, Shanxi, Henan, Anhui, Hubei, Hunan, and Jiangxi.

Western = Xinjiang, Tibet, Qinghai, Gansu, Ningxia, Shaanxi, Sichuan, Guizhou and Yunnan.

Interior = combined central and western regions

source: State Statistical Bureau (1990b) "1989 Nian Fendiqu Zhongyao Jingji Zhibiao Tongji Ziliao (Statistical Data On Important Regional Economic Indices for 1989)" in *Renmin Ribao* 6 Feb.

By all objective economic criteria, the emphasis on the coast in the 1980s should have been greater than actually occurred. Notwithstanding the polarisation of wealth that may have occurred in the short-to-medium term, concentrating more investment on the coast would have had a beneficial impact on national development. But this potential extra growth was sacrificed - partly because of central concerns regarding the impact of polarisation, and partly because of the irrationalities of the economic system.

Despite the official adoption of an uneven development strategy, a lack of supporting reforms in other spheres obstructed the full attainment of regional development goals. Without macroeconomic mechanisms to dictate a rational spatial wave of activity, without an adequately developed infrastructure to cope with inter-regional trade, with strong provincial authorities competing to increase local revenue, and with a national government unwilling to accept perceived harmful impacts of the market, the fruits of regional specialisation were not fully felt. With the task of opening up to the outside world well underway, Chinese economists were still faced the task of fully opening up the internal market at the end of the 1980s⁴⁷¹.

But although inter-regional variations in wealth did not grow in the 1980s, fears of the polarisation of wealth did affect the nature of centre-province (and province-province) relations. There are three key areas that must be considered here. Firstly, the social-psychological approach to political disaffection suggests that when people consider their situation, they do not always use the "correct" point of comparison. In this case, it is likely that wealth will be judged in terms of the current situation rather than in its historical context. Concepts of deprivation are often built around notions rather than realities. Rather than applauding the growth in Gansu's economic base in the 1980s, provincial governor Ji Zhijie began an interview with a Hong Kong magazine by bemoaning the fact that the province had slipped from 21st to 24th in the league table of Chinese provinces⁴⁷². It is also notable that Ji spent a considerable portion of the interview speculating about potential future polarisation, claiming that regional disparities in income were "*inevitable*" and that Gansu would be overtaken by other areas "*in short order*"⁴⁷³. Thus, we can see that notions of relative deprivation can also be based on unsubstantiated conjecture.

The emergence of feelings of relative deprivation was one of the problems of success. The remarkable growth achieved in the early 1980s generated a spiral of expectations that proved impossible to satisfy. In attempting to satisfy these needs (and also as a consequence of the associated excess social demand) the long term efficiency of the economy was jeopardised:

*"Since the masses expectations of increased income are too high, even if increases in wages and material benefits surpass the capability of state finances to withstand the strain, and people's incomes are increased considerably generally, they will hardly feel satisfied."*⁴⁷⁴

Whereas such sentiments are more likely to generate sectoral rather than geographical notions of deprivation, other factors contributed to popular fears of polarisation. The rapid success of Guangdong was much vaunted by the national media. Such an approach was undertaken to arouse the enthusiasm of the masses to emulate Guangdong's success, but may have rather led to dissatisfaction. The special rights granted to Guangdong to aid its development coupled with its beneficial geographical location meant that replicating the performance was not an option.

Secondly, as noted in both the government intervention and provincial autarky explanations of the regional wave of growth, the fear of polarisation had a crucial impact on decision making in the 1980s. Fears of polarisation sponsored actions to prevent it from both central and provincial leaders. Provincial authorities built trade barriers and guaranteed raw materials supplies to protect local producers from competition. Central leaders provided subsidies and investments to ensure that regions (as well as sectoral groups) maintained acceptable levels of growth. This was deemed necessary both to assuage the fears of the interior provinces, and also to minimise sources of opposition to the reforms from more conservative central leaders.

Thirdly, the provincial and regional income distributions noted above do not tell the full story regarding polarisation. Although the figures tell us how much wealth was produced in a province, it does not tell us how much of the income remained in the province. For example, much of the income earned from the sale of Shanxi coal (and in particular, its foreign currency earnings) accrues to the central authorities, and not through taxing profits, to the provincial government. In provinces with a larger concentration of locally owned light industrial capacity, a much bigger proportion of locally generated income accrues, in the first instance at least, to the provincial government.

There were also quite wide provincial variations in what a province was allowed to do with local income once collected. Although Shanghai was clearly China's wealthiest province in the 1980s, it remitted a large proportion of this to the central government, which could then utilise it to provide grants, subsidies and investments to other provinces. In contrast, Guangdong and Fujian had much greater financial independence, as they were permitted to retain a larger proportion of locally generated income for local disposal. As we shall see in chapter six, this institutionalised disparity in treatment led Shanghai to lobby the centre to be put on the same footing as Guangdong. In short, when assessing the question of polarisation, it is not just the

amount of income generated within a province that is important, but what each province is permitted to do with that income.

The important question of provincial variations in revenue sharing arrangements will be dealt with in detail in chapter six. What is important here is to recognise that by the end of the decade, Guangdong province's relative wealth was considerably higher than a simple province-by-province comparison of per capita GNP indicates. As noted in chapter three, Hunan officials claimed that their province was being turned into an economic colony of Guangdong⁴⁷⁵. In a similar vein, Guangdong came into conflict with Hubei over grain transfers, and with Sichuan over silk cocoon purchases. In both cases, Guangdong tried to utilise available finances to purchase produce that it could not obtain through the state sector. But as we saw in chapter three, action that would be normal in a fully market system caused tension in the Chinese context, with Guangdong arousing the criticisms of neighbouring provinces and central government alike.

By all economic criteria Shanghai and the Pudong Region represents the economic core of China. However, due to the fiscal and financial constraints placed on Shanghai that will be discussed in chapter six, it was not able to fully exploit or utilise its core position at all times. Partly as a result, Guangdong's relative standing as an economic core was artificially enhanced. It also displayed a desire to exert its influence that was not seen from Shanghai.

Given the financial clout that Guangdong came to possess, it is not surprising that it attempted to expand both its productive capacity and its food supplies by free market (and even black market sources). Given the pattern of development in the 1980s and the fears of polarisation that do exist, neither is it surprising that these moves by Guangdong met with resistance. Despite these conflicts, developments in the 1980s mean that perspectives of Chinese regional politics are slowly but steadily changing. Although it is still far too early to abandon the relationship between central and provincial political authorities, it is essential to also consider the emerging and increasingly important relationship between economic cores and their peripheries.

5.9 Summary

As with all the changes in regional development strategy in the PRC, policy makers in the 1980s were faced with a complex and at times contradictory set of criteria.

Although the national defence considerations that played such an important role in the 1950s, 60s and 70s were removed, decision makers were still faced with squaring the circle of achieving high but stable growth in a relatively equable manner.

The strategy that was adopted had three main thrusts. Firstly, there was an emphasis on city centred development to provide growth poles of the socialist economy across the country. These cities would facilitate the transition of technology and expertise into the interior, as well as becoming the focus for local economic activity. Secondly, a policy of exploiting regional comparative advantage through enhanced inter-regional trade was promoted. Thirdly, and related to point two, the eastern coastal region would be the focus for development in the short run, with attention turning to the central and western regions once development in the east had been established.

On the face of it, the strategy in the 1980s was the antithesis of the regional self-sufficiency policy of the Cultural Revolution era. "*Absolute equalitarianism*" and regional self-sufficiency were abandoned, and through the development of Special Economic Zones in Guangdong and Fujian, integration into the world economy was actively pursued. Clearly, the new strategy did mark an important sea-change in the nature and orientation of both the PRC's domestic economy and its relations with the outside world. In particular, the CCP showed itself willing to accept a substantial loss of control over economic affairs in return for the expected increase in national wealth. Nevertheless, the juxtaposition of the Cultural Revolution strategy with the formula for post-Mao development was not as clear cut as at first appears.

The regional self-sufficiency policy was not as egalitarian as post-Mao Chinese social scientists suggest, and as has been shown above, the regional differentials in income that existed at the end of the 1970s remained more or less constant during the 1980s. Furthermore, the CCP's commitment to generating growth was not without limits. Maintaining the position of geographical and sectoral groups (or at least not harming them too strongly) remained an important consideration, and a substantial if unquantifiable degree of growth in the coastal region was subsequently foregone.

But perhaps the most striking similarity with the Cultural Revolution period was the provincial duplication of productive capacity - a condition that the post-Mao reforms

were intended to resolve. This pattern of growth was partly a result of intentional central government policy. Existing structures of production in large state-owned complexes were kept in place to protect employment and urban standards of living while new patterns of production were being created elsewhere.

But a large part of this process was due to the interaction between the new approach to regional development and other economic reforms. The new strategy was dependent on increasing trade between provinces. In order to facilitate this, the central authorities implemented a number of structural reforms. Perhaps most concretely, supra-provincial economic regions were established to encourage and support cooperation and economic interaction between different administrative areas.

But increased trade between provinces was itself dependent on other factors. Although the inadequate development of the national infrastructure provided a significant obstacle to trade, the lack of coordination in economic reforms was at the root of the problem. Important economic changes gave provinces the ability to act increasingly independently of Beijing. From a local viewpoint, expanding local productive forces irrespective of national requirements and notions of comparative advantage was entirely rational.

The only partial nature of reform created a situation where what was rational from local economic objectives was out of kilter with the end of creating rational national economic activity. A key factor here was the emergence of divergent pricing and allocation mechanisms for different goods. But perhaps of more importance was the combination of the devolution of power to provincial (and lower level) authorities with new taxation and revenue sharing arrangements. As such, it is important to assess the fiscal and financial dimension of centre-province relations in more detail.

CHAPTER SIX: THE FINANCIAL DIMENSION OF CENTRE-PROVINCE RELATIONS

6.1 Introduction

The extent to which localities have power to dispose of income collected in their area is a crucial determinant of centre-province relations. Indeed, for some writers, China's financial system is the key to understanding the relationship between the centre and the provinces. However, even those writers that agree that the financial system is of crucial importance disagree over whether the system is a source of central or provincial control.

In this chapter, I will analyse the academic debate over centre-province relations and the financial system. As with the analysis of models of centre-province relations in the introduction, I will demonstrate that the financial system does not treat all provinces equally. A trend that was already evident in the pre-reform era was intensified by changes in centre-province revenue sharing arrangements in the 1980s.

The 1980s saw the implementation of an uneven centre-province revenue sharing system. In an attempt to unleash the economic potential of provinces in the south and east, special arrangements were made for Fujian and Guangdong that gave them a greater degree of financial independence than the rest of China's provinces. At the other extreme, the finances of the three municipalities of Beijing, Tianjin and Shanghai remained under much closer central scrutiny and control.

The introduction of the new revenue sharing arrangements were not without their problems. Although a loss of central revenues relative to the provinces was inevitable, as Wong notes:

*"the magnitude and rapidity of this decline appear to have caught officials in China by surprise."*⁴⁷⁶

This problem of diminishing central resources was intensified by increased expenditure commitments. As shall be demonstrated below, although the heaviest burdens fell on the centre, provincial authorities also faced increases in spending in health, education and urban food subsidies.

Faced with these concerns, both central and provincial authorities responded in ways that distorted the intended impact of both the specific revenue sharing reforms, and

reforms in other areas. For example, despite promising the provinces that revenue sharing arrangements would not be re-negotiated annually, the centre broke this promise on a number of occasions⁴⁷⁷. This undermined the intention of giving provinces more certainty in their financial dealings with the centre that was designed to facilitate long term planning. The centre also "borrowed" provincial resources by forcing the provinces to invest unspent capital in government bonds. Again, this made long term planning difficult, as capital set aside for investment in future years might be appropriated by the centre⁴⁷⁸.

The provinces responded by expanding their extra-budgetary revenue base. By doing so, they impeded the reform process in two ways. Firstly, rather than enterprise managers being freed from administrative controls as was intended by the reforms, many merely swapped a master in the planning administrative machinery for a provincial master. Secondly, as noted in chapter five, the drive to increase local financial resources impeded the move towards regional specialisation and comparative advantage.

In short, a lack of coordination between reforms in different economic spheres, and short term reactions to economic problems obstructed the emergence of a rational economic system in the 1980s. Furthermore, these tendencies played into the hands of the richer provinces of the south and south east, and enhanced their position relative to both the central authorities, and to the provinces of the interior and west.

6.2 Revenue Sharing

The central authorities are heavily reliant on funds remitted to them by local authorities. To by-pass the localities and try to collect all finances centrally would place an impossible burden on the central administrative machinery. But it is neither possible nor wise to place an even burden of remittances on all provinces. Some provinces cannot raise sufficient capital to meet the needs of their own area, let alone to remit funds to the central government. Other areas generate sufficient surpluses to remit massive sums to the centre - most notably Shanghai, which has been the single biggest source of provincial remittances to the central authorities since 1949.

The result is a system where the richer, more developed provinces effectively subsidise the more backward areas. Surpluses from the developed provinces are not only utilised for central government expenditure, but are also used to pay subsidies to the poorer deficit provinces. For scholars such as Lardy and Tong⁴⁷⁹, this indicates that before

1976, egalitarian motives were at the fore in elite considerations, and that central control rather than provincial autonomy were the order of the day.

However, as noted in chapter five, the situation is not as clear cut as Tong suggests. Central control over the pricing and allocation of key goods ensured a cheap supply of raw and semi-finished materials for production centres on the coast. As such, the apparent flow of finances from east to west was at least in part offset by the flow of cheap industrial supplies from west to east.

At the risk of over-simplification, the revenue sharing system works by the central government setting expenditure and income targets for the province. If there is a shortfall between revenue collected and the expenditure target, this is covered by central grants. If there is a surplus, then the relationship is more complex. The excess is shared by the provincial and central authorities at rates which vary from province to province, and it is in these variations that the issue of divergent degrees of provincial financial autonomy in the 1980s lies.

According to Tong, the exact nature of the centre-province financial relationship depends on two factors; whether central targets are firmly binding, and how often the relationship is readjusted⁴⁸⁰. Taking the binding nature of central targets first, at one extreme, the centre can set detailed targets for spending on specific areas (ie: spend x RMB on housing, x RMB on transport, x RMB on capital construction and so on). At the other extreme, the centre can simply set an overall spending target, and allow each province discretion on how to allocate finances to each sector. This issue is closely related to the notions of decentralisation addressed in chapter four.

With regard to the time scale of spending adjustments, the more often the relationship is re-assessed, the less leeway the province has for manoeuvre. With an annual readjustment, a province will be unable to make long term plans with any certainty. Annual readjustments tend to encourage year end spending sprees, since if a province overspends its mandatory target, then it can claim that its target was set too low, and should be increased in the next plan. Longer term adjustments allow greater flexibility in planning - although perhaps the clearest lesson of Chinese politics since 1949 is that you cannot assume that any policy line will run its course without interruption.

According to Tong:

*"For much of the Maoist period, Beijing chose a more centralized financial system with stringent controls of local revenue and expenditure through centrally prescribed mandatory targets, annual adjustments of revenue-sharing rates, and limited local planning and budgetary authority."*⁴⁸¹

This system did have its benefits. It provided the wherewithal (not always taken) to spread growth more evenly throughout China and to keep regional disparities in wealth relatively low. Perhaps its greatest success from a socialist stand-point was the very low level of regional disparities in the provision of health, welfare and social services. A 1990 World Bank report suggested that this social egalitarianism was one of the main achievements of Chinese development before 1976⁴⁸². Furthermore, it was a strategy that helped to keep inflation rates low. Given the history of the impact of inflation on the legitimacy of central governments in China in the twentieth century, this was an important consideration for the CCP elites.

Despite these gains, Tong notes that there were seven major defects of the system. First, as noted above, the system encouraged year end spending sprees to act as a lever in negotiations for the next round, and secondly, provincial governments were prevented from implementing long term planning. Thirdly, there was little incentive to the provinces for local fiscal responsibility. Why should provinces strive to ensure that all taxes were collected when this would not benefit the area? On the contrary, it would actually diminish the province's wealth. In surplus provinces, they would only have to turn the taxes over to the centre; in deficit provinces, it would merely reduce the size of the grant that they were allocated by the centre. This consideration led to the fourth defect, namely lax tax collection. It also placed a premium on hiding the true wealth of the province wherever possible.

Fifthly, no account was taken of special local needs or regional differences. Sixthly, there was no power at all for sub-provincial level units. Seventhly, it created tension between the haves and the have-nots. The wealth of the developed provinces subsidised the development of the poorer provinces after 1949. For example, Shanghai provided vast amounts of finances, skilled manpower, and even (during the First FYP) entire factories, to the less developed interior. Between mid-June and September 1976, 16 articles were published in *Guangming Ribao* opposing what the Chinese call "vertical dictatorship" (*tiaotiao zhuanzheng*). All of the authors came from provinces that remitted more than 35% of locally collected revenues to central government⁴⁸³.

(a) A Tool of Central Control?

On the face of it, then, the system of remitting locally collected revenues to the central authority appears to have both strengthened the centre's control over the provinces, and also permitted the centre to pursue egalitarian policies by redistributing wealth to less developed areas. This argument is the key to Lardy's interpretation of centre-province relations in China⁴⁸⁴. The central government's continued control over fiscal resources means that despite the decentralisation of power to the provinces from 1957 onwards, the central government retains overall control over the economic system. Moreover, throughout the period of decentralised control, the centre continued to use funds generated from the rich provinces to subsidise health, education and welfare (HEW) spending in the less well off provinces. Hence, despite appearances to the contrary, the decentralisation measures did not increase the powers of local authorities to dispose of locally collected revenue as they saw fit:

*"In practice, provinces did not effectively utilize this new freedom. Central government departments continued to send down detailed expenditure plans. Although these were nominally provided for 'reference'.... provincial governments continued to regard them as obligatory."*⁴⁸⁵

In Lardy's argument, the crucial point to note is that there is no correlation between collecting and controlling finances. The centre retained control over the economic system by its control of the fiscal system:

*"By controlling sharing rates the Centre continually allowed provinces to retain only enough revenue to finance approved expenditures, thus assuring that no link would be established between total revenue and expenditures."*⁴⁸⁶

(b) An Indication of Provincial Autonomy?

This hypothesis has been challenged by Donnithorne⁴⁸⁷. She suggested that there are flaws in Lardy's argument due to his definition of HEW spending. She asserts that HEW figures were used by the central authorities to disguise the extent of its spending on military affairs and research. In particular, funding for China's nuclear programme was counted as education research. As the nuclear programme was centred in low population density areas such as Qinghai and Xinjiang, this accounting procedure distorted the figures.

Furthermore, Donnithorne claims that HEW is a bad indicator of egalitarian policies both for what it leaves out as well as what it includes:

*"In China's industrial centres a large part of the provision of social services of various kinds has been undertaken by enterprises and trade unions using their own funds and by street associations using collective resources."*⁴⁸⁸

As such spending is not counted in HEW expenditure, it disguises the vast advantages of richer areas in providing basic local services for its population.

More importantly, Donnithorne argues contra-Lardy that there is a relationship between collecting and controlling financial resources:

*"after the economic decentralization, the basic accounts, from which are calculated the sums to be transferred to the Centre, have been kept by enterprises subject to local control. The wealthier areas, with the cleverest and most experienced accounting and administrative personnel in the country, could make full use of their position of vantage."*⁴⁸⁹

Perhaps Donnithorne's claims that the developed areas have the best and most able administrative personnel is something of a red herring. The Ministry of Finance only directly controls the General Tax Administration at the central level. Tax collectors in the provinces are directly responsible to the provincial government⁴⁹⁰. Under this system, it perhaps does not take the brightest of minds to devise ways of hiding the size of a province's financial resources. Where Shanghai stands out is the sheer size of its economy, and the latitude that presents for creative accountants.

In general, then, I agree with the basic substance of Donnithorne's arguments, although not necessarily with all her assertions. Given the nature of the revenue sharing readjustments, it would appear to create a situation where finding ways to "buck the system" became an important consideration for local leaders. But does this indicate that power lies in the hands of provincial leaders?

Rather than indicating that provincial leaders were involved in plots to distort returns to Beijing, it is more likely to indicate that local planning and administrative agencies under the provincial leader were involved in the deception. They were less constrained by the impulses and imperatives of adhering to central direction than their provincial

overlords. This does not mean that a number of provincial leaders may not have been willing accomplices in this procedure. Furthermore, given the lack of official power presented to sub-provincial level units, it is likely that this process did not stop at the provincial level.

That local authorities can and did disguise information and data being presented to higher authorities is easily proved. The great famine that followed the Great Leap was in part at least caused by miscalculations of the amount of grain being produced in the country. Authorities at various levels were falsifying their figures to give an impression of the success of the communisation campaign in their area⁴⁹¹. Given the size of China and the number of basic level production units that contribute to national figures, it is all but impossible for the centre to keep tabs on the true situation at grass roots levels. As we saw in chapter three, work teams and investigation units can be dispatched to investigate the accounting procedure. But such supervision is an emergency measure, and these central watch-dogs cannot be sent to all levels of the political-administrative hierarchy at all times. Even if they ensure that the provincial level agencies are not distorting the figures, there is little they can do to check the situation at sub-provincial levels.

Lardy placed an emphasis on the vast amounts of income transferred out of Shanghai to central coffers as an example of the strength of central control. He calculated that during the First FYP, one fifth of total central government expenditure came from revenues generated in Shanghai. By 1958, Shanghai was financing a third of central government outlays as well as meeting its own expenditure needs⁴⁹². Donnithorne counters by claiming that the growth and industrial diversification of Shanghai demonstrates that:

*"it has nevertheless managed, whether licitly or otherwise, to retain much more than it had before"*⁴⁹³

I would suggest that the unique importance of Shanghai for generating national finances makes it a bad case study to prove a point. With the centre so dependent on Shanghai, it was inevitably the subject of special attention from the central authorities. This is reflected by the special revenue sharing arrangements introduced for Shanghai and the other two municipalities in the 1980s. Even if Lardy was correct, and Donnithorne's counter arguments are the more convincing, this does not mean that in other less crucial localities, and even in the less developed areas striving to maximise

the size of their central government grant, local "creative accountancy" did not take place.

Lardy defended his hypothesis in a reply to Donnithorne's critique of his earlier work, claiming that:

*"There is little doubt that a central goal of the Chinese Communist leadership after 1949 was the diminution of the substantial inherited inter-regional economic inequalities."*⁴⁹⁴

However, this assertion needs qualifying. As argued in chapter five, the extent of investment in the interior that was utilised for Third Front industrialisation is now known to have accounted for a considerable proportion of total investment. Therefore, Lardy's assertion needs qualifying in the light of new information that is now available. While it is no doubt true that the centre did take the diminishing of inter-regional inequality into account, it was not as central as he suggests.

My own interpretation of the issue is that the system of revenue sharing means that in fiscal relations, no single and unambiguous centre province relationship can be identified. The centre and individual provinces entered into a number of negotiations on an annual basis over revenue sharing arrangements. This created a situation of both uncertainty and waste. If a locality wanted to maintain its share of revenue, or increase its allotment, then it was not wise to under-spend on the current fiscal arrangement. Thus, one of the features of the Chinese economic system has been bargaining. The Chinese system is theoretically built around five year cycles. Not only Five Year economic plans, but the NPC and the CC are also meant to work on five year cycles. On top of this, the uncertainty of annual plans within the Five Year Plan, and yearly readjustments of expenditure targets place a primacy on bargaining, and undermines the ability of both central and local authorities to plan with any certainty. This drawback has been one of the reasons why the CCP brought in new revenue sharing plans in the 1980s. These new arrangements demonstrate the uneven nature of centre-province relations - all provinces were not given the same relationship with the centre. They also show the way in which experimentation in selected provinces is used as a platform for defining national policy, and the reactive nature of policy making in post-Mao China.

6.3 Post-Mao Fiscal Reforms

(a) Building a New Revenue Sharing System

The CCP has experimented almost continually with the best way of organising space since 1949. It has changed and re-changed the level of sub-national administration. It has centralised, decentralised, re-centralised and re-decentralised. It is no surprise, therefore, that it has also experimented with the fiscal relationship between centre and province. According to the Sichuan Provincial Bureau of Finance, there were eight about turns in policy between 1949 and 1980⁴⁹⁵.

Reforms in the 1980s were aimed at overcoming the defects identified above by unleashing the enthusiasm of provinces in fiscal policy. Unfortunately, without supporting reforms in other areas, the emergence of dysfunctional consequences of fiscal reform was all but inevitable. It appears that in its hurry to find a strategy that would maximise economic development, the central authorities set in motion a chain of events that strengthened the financial autonomy of some provinces and undermined its own ability to exercise control of the national economy.

Moreover, quite straightforward mistakes were made in the formulation of centre-province fiscal policy. Most clearly, the system was not built to cope with high levels of inflation. After decades of price stability, the partial introduction of market mechanisms exacerbated inflationary pressures in an economy where total demand outstripped the ability of the economy to meet those demands. This not only increased the revenue base of the localities above the figure calculated by the centre, but at the same time increased the financial burdens of the centre. The lack of an indexing mechanism in centre-province fiscal relations proved to be a very costly error for the central authorities.

(i) The Jiangsu System

The origins of the post-Mao experiments in new budgetary arrangements can be found in the new arrangements introduced for Jiangsu province in 1976. As with the introduction of the rural responsibility system, provincial testing grounds provided important and salient lessons for policy makers. The Jiangsu arrangement had three new features. Firstly, the province itself decided the balance between income and expenditure. Secondly, the centre fixed an income target that was stepped annually. If a province's revenues exceeded the centre's targets, then it was permitted to retain the surplus. Thirdly, annual readjustments were replaced by a three yearly cycle of negotiations⁴⁹⁶. The rationale behind these changes was to overcome the various

inadequacies identified in prior arrangements. The new system was designed to encourage the vigorous and comprehensive collection of taxes, foster initiative and flexibility in the provinces, and ease some of the problems of long term planning and year end spending sprees.

The Jiangsu experiment was not the only attempt to define a new fiscal relationship. In Sichuan a slightly different method was employed. Here different categories of income were subject to different sharing rates, and a five year cycle was used instead of the three year cycle in the Fujian model. It was this "Sichuan model" that became the basis for national strategy in February 1980⁴⁹⁷.

(ii) Revenue Sharing and Fiscal Reform

But what happened next indicates the almost haphazard uncoordinated nature of the Chinese reform process in the 1980s. As Ferdinand notes:

*"the financial relations between the centre and the provinces were not properly coordinated with other reforms in the economic management system."*⁴⁹⁸

Centre-province fiscal relations were not kept in step with reforms aimed at increasing the scope of managerial control in enterprises. Instead of all remittances going to the provincial authorities, a new system was brought in imposing a tax on profits. As a result, many provinces faced a decrease in revenue, but their income collection targets were not changed accordingly⁴⁹⁹.

Faced with a declining income base, but a revenue collection rate that was set to rise annually, provinces were forced to make short term adjustments to their economic structure. Many chose to build factories producing consumer goods with high prices that would guarantee a fast return on investment. This created a glut of low technology products that generated relatively quick returns on investment (ie: electric fans). With a surplus of production on a national scale, provincial protectionism was introduced to keep prices high and guarantee the returns to the province needed to meet the revenue collection target.

Provincial economic relations and the fiscal revenue base are each determined by the complex interaction of a number of factors: the state of the national economy as a whole; the level of economic development within the province; developments in transportation and the infrastructure; the extent of decentralised decision making powers; the level to which these powers have been devolved (ie: to enterprises or not); regional development strategy; pricing and marketing mechanisms; fluctuations in

world prices and external economies; and in a country still highly rural centred, the weather and natural calamities.

Centre-province revenue sharing arrangements should constitute the end product of calculations that take all these factors into consideration. Indeed, to retain any semblance of economic order, policies in all these spheres should be carefully coordinated and planned. Yet as argued throughout this thesis, the fact that such coordination and planning did not taken place in the PRC is the main reason why the reforms evolved in the way that they did in the 1980s. There was a lack of cohesion and agreement over the way forward (even after the elimination of the Maoist/Cultural Revolution left) which was reflected by zigzags in policy implementation, and crucially, in the reactive nature of the reform process.

As a result of the problems facing provinces in meeting their revenue targets after the introduction of taxes on profits, most provinces turned to the "Jiangsu model" in 1982. But a second feature of the revenue sharing policy in the 1980s has been the different strategies adopted for different provinces.

There are five broad groups of different centre-province fiscal arrangements. In addition to the system developed and pursued in Jiangsu, these are: the "Majority System"; the "Subsidies System"; the "Municipal System"; and the "Guangdong and Fujian System". Although there are differences in the specifics of the relationship in each province, Donnithorne, Tong and Ferdinand⁵⁰⁰ all use the same groupings to delineate between the various systems, and they represent the best break down of the kinds of relationships currently in use.

(iii) The Majority System

This system is as close to being a "normal" system as can be identified in post-Mao China. With the exception of industrial and commercial taxes, the proceeds of taxes are shared between the centre and the province where the tax is collected. This sharing rate differs from province to province depending on the size of the revenues collected, and the province's expenditure needs. For example, in 1980, Shaanxi retained 88% of revenues, but Shandong retained only 10%⁵⁰¹. In addition, special central grants are awarded for scientific and technological research, innovation and modernisation, relief in the case of natural disasters, and for modernising underdeveloped areas within the province.

The majority system is based on a fixed rate for 5 years, thus allowing the province a degree of flexibility in long term planning. However, as noted above, changes and reforms in other sectors of the economy have undermined this flexibility. Forced to respond to almost continual changes in their economic system, short term considerations remain crucial to planners in provincial and lower level units. Provinces are further allowed to arrange the structure of local spending and to negotiate their own arrangements with sub-provincial level units. As we have seen, this created an incentive for provinces to promote light industrial development and to keep local prices high in order to generate high profits. As a result, capital construction investment soared for much of the 1980s, with duplication of projects competing for the same raw material inputs and markets severely distorting national development and wasting scarce investment capital⁵⁰².

(iv) The Subsidies System

In the ethnic minority areas of the south west and north west, the level of economic development is not sufficient to generate enough profits to meet local expenditure needs. Yunnan, Guizhou, Guangxi, Inner Mongolia, Xinjiang, Qinghai and Tibet are all net recipients of central government grants. This is an arrangement that reflects their levels of underdevelopment, concerns over national minority relations and national cohesion, national security considerations, and the fact that they have not been targeted as growth areas under the regional development policy outlined in the Seventh FYP.

If the province exceeds its revenue collection target, it is allowed to keep the surplus. Furthermore, the level of the central government grant is set to increase by a certain percentage over a five year fixed period. In addition, a sizeable proportion of spending in these areas is national defence related. As these are crucial to the nation as a whole, and do not directly benefit the locality, these expenditures are met by the central government.

(v) The Municipal System

The three cities with provincial level status, Shanghai, Beijing and Tianjin, are crucial elements in central government funding considerations. Between them, they provide around a quarter of all central government finance⁵⁰³. As a result, the centre pays special attention to fiscal arrangements with the municipalities. In theory, the centre is committed to eventually putting the relationship on a footing with the majority system. But as Donnithorne notes:

"their contribution to the central treasury is far

larger than it would be under the new [majority] system and for the time being, at least, the centre cannot afford to forego the extra income."⁵⁰⁴

Given the financial insecurities of the centre and continued budget deficits throughout the 1980s, it is difficult to foresee a situation where the centre will be in a position to change this special relationship for some time to come.

There are two main features of the municipal system. Firstly, the sharing rate is adjusted annually. This is to ensure that any rapid increases in economic production in the cities is reflected in the remittances to central government coffers. Secondly, according to Ferdinand, whereas provinces in the majority system are allowed to retain any income collected over and above the allocated target, the municipalities are only allowed to retain the set revenue target⁵⁰⁵. The importance of the municipalities, most notably Shanghai, to Beijing cannot be overstated. This is not only reflected in the revenue sharing system, but also in the stability of provincial leadership in the 1980s, and the transfer of leading Shanghai (and to a lesser extent, Tianjin) personnel into central leadership positions.

However, the use of the municipal system to facilitate the transfer of resources from developed to less-developed provinces is not as clear cut as appears at first sight. Revenue collection and fiscal relations cannot be considered in isolation from other policies. The richer provinces may be angered at losing *their* wealth to their poorer counterparts, but this is only half of the story. The wealth of the richer provinces is in part at least built on the raw material resources of provinces from the interior. Under the system of central planning and allocation, prices were set by the state. Raw material inputs, and perhaps most importantly energy inputs, have been kept at artificially low prices by the centre. Furthermore, as Donnithorne notes:

*"While it would seem that these three large cities [Shanghai, Tianjin and Beijing], and particularly Shanghai, are badly treated under the present fiscal scheme, it must be remembered that the large revenues accruing to Shanghai derive in good measure from the high price of textiles in China, a price fixed by the central government."*⁵⁰⁶

In effect, although the fiscal system entails a redistribution of wealth from the rich coastal provinces to the interior, the pricing system entailed a hidden distribution of

wealth from interior raw material producing areas to the manufacturing areas on the coast. Lardy's claims that the PRC's regional policy was highly redistributive must be qualified in this light. As a result, changes in the pricing system have a profound effect both on the revenue base of individual provinces, and also on the relative position of provincial relations with the centre. This is a particularly pertinent factor when price reforms are piecemeal and uneven, as occurred during the 1980s. Although the prices of many finished goods were allowed to be determined by market forces, the price and allocation of many key manufacturing inputs remained under central control.

For manufacturing facilities in the three municipalities, this represented a system whereby raw material resources from the interior subsidised the generation of profits which the centre then tries to keep a tight control over. However, in other provinces, most notably Guangdong and Fujian, fiscal arrangements were not as tightly controlled by the centre, and combined to increase their financial autonomy at the expense of both the centre, and of other provinces in the interior.

(vi) Guangdong and Fujian System

The special systems implemented in Guangdong and Fujian were brought in to allow them to utilise their favourable locational advantages in order to facilitate their rapid economic development. In particular, it was hoped that Guangdong would attract foreign capital and investment into the SEZs, which would ultimately have a knock on impact on national development. The system was based on five yearly adjustments, but rather than setting percentage rates to be shared between centre and province, a fixed actual figure was set. For Guangdong, this entailed a set remittance rate and for Fujian, a fixed central grant. In return, all provincial expenditure (with a few exceptions) would be met by the provincial government. This provided the provincial authorities with a great incentive to maximise the profits of enterprises under their jurisdiction. Their hand was strengthened by special foreign currency retention rights in SEZs, which allowed 80% of foreign currency to be retained by the enterprise (as opposed to 20% elsewhere).

The Guangdong-Fujian system presented the two provinces with a considerable degree of fiscal autonomy. According to Ferdinand:

*"This was the largest degree of financial autonomy which any province in China had enjoyed since 1949."*⁵⁰⁷

When taken in combination with price reforms, regional development strategy and China's opening to western investment in the 1980s, the autonomy of these provinces

was considerably enhanced. Indeed, as we saw in chapter three, Guangdong's financial resources and economic policies in the late 1980s proved a thorn in the side of central attempts to reassert control over the national economy, and the retrenchment policies that followed the September 1988 third plenum of the 13th Central Committee.

(b) Reforming the Shanghai System

The variations in provincial income identified in chapter five goes some way to identifying provincial variations in terms of provincial autonomy. But to fully understand this relationship, it is essential to realise that there are considerable variations in how much of that provincial income remains in the province for local use. At one extreme, Shanghai turned 80% of its revenue over to the centre, whilst at the other, Qinghai received 50% of its provincial expenditure in terms of central grants. In all, revenue was greater than expenditure in 15 provinces, roughly equal in two, and expenditure greater than expenditure in 12⁵⁰⁸.

Although the richer provinces have always subsidised the poorer, changes in the 1980s meant that the burden of subsidies increased on some provinces, notably Shanghai. Whilst Shanghai's financial responsibilities to the state remained largely unaltered by the reforms, other surplus provinces were given special treatment. For example, in 1987, Shanghai's local revenue was RMB 17.291 billion, of which RMB 11.998 billion or 69.4% was remitted to the centre. Similarly, Jiangsu, which has a different revenue sharing system from Shanghai, had a local income of RMB 10.7 billion, of which RMB 6 billion or 56% was remitted to the centre. However, Guangdong, which operates on yet another system, had a local income of RMB 9.4 billion, of which a mere RMB 1.4 billion or 14.9% was remitted to the centre⁵⁰⁹.

It is this divergence in responsibilities that distorted the balance of development in China in favour of the southern coastal provinces of Guangdong and Fujian at the expense of traditional centres of economic power such as Shanghai. It was also the source of considerable disquiet in those coastal areas that perceive their development as being retarded because of national requirements, whilst Guangdong was allowed to go full steam ahead⁵¹⁰. Although the defence of this policy is that Guangdong's growth will eventually aid the development of the nation as a whole, this argument is unlikely to cut any ice in Shanghai. It has been calculated that between 1949 and 1987, Shanghai remitted a total of RMB 400 billion to the central authorities⁵¹¹. The argument is that if Shanghai had been allowed to retain the same proportion of its

income that Guangdong is currently being allowed to retain, then Shanghai would already be a second Hong Kong.

Concern on Shanghai about its role in the new order led to it challenging its financial relationship with the centre. A draft report was submitted to the State Council in January 1987, and after visits by Zhao Ziyang and Yao Yilin to the municipality, new arrangements for Shanghai were finalised in February 1988. Shanghai's 1987 became the base for the next five years, with a flat rate of RMB 1.05 billion to be turned over to the centre during this period. If revenue after 1991 exceeds RMB 16.5 billion, then the excess was to be shared 50-50 by Shanghai and the centre⁵¹².

This change in Shanghai's system is important for a number of reasons. Firstly, as with the other systems which used flat rates of remittances, the continued growth of inflation after 1988 (notwithstanding the short term benefits of the 1988 retrenchment) made financial planning somewhat arbitrary. Raising the RMB 1.05 billion for the centre in 1991 would have been a much easier task than in 1987.

Secondly, as Wang Huning notes, it demonstrates a new provincial confidence in dealing with the centre:

*"[Shanghai's] action in taking the initiative to ask for a new system to be put in practice differed from the old model for reform in which the central government took the initiative in these matters."*⁵¹³

Thirdly, it is likely that the reform of the Shanghai system would create considerable problems in the long run for both the national government and other provinces. Shanghai's gains in terms of financial autonomy will have been somebody else's loss. Either the centre loses more in terms of the financial balance of power between centre and province, or other provinces lose out from the removal of the extra funds from the national budget.

Fourthly, and leading on from the above, it generated a wave of lobbying from other provinces with grievances about current policy. Immediately following Shanghai's successful approach to the centre, Inner Mongolia and Jilin formally asked (without success) to be allowed to move to the Shanghai system. Hunan and Jiangsu officials similarly asked to be granted some of the preferential treatment afforded to Guangdong, and we can only guess at the extent of the informal lobbying that also occurred⁵¹⁴.

The problem here for the centre is satisfying all the provincial demands being placed upon it. It has three choices available here. It can only satisfy these demands by losing more control over both the provinces as a whole and the national economy.

Alternatively, it can pass on the burden to those provinces with least leverage - usually the poorest of the poor. The final solution is to remove all the preferential policies (including the dual track price system) and let everybody play by the same rules. This last answer is the only one that would provide a lasting resolution of the problem, but one that appears to still be some distance away.

6.4 The Expansion of Provincial Revenue

Centre-province fiscal relations cannot be considered in isolation from reforms in other areas. As new reforms were implemented in other areas, the original impact (indeed, rationale) of the fiscal reforms were distorted. Of particular importance were the increased use of market forces as a pricing and allocation mechanism, and the enhanced role of banks in providing investment capital. In addition, the commitment to maintaining grain supplies and urban employment and purchasing power and higher than expected military expenditure combined to place severe strains on the national coffers. As a result, the centre's financial power relative to that of some provinces was much weakened by the end of the 1980s.

As was shown in chapter three, central leaders waged an almost relentless war against the expansion of provincial spending. But at least part of the impulse to generate rapid local industrial growth came from defects in central policy to the provinces. Notably, the reform of the centre-province revenue sharing system was, with the exception of the municipalities, flexibility in medium term planning. But this objective was undermined by changes in the remittance system and price reforms. Faced with the obligation of meeting annual financial obligations to the centre in a rapidly changing economic environment, local short term economic requirements superseded longer term planning and national economic requirements.

Lardy claimed that the Maoist system was egalitarian due to the centre's control of fiscal arrangements that permitted the provinces to fund only those projects deemed essential by the central authorities. As has been shown above, the basic assumptions on which Lardy's hypothesis is built must be qualified. But with the changes in the nature of centre-province fiscal arrangements that took place in the 1980s, this lever of control was further curtailed. With the possible exception of the municipalities, provinces were given greater powers to control the scope of spending and investment

within their own areas. Thus, the interaction of a number of economic reforms meant that some provinces were given the ability and the incentive to maximise local revenues irrespective of the wider impact of their decisions.

(a) Corruption

One consequence of the reform process that the CCP could perhaps not have planned for was the growth of corruption. Although by no means a new phenomenon, economic reforms in the 1980s both opened up new opportunities for corrupt activity, and increased the potential gains to be made. Perhaps the best example was the leadership in the new province of Hainan. Separated from Guangdong province in August 1987, Hainan was formally declared to be a new province the following April. The logic behind the move was to create an economic system on the island built around attracting foreign investment - to build a second Hong Kong. The new provincial authorities were granted special favours to help them attract foreign investors, including special foreign currency retention rights. However, the foreign currency was used to purchase foreign cars and motorcycles, which were then resold on the mainland at inflated prices in RMB. This entrepreneurial spirit was not appreciated in Beijing, and the leadership was removed.

This is perhaps an extreme case of a feature that has come to almost characterise Chinese politics in the 1980s. Although many powers have been decentralised directly to enterprises, cadres still play important "gatekeeper" roles in the economy. With raw material inputs in short supply and still state controlled, many enterprises struggled to secure sufficient resources to ensure production. Furthermore, the production base in the 1980s expanded beyond the capacity of the national infrastructure. As a result, even if sufficient supplies could be procured, enterprises still faced great difficulties in moving finished products to the markets.

Cadres who controlled the allocation of raw materials and transport facilities were therefore "cultivated" by enterprises. At one extreme, this could entail simple payments to the cadres to ensure the allocation of goods and services. It is far from unknown for raw materials and energy designated for large state owned projects within the plan to be diverted at provincial or sub-provincial level to other enterprises. Furthermore, when goods not under state control are in short supply, local authorities frequently intervened to carry out the tasks of rationing and distribution⁵¹⁵.

Another less blatantly corrupt method was for cadres to transfer political power to economic power by entry into the business world. By giving cadres paid positions on

boards of enterprises, the cadres' personal fortunes became linked with the enterprises' fortunes. In some areas, party and state officials actually formed their own companies. In such situations, it was highly likely that personal interests would be placed above national (not to mention legal) objectives for the allocation of goods and services.

(b) Increasing Extra-Budgetary Revenue

The responsibilities (in terms of meeting revenue targets) and powers (in terms of raising and collecting finances) that provincial authorities gained through the new fiscal arrangements meant that provinces promoted light industrial production that generated high profits at a quick rate of return. The need (as opposed to desire) to generate increased local finances was also sparked by increased financial burdens on provincial authorities in the 1980s. Spending on HEW and administration outstripped province's budgetary capacities. Furthermore, the inflationary spiral of 1987-89 resulted in rapid increases in local spending on transporting, storing and processing grain for urban consumption. In addition, Wong notes that an important component in increased provincial expenditure was a commitment to maintaining urban purchasing power by subsidising grain prices. The centre allocates a fixed price subsidy to each province to cover the gap between the price paid to grain producers, and the income received from the sale of grain on the retail market. This central subsidy is based on a fixed calculation of both grain consumption per head, and the number of urban residents. If either the urban population increases, or consumption increases beyond the centre's quota, or both, then the province bears the responsibility for all additional costs⁵¹⁶.

With local governments at all levels facing budgetary deficits, many opted to increase their revenue base from **extra-budgetary** sources. Local surcharges on sales taxes and the creation of internal tariffs not only increased the local revenue base, but also served to protect locally manufactured produce from cheaper "imports" from other provinces. In addition, levying charges on local health facilities and charging fees for locally controlled services provided sources for localities to raise revenues to finance out of plan investments⁵¹⁷.

In 1985, banks were given the power to make loans to local government authorities instead of investment capital being gained in the form of central government grants. The aim was to make the system more rational and market based. However, too many powers were devolved too quickly to people who lacked the correct training and expertise to make sound judgements on the viability of projects. To make matters worse, provincial authorities often applied pressure on provincial bank branches to

extend loans even during periods when the central authorities were urging credit tightening. This feature was a result of the dual control of local level organisations in China. A provincial branch of a bank is vertically responsible to the bank's central offices, and ultimately to the Ministry of Finance. But at the same time, it is also responsible to the provincial finance bureau and the provincial government. The latter has the advantage of hands on contact with the branch, since it is in direct day-to-day contact with bank officials. Furthermore, it possesses considerable power in terms of allocating goods, services and personnel to the banks.

The manner in which powers were devolved to banks in localities increased the potential for localities to gain loans. In order to facilitate the transition from central grants to bank loans, the power of specialised banks⁵¹⁸ in the localities was increased in 1985. In setting the investment quota for the new banks, the centre announced that the 1985 investment quota would depend on the amount of loans extended in 1984. In order to increase their quota, banks had to lend as much during 1984 as possible. The result was a massive expansion in credit, with banks actually asking enterprises and local authorities to accept investment loans⁵¹⁹.

At the same time as banking reforms were being implemented, ceilings in staff wages and bonuses were lifted. Again, the scale of the increase in finances set aside for salaries for 1985 was to be set according to the 1984 wage bill. According to You Ji:

*"Many enterprises, as a matter of urgency,
distributed extra money to the workers."*⁵²⁰

So just at the time that enterprises were searching for ways of expanding their finances, banks were seeking ways to expand their investment loans. The result was a credit boom with capital earmarked for investment often instead funding pay increases and bonuses that did not represent an increase in productivity. This contributed to the inflationary pressures on the economy that centre-province fiscal relations had not anticipated.

The transition from central grants to bank credit to provide investment capital had a dramatic affect on the economic structure. At the start of the reform process in 1978, state planning agencies and financial authorities controlled the provision of 76.6% of internal national investment capital (ie: not including any foreign investment or loans). With the introduction of the banking reforms in 1985, this proportion fell to 33.2% in 1986⁵²¹.

The changeover from an investment policy based on central allocation to one that included a considerable credit proportion has been a difficult process. As the World Bank comments:

"It has taken the People's bank of China nearly four years, since its designation as a central bank in 1984, to gain a measure of control over credit expansion and deflect the demands of local government authorities on its provincial branches. Earlier episodes of credit tightening in 1985, 1986 and 1987 could not be sustained in the face of provincial opposition." [emphasis added]⁵²²

(c) Direct Foreign Investment and Loans

Another key area of funding for provincial authorities that expanded in the 1980s was direct foreign investment and loans. With the opening of China to the west, the ability of enterprises and local authorities to look overseas for funding exploded. For example, in the initial stage of reform from 1979 to 1984, foreign capital inflow into China increased from around zero to US\$47 billion⁵²³. For large projects, such as the Antaibo (Pingshuo) coal mine in Shanxi, the centre retained control over foreign investment and loans (in this case the short lived joint venture with Occidental). But for smaller projects, provincial authorities and enterprises were free to go overseas and find investors and partners.

An important element of this change is that the benefits of opening to the west were not equally felt across the country. The initial phase of opening up to 1982 was centred on the four SEZs in Fujian and Guangdong. The subsequent extension of the open policy between 1983-1985 was also centred on the east, with the opening up of fourteen coastal cities and three deltas. These freedoms were subsequently extended to the rest of the country, but even at the end of the 1980s after the interior provinces had developed more foreign contacts, the emphasis remained very heavily on the coast. Over 96% of the foreign exchange earned through exports from joint ventures went to the coast, and over a third of the foreign currency earned from exports from companies utilising foreign investment went to the SEZs alone⁵²⁴.

It is notable that Guangdong was particularly strongly targeted as a strategic base for foreign investment. Not only did it receive special attention with the siting of the SEZs, but it also developed a vigorous economy aided by foreign investment away from these

special zones. For example, the Pearl River Delta became a centre of economic development. Cheap labour costs combined with geographic proximity to Hong Kong and a common linguistic and cultural heritage made the area an attractive prospect for businessmen from the British colony. With the development of component and service industries, in time it became attractive to other overseas investors too, notably the Taiwanese. The financial incentives used to lure capital to the province notwithstanding, the revenue from taxes on the relatively high profits being made was raised with a minimum of investment from the province itself. Its revenue base was therefore enlarged despite the separation of Hainan Island into a new province.

The central government could hardly balk at the development of foreign investment in the coastal areas. Its open door policy coupled with the strategic emphasis on the coast in the Seventh FYP laid the foundations for the subsequent pattern of growth. The policy also brought in much needed foreign capital, new advanced production technologies and modern management techniques. Yet with the special autonomy granted to Fujian and Guangdong in revenue sharing arrangements, it served to strengthen their position relative to the centre, and also relative to other provinces.

This issue highlights a pivotal contradiction for central decision makers in the 1980s. Policies introduced to boost economic development entailed letting go of central planning controls. The gains of the reforms in sponsoring growth (and thus, the CCP hope, increasing their legitimacy) were often at the cost of strengthening the autonomy of lower level authorities. To clamp down on the provinces by reasserting the old controls would negate many of the advances of the 1980s, and seriously undermine the legitimacy of the Dengist leadership.

(d) Consequences and Problems

Although there is no necessary reason why provincial leaders should have used their new found financial autonomy in ways that conflicted with the centre, there are a number of reasons why this was the case. Firstly, the nature of the fiscal relationship between centre and province placed a premium on maximising the revenue collected in the locality. Provincial leaders were all but forced to be more concerned with what was happening in their area than they were about the national economy as a whole. As a result, little attention was paid to the rational use of investment finance in China as a whole.

Secondly, and as a consequence of the first point, the nature of the reform process increased inter-provincial rivalries. The rapid changes that took place in the 1980s

radically altered the nature of the game. New winners and losers emerged in the scramble for as big a share of the cake as possible. Provinces in the interior were simply not prepared to sit around and wait to see if wealth really would trickle down from the east. Not only did they have their own financial obligations to meet, but they also wanted to ensure that they did not miss the boat. Thus, provinces attempted to maximise their own resources to develop the locality to the maximum possible extent irrespective of national economic needs and rationality. As was demonstrated in chapters three and five, provinces even went as far as to erect internal tariffs and quotas to prevent goods being transferred out of their area. The result was that the vertical dictatorship that characterised the system of state planning where orders flowed directly down through ministerial and government agencies was removed - but only to be replaced by a form of horizontal dictatorship (*kuaikuai zhuanzheng*)⁵²⁵.

As noted in chapter five, the 1980s reforms have reproduced many of the problems associated with the local self-sufficiency of the Cultural Revolution period. Duplication of investment projects, competition between enterprises for the same markets and raw materials and so on were all features of the 1980s as well as the 1970s.

To stretch this analysis a little further, one can hypothesize that the skills developed building self-sufficient areas in the Cultural Revolution stood provincial planners and leaders in good stead during the 1980s. In fact, one could argue that it created a "provincialism" philosophy or culture that seeped into (and obstructed) the new wind of marketisation and trade in post-Mao China. As a result, the expected advantages of permitting regional specialisation and a regional division of labour were not realised. While modern and efficient factories in the coast ran at low capacity due to shortages of raw materials, new and often inefficient and wasteful factories in areas where the raw materials are located produced the same finished products at higher prices. As Hamrin notes:

*"China needed to open up on the inside as well as to the outside."*⁵²⁶

The third explanation for the centre-province conflicts that we saw in chapter three is that the decentralisation policies deliberately strengthened the autonomy of the provinces. The aim was to create a momentum of reform that would be so strong and go so far that any retreat would be all but impossible. This is tied in to the problem of lack of elite consensus over the scope and direction of the reform process outlined in chapter two. The initiative for the reforms was at least as much political as economic.

By pursuing a policy of fiscal decentralisation, the more reform-minded placed the locus of decision making power and initiative in the hands of lower level officials. This entailed a risk, insofar as central reformist leaders had no chance of being able to control the momentum of change that they had set in motion. But this may have been seen as an acceptable price to pay in the long term for blocking the potential ability of less reformist leaders to gain the upper hand.

Ironically, the momentum of change was so great that it played a leading role in the fall from prominence of both Hu Yaobang and Zhao Ziyang. Crucially, on both occasions, the momentum of calls for social and political change played dominant roles, although in Zhao Ziyang's case, the consequences of his economic policies set the leadership conflict on its way. But in the long run, perhaps this policy will prove to be successful. Notwithstanding the economic and political problems associated with reform identified in this thesis, too much power was removed from the hands of the central planners for the conservatives to reverse the process. The challenge that remained for the CCP in the 1990s was to build effective macroeconomic control mechanisms to replace the regularity mechanisms that were cast aside in the 1980s.

6.5 The Growth of Central Government Spending

Increased provincial financial independence was a key cause of an irrational pattern of national economic activity in the 1980s. It also partially caused and certainly exacerbated shortfalls in central government finances. For a study of the changing balance of power between centre and province, it is important to ask whether the decline in the relative financial strength of the central government marks a shift in the locus of economic power in China.

Throughout the decade, great strains were placed on central government finances at exactly the time when it was least capable of meeting them⁵²⁷. As with the loss of central control over spending, the root cause of the increased demands on central government expenditure can be found in the uneven and uncoordinated manner in which the reforms were implemented. Perhaps the biggest single exception to this rule is the case of military and defence expenditure.

(a) Military Expenditure

Even if the central authorities try and balance the books by devolving spending commitments to lower levels, one area that has to be kept under central control is military spending. Creating financially autonomous military units in the provinces would be a recipe for a further loss of central power if not national disintegration. The

lessons of the degeneration of the imperial system and the resulting warlordism have not been forgotten. Furthermore, the burden of military expenditure would not be evenly spread. With China's strategic border areas being regions of relatively low growth, it would be all but impossible to expect these areas subsidise China's national defence.

Despite the reduction in the foreign military threat during the 1980s, China did not really benefit from a peace dividend. Powerful military interests lobbied (not always successfully) for spending increases throughout the decade, and some of the benefits of troop reductions were offset by technological upgrades. Furthermore, military spending in the early part of the decade increased as a result of the 1979 offensive against Vietnam, increasing by a quarter from RMB 16.8 billion in 1978 to RMB 21 billion in 1980⁵²⁸. One of the methods deployed to finance the war was to force the provinces to contribute. The provinces were forced to provide RMB 7 billion in loans 1981, and a further RMB 4 billion in 1982⁵²⁹. Although the funds were much needed by the centre, this method of arbitrarily extracting money from the provinces at short notice was not without its problems. The already difficult process of planning at the provincial level was made even more uncertain at a time when the new centre-province revenue sharing arrangements were only just beginning to take shape.

(b) Subsidies and Compensatory Payments

Notwithstanding the issue of military spending, much of the problem of central government spending in the 1980s arose from the CCP's objectives and strategy for economic change. The desire for rapid economic growth was tempered by fears of the social upheaval this may cause. In particular, maintaining the relative position of important social groups (or at least minimising the disruption to their status) was a key central concern. It soon became clear that the continued existence of dual pricing structures was the cause of many of the irrationalities in the Chinese economy in the 1980s⁵³⁰. But the economic rationale of full deregulation was undermined concerns regarding the socio-political impact of such a reform (particularly concerning urban unemployment and maintaining equable supplies of basic foodstuffs). The deregulation of price controls and the move towards market forces also carried inflationary tendencies that would hit at the purchasing power of the urban working classes. In attempting to offset these potential problems by maintaining a dual pricing structure, the CCP stored up other problems in the guise of budgetary deficits and financial shortages.

These issues first emerged in 1979 after the price paid for rural produce was adjusted upwards to increase the attraction of continuing to produce grain for peasants. As with subsequent price readjustments, the increase in the state procurement price for grain led to the government having to pay twice - once in the increased price of grain, and once in subsidies to the urban population to offset the impact of the price rises.

After decades of price stability, the shock of rising inflation was felt hard in the cities. This type of payment became almost a characteristic feature of China's economy in the 1980s, and was the stock response any time that price rises threatened urban stability. For example, in June 1988, faced with spiralling inflation, the authorities moved to soften the impact on the cities. Compensatory grants to workers were increased from RMB 20-30 per month to RMB 40 in small cities, RMB 45 in medium cities, and RMB 50 in Beijing, Tianjin and Shanghai⁵³¹.

By the end of the decade, official Chinese figures showed that subsidies constituted almost a quarter of total central government expenditure. These figures included payments to underwrite losses made by enterprises. Although a bankruptcy law was introduced and firms did go bust, there was a great reluctance to see all loss making enterprises close down. Having devolved responsibility to local authorities and enterprises, the centre did not allow that policy to evolve to its logical/rational conclusion.

The CCP created a situation where there was, in effect, local control of profits, but central responsibility for losses. With the possibility of a loss making enterprise actually going bust relatively slim, this removed the lynchpin disciplines of effective decision making in market economies. Enterprises and local authorities could make investment decisions based on very high degrees of risk, or without fully investigating the consequences of their decisions, relatively unencumbered by the fear of bearing financial responsibility for mistakes. This is an example of the sort of mess that a centrally planned system can get into in the process of reform. Unregulated by either the state planning authorities or macroeconomic market mechanisms, economic activity can become highly irrational.

(c) Reducing the Burden

Faced with growing demands on central coffers, the centre pursued two main policies. Firstly, it attempted to reduce defence spending. Given the changes in China's place in a more stable international order, the process of reducing defence expenditure was eased. However, it is notable that although defence declined in the 1980s, cultural

educational and health (CEH) expenditure increased. As much defence expenditure is disguised as educational research, it is impossible to tell what extent defence spending was transferred to educational spending in the form of research.

Secondly, and of more relevance for this study, it devolved a proportion of development expenditure to local authorities. Devolving development spending to localities was a useful way of both easing the pressure on the central coffers, and tying provincial revenue to the demands of provincial spending. However, there was a cost involved here in that it further weakened the centre's economic levers of control over the provinces, and contributed to its decreased ability to control the scope and direction of the national economy. In short, the centre (or elements at the centre) were caught between the twin and often contradictory imperatives of balancing the central budget and retaining a modicum of central direction over the economy.

6.6 Problems and Prospects

Table 6.1 shows the changes in the structure of government expenditure during the first decade of reform. It is a quite telling indicator of the increasing burdens that were placed on the centre as a result of the economic reform policies. Notably, by 1988, the centre was spending almost as much on subsidies and keeping loss making enterprises running as it was on development spending.

Table 6.1
Structure of Government Expenditure 1978-1988
(% of Total Expenditure)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Defence		13.7	15.2	13.3	11.6	11.9	10.5	9.3	8.3	7.6	7.5
CEH	9.2	9.0	10.7	11.8	13.3	13.2	13.6	13.6	14.4	14.3	15.1
Daily Necessities		6.4	10.9	16.4	21.1	20.2	18.3	16.2	13.5	9.8	10.5
Subsidies											
Enterprise Losses		2.9	2.4	2.3	2.9	3.5	6.1	4.4	7.7	12.3	13.3
Development Expenditure	43.5	41.3	32.3	25.8	23.7	25.2	28.8	27.7	28.6	24.7	25.4

source: World Bank (1990b) China: Macroeconomic Stability and Industrial Growth Under Decentralized Socialism (Washington D.C.: World Bank) p. 67.

A further problem was that the central authorities were in some ways hampered by the success of their own reforms. For example, after a successful harvest in 1984, the authorities faced problems in finding sufficient capital to pay the farmers for the grain. As the 1980s progressed, this situation became even more severe. In 1989 the Ministry of Commerce and the Agricultural Bank jointly announced that they only had RMB 10 billion available to pay farmers for grain and oil that they were contracted to pay to the state - roughly half of the required total⁵³². Decision makers were faced with a difficult circle to square. They wanted to ensure a ready and relatively equable supply of grain to the entire nation. But one of the impacts of the dual track pricing system was to vastly increase the relative attraction of producing cash crops or even engaging in local industrial projects. One way of redressing the balance was to increase grain procurement prices again. But as noted above, this would have meant another double burden on the state in the form of payments and subsidies. This would contribute to the generation of already strong inflationary tendencies caused by an expanded money supply and excess social demand. If urban purchasing power was to be maintained, then in the long run, a further payment of urban subsidies would be needed to offset the impact of inflation - a situation that arose in the summer of 1988.

One way out of the double strain on central finances would be to allow grain pricing and allocation to be set by market forces. Here we again see how the CCP's notion of change obstructed the economic rationale of the reforms. Firstly, if market forces were introduced, richer areas could buy up quantities of grain for their own populations, leaving the poorer areas with great difficulty in meeting basic food requirements. The impact on social stability and popular legitimacy in these poorer areas could be devastating. Secondly, as the state set price was (in 1989) only about a third of the price that grain would fetch on the open market, to liberalise prices would have an even greater inflationary impact than increasing procurement prices. This in turn would undermine the purchasing power of the urban population, and the central leadership would either have to try and ride out these shocks to the system, or again increase its subsidies to the urban population. In other words, the burden of central expenditure would shift, but would not be removed.

The central response in 1984 (and during subsequent crises in the rest of the decade) was to order local authorities to pull money from funds earmarked for other sources to

pay for the farmers. In a portent of the more serious rural unrest of 1993, issuing IOUs caused rural discontent and threatened the stability of the grain supply. Why should farmers produce grain for which payment was relatively low and could not be guaranteed when they could produce cash crops for higher returns? Although the grain procurement crises of the 1980s were all eventually solved and the farmers all paid, the underlying issues remained fundamentally unresolved.

Not only did the decentralisation of fiscal power decrease the centre's control of financial resources, but other reforms also impaired its ability to collect revenue. The decentralisation of control over industrial production was an important factor here. The centre directly controlled key providers of heavy industrial inputs into the economic system. This is one of the centre's principal economic control mechanisms, and one which it was not prepared to give away. The problem for the centre here is twofold. Firstly, heavy industry produces much lower profits and slower returns on investment than light industry. In essence, the most profitable sectors of the economy have been devolved to local control while many of the less profitable sectors remain under central control. Secondly, only a third of state owned heavy industry enterprises can be depended upon to make a profit, with another third producing permanent deficits. Maintaining the productive capacity of these inefficient producers proved to be a considerable drain on central finances.

To make matters worse, the expansion of production in light industry placed heavy strains on raw material supplies. Despite the best efforts of the planning authorities to guarantee supplies to state-owned complexes, coal and energy supplies in particular seeped out of the state sector. Subsequently, profit margins at some plants declined even further, with key industrial plants starved of the necessary inputs to produce at full capacity.

This created both short term and long term problems. The immediate problem was a further reduction of funds accruing directly to the central authorities. But the long term problems are potentially the more damaging. With insufficient funds being generated, investment in large scale projects is jeopardised. In particular, upgrading the technological capacity of existing industries and developing the infrastructure tend to be neglected.

(a) Infrastructural Constraints and Energy Supplies

Developing the infrastructure is perhaps the key to the long term development of the Chinese economy. One of the crucial failings of the reforms in the 1980s was the failure to ensure adequate supplies of energy for both industrial and domestic use. There are three problems here. Firstly, and related to the backwardness of China's industrial technology, the proliferation of high energy consumptive small enterprises placed a strain on the energy sector. Industrial boilers in China are approximately 60% energy efficient - between 15-20% less efficient than similar boilers in the developed world; water pumps, blowers and motors are 10% less efficient; and thermal power stations, a massive consumer of domestic coal, 6-11% less efficient⁵³³.

Perhaps more importantly for this study, the per unit energy consumption of China's small light industrial enterprises was extremely high - some three or four times more inefficient than in the west⁵³⁴. Furthermore, as table 6.2 demonstrates, there are wide variations in provincial energy consumption figures.

Table 6.2
Energy Consumption By Province, 1990

<u>Rank</u>	<u>Province</u>	<u>Energy</u>		<u>Conservation</u>
		<u>Consumption</u> ^a	<u>Rate</u> ^b	
1	Shanghai	2.19	1.35	
2	Jiangsu	2.63	7.07	
3	Zhejiang	2.64	1.86	
4	Guangdong	2.88	1.71	
5	Tianjin	3.08	1.91	
6	Fujian	3.25	5.80	
7	Beijing	3.76	5.76	
8	Hubei	4.12	-0.98	
9	Shandong	4.23	2.76	
10	Shaanxi	4.47	1.11	
11	Guangxi	4.77	2.65	
12	Jiangxi	4.99	3.29	
13	Anhui	5.14	2.47	
14	Hunan	5.18	3.72	
15	Sichuan	6.01	0.33	
16	Henan	6.02	2.74	
17	Heilongjiang	6.30	1.35	
18	Yunnan	6.42	0.47	

19	Liaoning		6.43	-2.55
20	Hebei	7.33		-0.27
21	Jilin	7.37		-1.24
22	Xinjiang		8.03	1.23
23	Guizhou		8.29	1.19
24	Gansu	8.44		2.88
25	Qinghai		8.78	10.22
26	Inner Mongolia		9.35	-3.43
27	Shanxi	10.44		1.88
28	Ningxia		11.65	0.68
29	Hainan	N/A		
30	Tibet	N/A		

^a = Energy consumption per RMB 10,000 worth of Industrial Output Value in tonnes of standard coal.

^b = Percentage reduction over 1989. Negative figures represent an increase.

source: (1991b) "1990 Nian Fendiqu Zhongyao Jingji Zhibiao Tongji Ziliao (Statistical Data On Major Economic Indexes in Various Areas in 1990)" *Renmin Ribao* 5 Feb.

It is striking that energy consumption was much higher in energy producing areas than elsewhere. This is partly because of the mix of economic activity in individual provinces. Power stations in Jiangsu may be as inefficient as power stations in Shanxi. But as electricity generation accounts for a much higher proportion of Shanxi's economic base than it does Jiangsu, Shanxi's energy consumption rate will be the higher of the two.

But there is another explanation to the disparity in consumption figures between coal surplus provinces and coal importing areas. It is clear that energy supplies were diverted from state enterprises to local production units⁵³⁵. The complicity of local authorities in such practices cannot be overlooked, as the profits generated by local production help to boost the local coffers. In energy producing areas, this must have been an appealing alternative to allowing coal to flow out of the province to aid production in other regions. But as these areas were generally less energy efficient than the coast, this entailed a waste of scarce national resource that could have generated

more national wealth if utilised elsewhere. With Shanxi province producing more coal than could be exported to other provinces for much of the latter half of the 1980s⁵³⁶, the very fact that mountains of coal were stockpiled awaiting transportation could hardly have instilled the feeling that coal needed to be used efficiently in local enterprises.

Secondly, energy was not produced in an efficient manner. Many of the large coal mines struggled along using out of date technology and are hopelessly over-staffed. The manager of a mine in Pinglu County in Shanxi Province complained in 1984 that he had three men doing one man's job in some sectors of production⁴⁷. The problem of efficiency was exacerbated by the proliferation of small mines in townships and counties. Many of these local mines were established on land formally owned by large scale state owned mines, and were, in effect, "stealing" their coal. According to Christoffersen, such practices were formally accepted as a sop to local authorities who perceived that *their* local raw materials were being siphoned off to support development elsewhere⁵³⁷.

But there was a limit to the extent to which such siphoning off of state owned resources was accepted. Christoffersen also noted that 70% of all state owned mines were engaged in disputes with localities over mining rights in 1991⁵³⁸. Nor was this a pastime solely confined to coal mining. The Huabei oil-field was brought to a virtual standstill in 1991 due to rampant theft of its resources. Between March and October 1991, police arrested 800 individuals for stealing both oil and electricity from the plant. The plant's own security officials caught another 2000 thieves and closed down 110 local oil furnaces, and 3,500 junction points where electricity was being stolen. The total cost to the plant in income foregone was calculated at RMB 15 million⁵³⁹.

Small mines had a very poor efficiency record. The national average for recovery of coal from known resources is 40%, but in small mines, the figure can be as low as 20%⁵⁴⁰. This is due to their low level of technology and an emphasis on manpower in excavation. Furthermore, the lack of environmental considerations in local mines is severely jeopardising the transfer of land to other use after excavation is completed.

Thirdly, and most importantly, developments in the energy sector was inextricably linked to developments in the transportation sector. The problem in China is not that there is a lack of energy. For immediate consumption, China possesses enough coal to go around, but as the above factors indicate, the manner of energy production is

storing up problems for the future. For the time being, the crucial problem is moving the coal from energy producing centres to light industrial centres.

China remains heavily dependent on primary sources of energy in that the direct use of coal predominates over secondary sources such as electricity. As a result, the transportation of primary energy resources dominates China's industrial system. By the end of the 1980s, coal carried on China's six major railway trunk lines accounted for around 60% of the total volume of freight⁵⁴¹. This not only increases the unit cost of coal, but also impeded transfers of other goods and resources. Unable to ensure adequate supplies of energy inputs through the state sector, many enterprises turned to dearer out-of-plan coal for supplies. However, as noted above, the diversion of coal allocated to state owned enterprises to other destinations was far from unknown. Coal from Datong allocated to state owned enterprises in Shanghai has turned up in Guangdong being sold at over four times its original state set price⁵⁴².

The lack of a developed national infrastructure was a serious impediment to economic development. It also contributed to the prevention of a fully integrated national economy, and the only limited emergence of regional specialisation. If goods cannot be transferred across the country, then they must be produced locally to satisfy local demand, resulting in duplication, inefficiency and waste.

For most provincial authorities, large scale infrastructural projects were too costly to be considered even if they had the political will. The onus therefore fell on the central authorities, but as Liu Guoguang *et al* comment:

*"For a long time to come, the state will be unable to allocate much funding to the expansion of the transport service"*⁵⁴

From an economically rational viewpoint, expansion of productive forces should have come after the development of the national infrastructure, rather than the other way round. But this policy was obstructed by two considerations.

Firstly, China lacked the financial resources to embark on large-scale infrastructural development. In an echo of the debate over development between Mao and his opponents in 1955-56, China's leaders argued that if industrial capacity was expanded first, this would generate the capital required for infrastructural projects⁵⁴³. But the problem with this strategy was that without the prior development of the national infrastructure, then industry was not going to be as efficient as was possible (and

probably necessary). In addition, the financial autonomy granted to localities meant that the newly generated excess profits were not always at the centre's disposal for investment. The only way that sufficient profits could be generated and utilised for infrastructural investment was by retaining central control of locally generated finances - an approach that was deemed economically (and politically) unwise.

Secondly, the reformers needed to generate rapid growth to justify their policy initiatives. Delaying the development of industrial production was again not politically wise under the circumstances. Indeed, it was necessary to allow growth to develop beyond the infrastructure's ability to support it in order to prove the success of the reform policies. As such, long term prospects can be seen to have been partially sacrificed to satisfy the immediate requirements of winning the battle of ideas over the way forward. As Hamrin notes:

*"A focus on short-term gains characterized the reformers' approach as they sought to build political support for the reform"*⁵⁴⁴

(b) Competing Policy Options

There are six other options that could have been employed (and indeed, remain potential solutions) alongside developing the national infrastructure to ease the problem of raw material supplies. Firstly, secondary energy sources could be developed by building large scale power stations in energy producing centres hooked up to a national grid. Secondly, non-coal sources of energy could be advanced. Both of these strategies were pursued to an extent, as witnessed by the expensive, much troubled and controversial decision to dam the Yangtze at the Three Gorges. But both entailed great cost falling largely on already stretched central finances

A third less costly option was to encourage energy efficiency. Highly energy consumptive enterprises could have been closed down and energy resources diverted to more efficient enterprises. Despite the economic logic of this alternative, it carried considerable costs. From a macro-level viewpoint, the national leadership had to consider the social and economic costs of rising urban unemployment. From a local viewpoint, this cut across local short term concerns to maximise local revenue irrespective of national and long term economic priorities.

Fourthly, localities could be encouraged to take over the burden of investment in large scale developments. If individual provinces had the wherewithal to invest in large scale projects, then it would both reduce the burden on central finances and also link

provincial revenue more firmly to the raw material input costs that helped generate their income. This was the logic behind the commissioning of three power stations in Yunnan, Guangxi and Guizhou in September 1988. Total investment in the three projects totalled RMB 7 billion, of which the central authorities provided only 20%. RMB 3.5 billion came from Guangdong, the planned main benefactor of the new projects, with the remaining 30% coming from the three host provinces⁵⁴⁵. However, such a policy also entailed potential costs to the centre in terms of controlling the autonomy of localities. Controlling key industrial inputs was one of the main tools available to the centre in the 1980s in its attempts to control national economic developments. If richer provinces were able to secure their own supplies of scarce resources, then their autonomy from central control would be increased.

Fifthly, in order to get round the problem of transporting vast amounts of raw materials for energy production, the central authorities could encourage high consumption in the energy producing centres. This policy was advocated by Hu Yaobang after visiting Shanxi in June 1985⁵⁴⁶. But again, this policy had a number of drawbacks. It contributed to an already unacceptable level of increased air pollution in Taiyuan and other industrial centres and did nothing to improve the flow of energy resources to production centres on the coast⁵⁴⁷.

The final alternative was for the coastal provinces to import coal from abroad. In many cases, this was actually cheaper and easier than securing energy supplies from China's interior. This policy was encouraged in the late 1980s, but again had important costs. It was wasteful to spend scarce foreign currency importing a product that China has in abundance, and also increases the autonomy of the developed provinces to pursue their own economic strategies. It also demonstrates that tighter integration into the international economic community had significant implications for the centre's relations with some provinces.

Thus, the linked questions of energy supplies and the national infrastructure presented the CCP elites with a number of policy options, none of which was a perfect or total solution. In addition, the vexed question of price reform for energy further complicated the issue. There were no easy solutions, and in the end, all decisions are made by balancing the relative importance of conflicting priorities. In this case, it appears that the priority of minimising opposition to the reform process from conservative central leaders, provincial authorities, and important social groups were deemed sufficiently important to at least risk jeopardising long term sustainable economic development.

6.7 Summary

The financial relationship between centre and provinces is a central component of the political relationship between the two. The relative strength of central planning and the manner in which revenue is shared between units of authority are both significant determinants of the relationship between those units. The 1980s saw important changes in both of these determinants, and consequently, in the nature of centre-province relations in China. With mandatory planning increasingly replaced by guidance planning, the freedom to utilise locally held finances was formally vastly increased. Under the old system, funds allocated to the provinces had to be used for specific predetermined purposes. The removal of this control over spending thus allowed all provinces to set their own priorities and targets. The manner in which provinces utilised this new power was at the root of many of the centre-province tensions that we saw in chapter three.

Thus, the loss of central economic control was a deliberate and conscious central policy. Economists perceived devolving financial responsibility to localities was perceived as a good means of realising local initiative as a means of spurring economic growth⁵⁴⁸. For more pragmatic (or realistic) central leaders, it was also seen as a means of expanding the reform coalition into the provinces at the expense of obstructive more conservative central leaders. As a 1990 World Bank study noted on the loss of central financial control:

*"The 12% of GNP surrendered by Beijing [between 1978 and 1988] has won provincial support for reforms."*⁵⁴⁹

Furthermore, Guangdong's dramatic economic growth (particularly in the late 1980s) could not have been achieved without the preferential treatment granted to the province from Beijing.

But these changes also produced unforeseen and less desirable consequences. In the words of Zhou Shaohua from the National Economic System Reform Commission in 1987:

*"Financial relationships between the central and local governments are out of synch and the central government's position of economic power is being pummelled."*⁵⁵⁰

As was shown in chapter three, even firm and mandatory central orders and commands to control local spending were frequently ignored as the decade progressed.

Furthermore, Zhou believed that "*all local governments*" were finding ways of hiding taxes and income to avoid having to share them with the centre. The efficacy of

mandatory planning and central commands and orders were weak because the instruments of central control were in the process of being dismantled. What was needed was new methods of controlling provincial expenditure in keeping with the new economic priorities and strategies of the 1980s. However, these market control mechanisms were inoperative or immature for much of the decade. Zhou Shaohua puts it quite simply:

*"The central government's comprehensive management system has been dismantled while new economic pillars have not yet been erected."*⁵⁵¹

With local economic planning unrestrained by either planning or market mechanisms, it is not that surprising that it expanded at an alarming rate for much of the decade.

Centre-province financial relations were fundamentally altered by important reforms in revenue sharing arrangements in the 1980s. On their own, these changes would have resulted in a realignment of centre-province relations, and also a shift in the nature of province-province relations. All provinces gained more freedom to make their own investment and spending decision, but the divergent systems adopted for different provinces built an uneven degree of provincial financial autonomy into the Chinese financial system. At one extreme, Beijing, Shanghai and Tianjin remitted large proportions of locally raised income to the centre. At the other, Guangdong was granted much greater freedom to control income earned within the province. In combination with the special rights granted to the SEZs, these changes marked a conscious and deliberate shift in the locus of China's economic core from the Shanghai-Pudong region to the south.

But crucially, these revenue sharing reforms did not occur on their own. Changes in other areas were not coordinated, and at times were based on different underlying principles. The way in which the various reforms combined and interacted with each other created a situation of uncertainty and flux in both centre-province relations and province-province relations: the move to a system based on taxes on profits; the move towards bank loans as a major supplier of credit; the partial (and flawed) introduction of credit control; the transformation of the People's Bank of China into a central bank; the expansion of extra-budgetary sources of investment capital; and the heavy burdens falling on central expenditure all being cases in point.

The pattern of economic activity that emerged was one in which local priorities frequently ran counter to the centre's rationales and objectives. As short term local and national interests began to increasingly diverge, the long term gains to the economy of

introducing market mechanisms were threatened. Duplication of productive capacity coupled with local protectionism meant that more efficient producers did not always gain at the expense of the less efficient.

In short, the balance of financial power in China in the 1980s tipped from the centre to the provinces, and towards some provinces more firmly than others. Although this move did help generate economic advances, they contributed to the inflationary crisis of 1988, and were probably the major source of strained centre-province relations throughout the decade. In addition, the way in which narrow local interests often eclipsed national interests in economic planning may retard the emergence of a more efficient Chinese economy in the longer term.

CONCLUSIONS

Economic Transformation and Political Change

When the post-Mao leadership initiated the reform of the economic system in 1978, they also set in motion a process of political reform. The term "political reform" here does not mean the introduction of a multi-party political system or the end of communist party rule as witnessed in Eastern Europe and the Soviet Union⁵⁵². Rather, it refers to the massive changes in both the processes and functioning of political power within the existing framework of CCP rule.

Instigating political reform was partly a matter of deliberate choice. The post-Hua leadership recognised that a degree of political reform was essential for maintaining the leading role of the CCP. With the Cultural Revolution resulting in a loss of faith in communist party rule, it was deemed necessary to gradually transform the politically mobilised model of society into an economically mobilised society⁵⁵³. This change in emphasis in itself represented an important political reform. The move away from mass mobilisation and the "storming" techniques of the Maoist era resulted in a de-politicisation of Chinese society. This move may appear moderate given the retention of many of the coercive elements of party authority. Nevertheless, when compared to the highly politicised atmosphere of the Cultural Revolution (and to a lesser extent, Hua Guofeng's brief period of rule) the previous intrusion of the party and politics into virtually every sector of life was significantly reduced.

For this change from ideological to more economic orientated sources of legitimacy to be successful, the CCP had to prove that it could successfully generate the levels of growth that the Chinese people aspired to (aspirations that the party itself had done much to raise). But in the process of facilitating this economic growth through such measures as increasing the role and scope of market forces, decentralising power, and instigating a new regional development strategy, many of the umbilical cords that connected economic relationships to political relationships in the PRC were severed.

So in addition to the intentional political reform deemed necessary to ease the transition from an ideologically/politically mobilised society, unintentional political

changes were also generated. As Wang Huning commented in relation to centre-province relations in 1988:

*"Even if the change now being made in the relationship between China's central government and local government mainly originated in the economic realm, it possesses a political significance that cannot be underestimated, and has led to a major conflict within the political system."*⁵⁵⁴

The old state planned economy may not have been very efficient, but participants in the decision making process knew more or less where they stood and what the rules of the game were. With the weakening of this system and its gradual and partial replacement with more market orientated mechanisms, many of these certainties disappeared. To make matters worse, new economic and political relationships were almost continually being reformulated. The pace and extent of economic reform created dynamism and consequently uncertainty in the political-economic system. Furthermore, with reforms in different sectors of the economy uncoordinated, the new relationships demanded by change in one area could be (and were) countermanded by reform in another. As this thesis has shown, the way in which political leaders in the localities responded to this changing environment had a profound impact on China's economic development in the 1980s.

(a) Obstacles to Growth

Given the magnitude of the changes that took place in China in the 1980s, the reform experiment must be regarded as an overall success. Economically, China recovered from the devastation of the Cultural Revolution and achieved rates of growth that warranted great attention from competitor and investor states alike. Political achievements over the decade may be harder to identify, particularly given the turmoil of June 1989. Nevertheless, although the CCP's continued grip on power may not be greeted with unanimous applause around the world, it certainly marks a success by the party's own criteria, and stands in stark contrast to the fate of ruling communist parties further west.

But real as the achievements of the 1980s were, these successes must be qualified. Growth was not achieved easily - indeed, one of the problems that dogged China's leaders throughout the 1980s was to keep growth down to levels that did not jeopardise long term prospects for further, sustainable growth. The efficacy and efficiency of the economy was constrained (and is likely to continue to be constrained) by key problems in a number of areas. Some of these problems can be regarded as the unavoidable consequences of transition and not specific to the Chinese case. Other

problems more clearly have their roots in the particular and unique political environment of the PRC.

Of all these problems of transition, perhaps the biggest to overcome was the persistence of patterns of political and economic behaviour that developed during the Maoist era. Cultural changes lagged behind economic changes⁵⁵⁵, and what China still needs if it is to realise its full potential is a cultural revolution - not a repetition of the chaos of the 1960s and 70s, but what Kuhn refers to as a "paradigm shift"⁵⁵⁶ or a fundamental change in the way that the Chinese people view society. Without such a change, the Chinese economy is unlikely to fulfil its true potential.

Part of this problem arises simply from ignorance of the demands and rigours of the new system. For example, after decades of being told what to do by superiors in the planning administrative machinery, enterprise managers were suddenly faced with making difficult decisions themselves. It is not surprising that many made decisions without adequately assessing input costs, raw material supplies and potential markets. They had neither the experience nor the "entrepreneurial spirit" to effectively use the new powers they had been granted.

Neither was sufficient time and expertise expended on thinking through the consequences of reform. Li Xianguo argues that strategic planning ahead of policy implementation is crucial for successful regional development policy⁵⁵⁷. The local environment (both physical and economic) has to be fully researched and recognised before the impact of policy changes on that area can be fully understood. Too often in the 1980s, the eagerness to push ahead with reform (coupled with the constraints of elite conflict) meant that policy was implemented without any prior investigation, and understanding the consequences of these moves was frequently a painful process.

It will obviously take time for enterprise managers, bankers, and officials to come to terms with the disciplines of a market economy. But this learning process was not aided by the CCP's reluctance to expose economic decision makers to the penalties as well as the benefits of the market economy. Fearful of the political consequences of rising unemployment and the economic consequences of wasting investment capital, party and government officials proved reluctant to allow loss making enterprises to go bust. As a result, managers at different levels were not been exposed to all of the experiences (both positive and negative) that they need for them to become effective decision makers in a more fully functioning market economy. According to Zhuang

Qidong and Wang Di, such administrative interference gave decision makers the benefits of both the planned and market systems, and the penalties of neither:

*"Under the current double structure, enterprises can continue 'eating from the same big pot' of the old structure and enjoy the benefits of commodity producers, thus gaining advantages from both sides."*⁵⁵⁸

But lack of experience is not the only factor here. The formal distancing of the state from the direct control of some goods and resources was not always fully accepted by cadres. This is a particularly important point for the study of centre-province relations in China in the 1980s. Local authorities' concepts of what was legitimate interference and guidance in economic affairs remained rooted in the past. What is wrong with allocating scarce energy resources to local enterprises, leaning on banks to provide loans, or erecting trade barriers against "imports" from other provinces?

For the Chinese economist Chen Yize, this factor was the fundamental obstacle to sustainable economic progress⁵⁵⁹. He argues that these attitudes to economic interference (and even direct management at times) is reinforced by the structure of the political system. The structures of provincial bureaucracies from the planning days remain fundamentally unreformed. Where changes in the economy demanded administrative changes, new structures were simply added to existing ones, rather than replacing the outmoded organisations. With the instrumentalities of the old system still in place, they inevitably continued to be used to control economic activity. Furthermore, this pattern of behaviour was replicated at lower levels, where administrative control over local economic activity was, if anything, more of a problem given the more intimate relationship between party, state and enterprise⁵⁶⁰. Thus, what was needed was a complete revamping of economic institutions at all local levels supported by changes in economic control mechanisms at a national level.

Perhaps the central element here is the failure to formalise the independence of enterprises from the state. Lee argues that rather than granting autonomy to enterprises, the reforms merely redistributed power between bureaucratic agencies⁵⁶¹ - central administrative control was swapped for local administrative control. As a result Walder believes that businesses in China could not be considered to be independent economic entities in the 1980s, and should instead be categorised as "*quasi-autonomous divisions within a corporate structure*"⁵⁶². This failure to fully separate enterprises from the state is usually given by Chinese authors as being the key failing of the reform process in the 1980s⁵⁶³.

The failure to institute a legal basis for enterprise property rights shows that problems of transition affected the Chinese economy from top to bottom. Not only did enterprise managers struggle to come to terms with the demands of market economies, but so did central economists. Writing in 1987, Chen Zhao admitted that the focus of monetary policy in the three years following the People's Bank's designation as a central bank had been, in his words, "*incorrect*"⁵⁶⁴. Despite important changes, China's economic policy was still dominated by old notions. Under the old system, managing demand was largely regulated by management of the supply side in economic planning. Coming to terms with demand management had been a slow and incomplete process, with supply side control dominating macroeconomic policy. Thus, the People's Bank had concentrated on checking the growth of investment spending by controlling the money supply and had neglected policies such as interest rate management which influenced the demand for capital⁵⁶⁵.

Chen Zhao's observations highlight some of the main conclusions of this thesis. He argued that lack of expertise apart, there were two main explanations for policy failures in the 1980s. Firstly, the state's priorities for development entailed conflicting impulses. Central economists were faced with attempting to maintain rapid growth whilst tightening the money supply - a task that has defeated more experienced market economists in the west. Secondly, "*contradictions often arise between China's monetary policy and other economic policies*"⁵⁶⁶. With different policy changes pulling in different directions, "*the central bank is often at a loss as to what to do*"⁵⁶⁷.

(b) The Incremental Approach to Change

The policy process in the 1980s was one built around incremental change. With a quantum leap to a new system out of the question, proceeding by taking a number of small steps to a new future was the only viable option. But lacking both the central consensus for reform, and an agenda that mapped out the processes (and the ultimate direction) of reform, these changes did not always pull in the same direction. This is not to say that there was no coordination, nor that major economic and political changes were not subject to intense discussion and investigation. But too often, the direction of national policy was shaped by the culmination and interaction of changes arrived at by an incremental approach⁵⁶⁸.

As noted at the beginning of the conclusion, economic reform in the 1980s also constituted political reform. The restructuring of the economic system meant that the

traditional winners and losers of the system could no longer be certain of their position. In order to prevent strong opposition to reform emerging an ethos of fairness came to dominate policy making, or what Shirk calls an ideology of "*balancism*".⁵⁶⁹ In practice, this meant that policy options were chosen based on ensuring that no unit or actor lost too much, rather than on what was best for the country as a whole. In short, rather than choosing the best policy, decision makers chose the *satisficing* policy - the one that did just enough to satisfy and suffice⁵⁷⁰.

In the medium term, this approach was highly successful as it facilitated reform in the face of fairly strong opposition from a variety of sources. The Chinese economy in 1989 had moved far beyond the goals of reform of leaders such as Chen Yun, but it had proved difficult for Chen and others to protest at any of the small steps that contributed to the overall direction of change. If the voices of protest did grow too strong, then it was relatively easy to reverse the specific policy issue until the clamour died down without reversing the direction of the reform process as a whole.

(i) The Limits to Incrementalism

But this strategy was not without its costs. Proceeding by making almost continual changes at the margins has its limits. By the end of the decade the demands of ensuring that no group lost too much was placing strains on the system. The logical evolution of the system dictated by purely economic considerations was obstructed by political considerations. Economic impulses dictated that those areas remaining under state control should be released for the market to deal with. This was the approach taken by Zhao Ziyang in the autumn of 1988 when he called for a stepping up of price reforms to solve irrationalities in the economic system. But these changes were obstructed by Li Peng, and what Zhang Weiguo calls "*ideological obstacles to real life*"⁵⁷¹.

The party leadership remained committed to ensuring a relatively equable supply of basic foodstuffs across the country, and was thus extremely wary of losing control. In addition, it feared that the price of a more efficient industrial economy would be increased urban unemployment, and a decrease in the standards of living for the urban working classes. A similar conflict of interests can be seen in wage policy. One of the ideological bases of China's pre-reform economic system was the labour theory of value. Thus, two workers in different parts of the country should receive the same wage for the same work as:

*"individual employees draw their pay according to the complexity, intensity, and quality of labour they contribute"*⁵⁷²

Abandoning this approach to utilise wage differentials as an initiative to production and rewarding enterprise efficiency through higher wages was a key element of the market reforms. But at the same time, the central authorities were anxious to avoid the social dissatisfaction they feared would emerge amongst the losers of this new policy. In an attempt to find a middle way the purchasing power of losers (particularly of permanent state employees) was kept relatively high through the payment of subsidies and bonuses unrelated to productivity. When taken in combination with the policy of keeping loss making enterprises operating to maintain employment, the strains on national finances were considerable by the end of the decade.

The reform process by the end of the 1980s was approaching a situation where the incremental approach was reaching its limits. The next steps entailed a reorientation of the party's priorities towards an approach that would be difficult to reconcile with the party's theoretical justification for maintaining its monopoly of power. The inability to make decisions faced these conflicting priorities highlights the identity crisis of the Chinese state by the end of the 1980s. Unsure of whether it was still a socialist state or striving to become a developmental state on the South Korean model, important decisions were repeatedly deferred.

Economic Transformation and Centre-Province Relations

The incremental approach to reform had important consequences for centre-province relations. For example, although it may have been economically rational to push ahead with thorough price reform in 1984, political considerations meant that a policy of decentralising powers to localities was chosen instead. By adopting this strategy, reformist leaders at the centre hoped that they would undermine the power of more conservative leaders at the centre, and at the same time increase support for reforms in the provinces⁵⁷³. Whilst this was the case, the resulting expansion of provincial power was later a cause of considerable concern for central leaders.

The lack of coordination between reforms in different sectors of the economy was partly due to the political restraints that hindered the process of economic reform. But it was also partly due to a lack of understanding of the way in which reforms in different areas would interact. It is simply not sufficient to understand what the impact will be of an individual reform. The nature of provincial politics and centre province relations in the 1980s was not just shaped by, for example, decentralisation reforms, but by the complex interaction between decentralisation and reforms in other areas

(which admittedly makes predicting the net impact of these reforms extremely difficult).

Decentralisation reforms, fiscal reforms, regional development strategy, the expansion of market mechanisms, expanding international contacts, and infrastructural developments (or the lack of them) all combined to shape the nature of a province's economic potential, and in so doing, their relationship with both the central authorities and with other provinces. As reforms in these areas were not coordinated with each other, the result of the changes in combination was often at odds with the intended impact of the specific reforms in each sphere.

(a) The Loss of Economic Power

The most obvious consequence of uncoordinated reform for centre-province relations was the diffusion of economic power. Specific decentralisation policies and the move towards the market combined to diffuse decision making power to a much greater extent than at any time since 1949. Indeed, at the last major party meeting in the 1980s, the Fifth Plenum of the 13th Central Committee in November 1989, the CCP CC argued that power had been diffused to too great an extent. As a consequence, local economic activity had not always coincided with the needs and requirements of the national economy as a whole. The plenum's communique maintained that one of the major problems facing the economy at the time was:

*"over decentralization of power and the weakened macrocontrol of the state"*⁵⁷⁴

Although this interpretation might appear reasonable at first sight, it represents a failure to look below the surface to identify the fundamental causes of the problems. The diffusion of power and the loss of macroeconomic control is not the difficulty in itself. For example, the loss of the type of control associated with the pre-reform era is only problematic if it is not replaced by other control mechanisms. The issues identified by the CCP CC are merely the symptoms of a disease rather than the disease in itself. The underlying problem in 1989 was the uneasy coexistence of both administrative controls and market mechanisms in the Chinese economy. With these two control mechanisms sitting uncomfortably side-by-side, economic activity had to try and serve two masters.

Here we come back to the limits of the incremental approach. Whether central controls should have been restored or loosened 1988 depended on the priorities and goals of the CCP. If the logical conclusion of the reforms implemented in the 1980s is a fully

fledged market economy, then restoring central controls was entirely the wrong option. It may have served to dampen down demand and reduced inflation in the short term, but created even greater problems for the transition from state set prices and allocation to market guided mechanisms. As soon as controls began to be lifted after Deng Xiaoping's tour to the south, underlying economic irrationalities re-emerged almost immediately.

Thus, the real source of centre-province tensions lay in the partial nature of reform. The system was no longer controlled by administrative mechanisms, but neither were market forces being allowed to operate in an effective manner. This brings us to another crucial factor. Market decentralisation measures failed to reach their intended target. Instead, too much of the devolved power became lodged in lower level administrative units - not just in provincial level authorities, but also in county and township administrations.

The issue of attitudinal hangovers addressed above may provide part of the explanation for administrative intervention in the affairs of local enterprises. The status and power enjoyed by cadres would have been undermined by the move towards market decentralisation. Faced with such a loss of power, some cadres moved to transform their political power to economic power by adopting a hands on approach to local enterprises⁵⁷⁵.

More importantly, changes in revenue sharing arrangements between the centre and the provinces obstructed the move towards an efficient economic system built around regional comparative advantage. With local authorities at all levels under severe financial strains⁵⁷⁶, many local authorities strove to expand their local revenue base, irrespective of national economic needs and goals. This was made manifest in the introduction of local blockades and quotas against "imports" from other provinces, and the diversion of local raw materials to local producers. As a result, more efficient producers were both deprived of raw materials and found their access to markets in other provinces impeded. At the same time, inefficiently produced, low quality and often expensive goods found guaranteed markets thanks to administrative interference.

This is not to say that the centre had no control over the national economy. At various stages, the provinces were forced to lend money to the centre, buy central government bonds, and re-negotiate financial arrangements to the centre's benefit. These *ad hoc* interventions in the economic system contributed to the financial uncertainty caused by

the lack of coordination in reforms, but also show that the centre did not lose all of its power over provincial economic affairs. Nevertheless, economic activity and decision making were increasingly shaped by factors outside the centre's control; agricultural producers, enterprises, local authorities (provincial level and lower), and also investment decisions by businessmen in Japan, Hong Kong and even Taiwan were all important components of Chinese economic activity in the 1980s. By the end of the decade, some foreign investors seeking to cash in on the rapid development of southern China were indirectly investing in China through Taiwanese companies which had projects in the mainland - something that would have been inconceivable in the 1970s and even the early 1980s.

(b) The Wider Diffusion of Central Power

Despite losing a degree of economic control, Beijing retained powerful lines of command in military, political and ideological spheres. Indeed, non-economic levers were increasingly used to exert political and economic pressures on the provinces as the strength of central economic control mechanisms were weakened.

Using military forces to ensure compliance with central economic policies and directives can only be considered an option in the most extreme cases. Forcefully removing a provincial leader, for example, would bring back the spectre of the Cultural Revolution, and remove any vestiges of popular legitimacy in the party. As the example of the student demonstrations in June 1989 demonstrate, military force is a last resort, and after what happened in Romania in December 1989, cannot be guaranteed to achieve the desired results. Furthermore, as the example of the "Silk War" between Sichuan and Guangdong illustrates, the use of local military units to pursue provincial economic priorities is in indication of the potential fragility of PLA cohesion and central control of the military.

In reality, under "normal" circumstances, this leaves political and ideological lines of command available for the central leadership. In terms of political command, the most powerful tool available to the centre is its control over appointments and dismissals of lower level officials. But as the case of Ye Xuanping demonstrates, the centre is not always free to act with impunity in this sphere.

Ye's reluctance to adhere to central economic policies in Guangdong in the late 1980s provoked displeasure among even some reform minded central leaders. Yet the startling and apparent economic success of Guangdong made it difficult for Ye to be removed without arousing the displeasure of the local community, the fear and anxiety

of foreign investors, and the suspicion that the reforms were being abandoned in general. Ye was only finally dismissed in April 1991 by being 'promoted' to become Vice Chairman of the impotent Chinese People's Political Consultative Conference (CPPCC). Informed Chinese sources note that as of January 1992, Ye had not attended a single CPPCC session, and remained ensconced in the official Governor's residence in Guangzhou⁵⁷⁷. Ironically, Ye's promotion/dismissal may prove to benefit his political career in the post-Deng political system..

As the 1980s progressed, the centre also lost some of its power to shape political trends in the PRC. In essence, the economic reforms unleashed a momentum for change - not just economic, but social and political - that the leadership could not control. This factor is tied to the centre's use of ideological controls. For many Chinese, this is nothing more than an old and sick joke. When calls were made to renew the "*Xue Lei Feng*" campaign in 1989, the popular response was a mixture of amusement and cynicism. Ideological legitimacy died in the PRC with the Cultural Revolution. Its continued use, particularly between 1989-91, is a sign of its architects' failure to come up with any viable alternatives, and a smoke-screen used to justify the coercive elements of state power. Even then, the centre's ability to control affairs in the provinces is far from total. The new Mao cult notwithstanding (which has more to do with superstition than politics⁵⁷⁸), political and ideological considerations had much less weight in Guangdong than they did in Beijing.

Variations in Centre-Province Relations

Whilst it has never been possible to identify a single model to describe the centre's relations with every province, many of the reforms implemented in the 1980s served to widen the differentials between provincial relations with the centre. Beijing's desire to retain a degree of control over crucial economic levers highlights this point. Because of the importance of Shanghai and the other municipalities in terms of financial resources, a stronger financial grip was maintained on these areas than on other provinces (notwithstanding the subsequent re-negotiation of Shanghai's position).

Similarly, the importance of coal for national economic development shaped coal producing province's relationships with the centre. Shanxi province provides an excellent example here. State coal mines alone employ 14.3% of the provincial workforce, and the coal industry's share of provincial industrial output value is a massive 20.8%. With the electricity generating industry accounting for a further 6.4%, the two industries alone produce more output value than the whole of Shanxi's light

industrial sector. In effect, Shanxi is the power-house for national development. As coal accounts for three-quarters of China's energy supplies, and Shanxi provides between a quarter and a third of total national coal supplies, the central authorities are naturally keen to maintain close supervision of both the pricing and allocation of the province's key resource⁵⁷⁹.

The mix of economic activity in a region was also important in the northeast. The concentration of heavy industrial complexes in the northeastern provinces of Jilin and Heilongjiang, once the source of these province's relative wealth, became a millstone around their neck in the 1980s. The major benefactors of central planning, state ownership and centrally controlled investment funds perceived that they were the main losers of a strategy that rewarded small, non-state sector light industrial enterprises.

A further contributory factor was resistance in the interior and west to the preferential treatment granted to provinces in the south and east. Despite professing adherence to central government policy in public, provincial officials in one raw material producing centre privately admitted that they felt that they were being exploited by both the centre and the richer provinces of the "Gold Coast"⁵⁸⁰. Gansu Governor Ji Zhijie was more open in his comments during an interview with the Hong Kong magazine *Ching-chi Tao-pao*. He called for raw material producing areas to receive the full value for their raw materials. Furthermore, Ji argued that a proportion of the foreign currency earned through exporting goods should accrue to the province that supplied component raw materials⁵⁸¹. Less tangible, but equally important, a "brain drain" of top personnel to the coast was jeopardising the province's long term prospects.

Raw material producing centres in the interior thus perceived that they were subsidising the growth of the coastal areas, and gaining little in return. In addition, they were also disturbed by the special central policies implemented in coastal provinces. In the long run, the development of the coast may be beneficial to the interior. Even in the short run, Crane argues convincingly that the SEZs "*helped energize the country as a whole*"⁵⁸². Nevertheless, the development of the SEZs aided the growth of Guangdong and Fujian much more clearly and concretely than they did Gansu or Shanxi in the 1980s. These feelings were heightened as although the SEZs were not intended to fall under the control of their provincial hosts, Shenzhen in particular had become an integral component of Guangdong's provincial economic strategy. Guangdong Governor Ye Xuanping's assertion that "*Shenzhen is a special zone of Guangdong*"⁵⁸³ gives a clear indication of how theory had departed from practice, and explains why Zhao Ziyang proposed that Shenzhen be placed under the direct authority of the State

Council after visiting the region in early 1988 - an aspiration that Zhao was unable to attain.

The evidence presented in chapter three suggests that many in the interior were unconvinced that wealth would trickle down to them from the coast. At the very least, they were too impatient for the trickle down process to begin. Such a mistrust of the impact of expanded contacts between coast and interior became something of a self-fulfilling prophecy. By implementing measures to protect development in interior provinces, provincial leaders obstructed the expansion of inter-provincial trade required for trickle down to take place.

Notwithstanding the input of cheap raw materials and energy into light industrial production, leaders in coastal provinces complained that too much of their income was used by the state for investment in the interior. Notwithstanding the capital provided by coastal provinces for investment in the interior, provincial leaders in the interior complained that they were subsidising the development of the coast. These conflicting complaints can be partly explained by an attempt to squeeze as much out of the centre as possible. These skills had been well honed by provincial leaders used to fighting for their share of resources under the old planning system. But they also represent a heightened perception of provincial interest generated by the uneven central treatment of different provinces. Of course, the centre never treated all provinces equally in the past, an argument repeatedly stated by leaders from the previously relatively neglected Guangdong. But the loss of privilege is perhaps more a cause of resentment than never having had it at all.

Whilst the east to west development policy did facilitate economic development in the 1980s, this growth was not without its costs. In the short run, it alienated those provinces that perceived (rightly or wrongly) that they were being left behind. Their raw and semi-finished materials contributed to the wealth and development of the coast, but although promises were made that the focus of development policy would shift to the interior and the west at some point in the future (a promise that was made in the Seventh FYP) many in the interior remained to be convinced.

Unless irrationalities in the economy are ironed out and all provinces are allowed to play by the same rules sooner rather than later, then the richer southern provinces will have massive comparative advantages to exploit once the shackles on inter-provincial trade are removed. Trickle down will not occur naturally if different regions continue

to play by different rules. Central interventions to encourage the southern provinces to develop joint ventures with the rest of China may help to alleviate inter-provincial variations in development, and in the process, silence dissenting voices in the interior. But the real solution lies in allowing the resources of the interior to fetch a price that is in keeping with the profits that they help to generate.

Consequences and Prospects

Although this thesis has concentrated on the specific events of the 1980s, those features of China's political and economic development identified above have a wider application. Notwithstanding the renewed commitment to reform in the 1990s, and the timely deaths of important "conservative" leaders, fundamental obstacles to development remain to be overcome.

Perhaps the clearest lesson that we can learn from observing the 1980s is that no clear or final pattern of centre-province relationships emerged. What we witnessed was a political-economic system in the process of transformation. New relationships were formed, but then often reformed as the impact of other reforms became clear. Indeed the fact that provincial leaders were forced to almost continuously adapt to new situations must have been a key determinant of centre-province relations in itself. China remains very much a system in flux, and there are no certainties that unexpected and radical changes in policy will not occur.

Centre-province relations in China in the 1980s were shaped by the complex interaction of a number of variables. Predicting what will happen to any one of those variables presents sufficient problems to be able to make any predictions with certainty. Predicting what will happen to all, and how they will interact, is all but impossible. Nevertheless, based on the evidence of the 1980s, it is possible to make some tentative observations about the future of China.

(a) From Political Centre to Economic Core?

Although a major industrial, commercial and business centre in its own right, the notion of Beijing as "the centre" of the Chinese economy stemmed from its position as the political centre. Under a centrally planned economic system, the concentration of political power in Beijing naturally entailed a concentration of economic power. Indeed, as noted in chapter one, the economic control that Beijing exerted over the provinces was one of its main tools of ensuring political control.

With the changes that occurred in the 1980s, the position of Beijing as the economic centre was much weakened. In general, the less the role for central planning and guidance in the economy, the weaker Beijing's claim to be at the centre of the Chinese economy. As market forces play an increasingly important role within the Chinese economy, then power will continue to seep from Beijing to economic decision makers at various levels in various places.

Throughout the 1980s, Beijing continued to play a very important role in shaping developments but local decision makers increasingly looked to other factors to inform their decisions. The requirements of the local economy - or more correctly, the perceived short term requirements of the local economy - became a crucial consideration for many decision makers. In addition, for the southern and coastal provinces in particular, external factors played increasingly important roles. The common cultural and linguistic connections between Hong Kong and the Cantonese speaking mainland made the Pearl River Delta region an attractive prospect for the colony's businessmen. Cheap industrial inputs (labour, land, raw materials), fiscal incentives, and improved communications between Hong Kong and the mainland all also enhanced the region's foreign investment environment. Taiwanese businessmen also see this region and neighbouring Fujian as an attractive prospect. The fortunes of the Hang Seng index and all of the variables that combine to influence business confidence in Hong Kong and elsewhere play an increasingly important role in economic decision making in parts of China.

Beijing will clearly continue to be an important economic centre in China, not least because of the strength of its own local economy. Furthermore, as the financial functions associated with macro-control of a market economy are fully developed, its position as the administrative centre of the Chinese economy should actually be strengthened. However, there is no guarantee that Beijing will host all of the new economic entities. It should be noted that China's first two stock exchanges were both located away from Beijing in Shanghai and Shenzhen. The latter's opening was not without considerable opposition from Beijing, which wanted the Shanghai market to be China's first and finest. The fact that Shenzhen still managed to jump the gun without the central financial and technical aid granted to Shanghai says a lot about the economic dynamism of both the Shenzhen zone and Guangdong Province.

However, given the increased scope and role of market mechanisms in the Chinese economy, it is difficult to see how there will not be a strengthened of the spatial

imperatives of market economies. Rather than talking in terms of centre-province relationships in China, is it time to turn our perspectives to economic core-periphery relations? The potential for such a shift in the spatial nature of Chinese economics was identified by Donnithorne in 1972. She argued that:

*"The economies of scale in modern industry are so great that those local units (eg: Shanghai) that can afford to establish large factories will be at an enormous advantage over poorer areas. They will thus be in a position to supply their rural hinterlands with manufactures in return for agricultural foodstuffs and raw materials at a rate of exchange that makes it overwhelmingly worthwhile for the country area to specialise in agriculture and to buy most of their manufactured goods from the larger industrial centres."*⁵⁸⁴

and as a result, there would be a:

*"spread of the economic influence of the major industrial centres as they seek to widen their markets and provide themselves with raw materials."*⁵⁸⁵

Donnithorne's argument was that the system of self sufficiency would enhance comparative advantage and lead to trade between the central place and its hinterland which would then break down the cellular nature of the economy.

With the reforms in the 1980s, the first element of this process should have been removed, while the emphasis on regional division of labour coupled with the great advantages presented to the coastal region should have meant that the dominant regions - in Donnithorne's example, Shanghai - would be in an even stronger position to exploit their comparative advantage. However, the partial nature of reform in the 1980s meant that administrative barriers to trade did not disappear, and partly as a consequence, developed areas were not always able to exploit comparative advantage or economies of scale in dealing with other areas.

The situation was further complicated by the uneven level of government policy towards different regions. In particular, Shanghai was not allowed to fully exploit its advantage over other areas simply because it was so dominant and so important for national development. So although Shanghai remained the core of economic activity in China, Fujian and Guangdong increased their relative economic power in the 1980s thanks to the uneven nature of reform.

China is so large and complex - both physically and in terms of economic activity - that the existence of more than one economic core can be sustained. Indeed, given the size of China and the infrastructural defects that dogged developments in the 1980s,

building a nationally integrated economic market would be fraught with difficulties. In addition, obstacles to inter-provincial trade were not smashed in the 1980s, but remained an important impediment to the evolution of a truly national market. As such, the existence of a number of central economic places that dominate their surrounding hinterlands that Donnithorne thought likely in the early 1970s is not only still possible, but perhaps represents the most realistic approach to breaking down administrative barriers and opening the entire economy more fully to market mechanisms.

Thus, core-periphery analyses will be an increasingly important paradigm for students of Chinese politics in the future. Nevertheless, assessing the importance of Beijing and the political strength of central party-state relations with provincial level leadership will also remain an important focus for analysts. How the central leadership itself handles the existence of this dual set of relationships will go a long way to determining both the CCPs and China's future.

(b) Towards Disintegration?

The relative growth in provincial autonomy at the expense of central control in the 1980s (and in particular the growth of Guangdong's economy) has prompted the suggestion by some western academics that China may be in the process of disintegration⁵⁸⁶. As the centre proves less and less able to control affairs, centrifugal tendencies will begin to take hold and the integrity of the Chinese state will be threatened. This concept of the future is not without its advocates in China itself. Although officially unavailable in China, the Hong Kong published novel *Huanghou* (*Yellow Peril*) has found a wide audience amongst Chinese students. The story is set in the not so distant future, and tells of civil war between a prosperous southern China, and a depressed northern region dominated by old industrial complexes and habits.

The experience of the collapse of central control in the Soviet Union, Yugoslavia, and to an extent, Czechoslovakia have all brought this question of disintegration more firmly into focus. But these were all federal states where unity under communist party rule hid considerable ethnic divergence. In China, the Tibetan people have a long held dream of independence. With the establishment of Moslem states on China's north-west borders, the situation in Xinjiang is also far from stable, as this quote from Wang Enmao, Chairman of the Xinjiang, demonstrates:

*"National separatists are asserting independence in an attempt to split the integration of our motherland and damage national unity"*⁵⁸⁷

But although these aspirations may become a reality if the central Chinese state weakens, ethnic tensions do not represent a fundamental problem for the future of "Chinese China".

According to Delfs, a key force acting against disintegration is the way in which "*the cities have been bought off*"¹⁵⁸⁸. For example, urban wages across the country have been kept in parity, and urban purchasing power maintained through vast spending on subsidies. Thus:

*"Since urban residents do not experience significant region-based relative deprivation, they are unlikely to take the lead in expressing regional dissatisfaction through political means."*¹⁵⁸⁹

Whilst this is true, the relative wealth of the urban population was maintained at a price. The long term strains on the national budget of this policy will be intolerable. In addition, there have been growing signs that the rural population in some areas are demanding a bigger share of growth for themselves.

But perhaps the biggest argument for the survival of the Chinese state is provided by asking what would anybody have to gain from secession? The development of the southern coastal provinces in the 1980s was at least partly built around the supply of subsidised raw materials from the Chinese interior. Although the removal of price controls on basic raw materials will remove this hidden subsidy for the south's development, the best long term prospects for the south will probably be through exploiting the economic complementarity of its light industrial bases with the raw material bases of the interior. Far better for China's coastal region to become the key link in China's regional economic integration, thus taking its place in the super-national division of labour that has become a focus of East Asian developmental nations.

Indeed, rather than presaging the disintegration of China, I believe that the culmination of the 1980s reforms may result in an enlarged Chinese economic entity (if not a formal Chinese state). The re-integration of Hong Kong into China in 1997 will now be a question of the handover of formal political power and sovereignty. The economies of southern China and Hong Kong are already so intertwined that economic integration will be completed before 1997. With economic convergence between southern China and Taiwan accelerating, the economic unification of the two sides of the Taiwan Straits may soon become a formality.

An economic belt encompassing southern China (including Hainan), Hong Kong, Taiwan and possibly Singapore would be a dynamic force in regional (if not world)

economics in the twenty-first century. Utilising the natural resources of the Chinese interior may not be an attractive prospect for hard line leaders in Beijing, but would provide the motor for economic development in what is already being termed "The Pacific Century".

If the reforms of the 1980s presage disintegration, it is the unity of the CCP that is more under threat than the integrity of the Chinese state. Under the pre-reform system, the party was the main (with the army, only) vehicle for personal advancement. Not only was economic power inextricably linked with political power, but economic privilege was also closely associated with political power. The changes of the 1980s led to an important shift in this situation. Although the communist party remains the dominant organisation in China, the dependence of individuals on the party has been weakened. New channels for personal advancement have begun to emerge in the shape of the separation of economic activity from state control.

But the separation of functions was not complete. Local authorities retained (both legally and illicitly) powers to allocate key goods and resources to enterprises. Not surprisingly, the "allocators" became important agents within the emerging economic system. The main importance of this trend for this thesis is the implication for the regional pattern of development. But there is also a more long term potential consequence that should be considered here. Cadres at various levels have been "persuaded" to become board members of enterprises that they allocate goods to. In some cases, they have even established their own private companies and enterprises, and then allocated goods to themselves. The process of transferring political power to economic power in communist party states is still in a very early stage. But with the expansion of the market, the time may come when former (and present) cadres no longer depend on the party for their position. If they are no longer dependent on the party for their position, then the potential for the party to wither away from within cannot be ignored.

Table One

Matrix of Variables Affecting Centre-Province Relations

CENTRAL

	Decent/ Cent	Regional Dev	National Defence Policy	Egalitarian versus Consid- erations	Cohesion/ Conflict Maximum Growth Imperatives	Admin Controls to West versus Market Forces	Attitude Policy Economics In Command	Fiscal Politics/ Economics In Command
Existing Level of Development								
National Defence Area?								
Grain/Raw Material Deficit/ Surplus								
P Net Fiscal								
R Deficit/								
O Surplus								
V								
I Light/Heavy								
N Industrial								
C Dominance								
I								
A Access to								
L Foreign Markets/ Fundors								
Infrastr- uctural Base								
Provincial Links with Central Leaders								
Population Size								
Extent of Developed Urban Centres								
National Minority Area?								

Table 1.2

New Provincial Appointments By Province, 1979-86

Province	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
Anhui	1	6	1	6+3	4+1	6+2	3+0	1+4	2+0	30+10=40
Beijing	10	3	2	4+5	1+1	2+3	6+3	0+0	0+0	28+12=40
Fujian	1	4	0	2+1	4+1	1+2	0+2	3+2	1+0	16+8=24
Gansu	5	1	2	6+3	2+0	3+3	0+1	2+1	0+1	21+9=30
Guangdong	6	3	6	1+4	0+0	3+4	2+1	7+4	0+0	28+13=41
Guangxi	1	1	0	0+0	0+0	6+5	1+0	2+2	1+0	12+7=19
Guizhou	5	0	3	1+0	0+0	1+5	0+0	3+2	0+0	13+7=20
Hebei	1	6	5	2+3	4+1	4+3	0+0	4+2	4+2	28+11=39
Heilongjiang	8	4	1	3+0	2+1	4+4	2+0	6+3	1+0	31+8=39
Henan	7	9	1	5+2	0+3	4+2	4+1	2+2	0+2	32+12=44
Hubei	5	3	0	2+3	2+3	7+3	0+0	1+0	2+6	22+15=37
Hunan	0	3	1	2+0	3+0	2+3	0+1	5+2	0+0	16+6=22
Inner Mongolia	7	3	2	1+0	3+0	2+5	3+0	0+2	1+3	22+10=32
Jiangsu	0	4	3	1+4	3+1	5+6	1+0	0+0	2+0	19+11=30
Jiangxi	1	5	0	5+2	3+1	2+4	1+0	4+6	1+1	22+14=36
Jilin	2	9	1	4+2	2+6	3+6	2+0	5+2	2+0	30+16=46
Liaoning	5	5	1	3+0	1+5	4+2	1+0	6+3	2+2	28+12=40
Ningxia	5	3	2	2+0	2+0	3+7	0+0	6+0	0+0	23+7=30
Qinghai	6	4	1	4+12	0+2	7+3	0+1	5+3	1+0	28+21=49
Shaanxi	2	3	1	1+0	2+12	4+3	2+0	7+3	0+0	22+18=40
Shandong	2	4	2	3+2	0+0	7+6	0+0	0+1	1+2	19+11=30
Shanghai	1	6	2	2+1	0+1	5+6	4+0	11+2	2+2	33+12=45
Shanxi	3	5	1	2+3	0+0	5+4	1+0	0+0	2+1	19+8=27

Sichuan	1	3	5	2+1	4+3	8+6	0+0	0+3	0+1	23+14=37
Tianjin	5	5	1	1+1	3+2	8+4	2+0	1+3	0+0	26+10=36
Tibet	0	0	2	4+5	2+0	1+5	1+0	10+3	1+1	21+14=35
Xinjiang	4	1	3	3+0	1+0	1+4	0+0	10+3	0+1	23+8=31
Yunnan	1	6	1	2+4	0+0	2+5	2+0	6+2	1+0	21+11=32
Zhejiang	5	1	1	4+4	2+0	3+5	0+0	1+0	0+1	17+10=27

Table 5.1

The Regional Development Policy of The Seventh FYP

<u>Coastal</u>	<u>Central</u>	<u>Western</u>
1 Technological updating of existing industries. Creation of new industries, especially in high value and consumer goods, using central government expenditure and foreign partners	1 Speed up coal and electricity generating, non-ferrous metals and phosphate mining, building material industries, using increased government expenditure	1 Develop farming, forestry, animal husbandry and transport
2 SEZs and open cities to grow rapidly to become bases of expanded foreign trade and to act as training grounds for spreading knowledge and technology to the interior	2 Cities and areas that are more developed will have a greater development of new and existing high-tech industry	2 Increase exploitation of minerals and energy supplies on a selective basis
3 Energy resources and transport to be developed to ease shortages. Heavy users of energy and transport to be closed or relocated in the central region	3 Vigorous development of agriculture to increase output of grain and cash crops	3 Where economic and technology level is relatively high, updating to take place, especially in cooperation with the coast and centre
4 Agriculture and rural production to be expanded and linked to urban and industrial demand	4 Accelerated development in coal, electricity and oil, and increased capacity for steel, using imports from other areas government and foreign investment. Increase transport links to the coast	4 Land for grain production to be protected to decrease
5 Service sector to be expanded	5 More rapid introduction of new	5 Foster development of grass-

	technology in existing industry	lands, but with environmental protection
6 Preferential treatment for export industries and promotion of tourism	6 Setting up of commodity production bases for grain, soy beans, oil bearing seed crops and sugar yielding crops	6 Improved rail links with coast and centre
	7 Vigorous development of forestry, animal husbandry and animal products	7 Transfer of defence industries to civilian projects
	8 Development of the middle reaches of the Yangtze to help stimulate growth	8 Open up mineral and energy resources in the higher reaches of the Yellow and Yangtze Rivers
		9 Development of Sichuan, Yunnan and Guizhou border area in energy and semi-finished products
		10 Develop the Urumqi-Karamai area as an industrial centre for Xinjiang
		11 Foster construction of border market towns and expand trade across borders in the west
		12 Preferential treatment for the west in the development of education, transport, mining and energy

source: Cannon, T. (1989), "Regions, Conflict and Economic Reforms" in Geography p. 361.

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1 Technologically update existing industries. Create new industries, especially high value and consumer goods, using central government expenditure and foreign partners	1 Speed up coal and electricity generating, non-ferrous metals and phosphate mining, building material industries, using increased government expenditure	1 Develop farming, forestry, animal husbandry and transport
2 SEZs and open cities to grow rapidly to become bases of expanded foreign trade and act as training grounds to spread knowledge and technology to the interior	2 Cities and areas that are more developed to have greater development of new and existing high-tech industries	2 Increase exploitation of minerals and energy supplies on a selective basis
3 Develop energy resources and transport to ease shortages. Heavy users of energy and transport to be closed or relocated to the centre	3 Develop agriculture to increase output of grain and cash crops	3 Where economic and technology level is relatively high, updating to take place, especially in cooperation with the coast and centre
4 Expand agriculture and rural production and link to urban and industrial demand	4 Development coal, electricity and oil, and increase capacity for steel, production using government and foreign investment. Increase transport links to the coast	4 Land for grain production to be protected to decrease imports from other areas

5 Service sector to be expanded	5 Accelerate introduction of new technology in existing industry	5 Develop grass-lands with environmental protection in mind
6 Preferential treatment for export industries and tourism	6 Set up commodity production bases for grain, soy-beans, oil bearing seeds and sugar yielding crops	6 Improve rail links with coast and centre
	7 Develop forestry, animal husbandry and animal products	7 Transfer defence industries to civilian projects
	8 Development of the middle reaches of the Yangtze to help stimulate growth	8 Develop mineral and energy resources in the higher reaches of the Yellow and Yangtze Rivers
		9 Develop Sichuan, Yunnan and Guizhou as energy and semi-finished goods producers
		10 Develop the Urumqi-Karamai area as an industrial centre
		11 Construct border market towns and expand cross-border trade
		12 Preferential treatment for education, transport, mining and energy

source: Cannon, T. (1989), "Regions, Conflict and Economic Reforms" in Geography p. 361.

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congresses and Five Year Plans - this is perhaps not that surprising. The Third
Plenum marks a period where the consensus of the party congress has long
been breaking down as the practicalities of following the congress' line
becomes clear. With inevitable problems emerging, the time is ripe for
opponents to seize on them and push their alternative policy lines. This gives
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and state administration.

345 For example, Guangzhou, Nanjing, Benxi, Anshan.

346 For example, Sichuan was split into East Sichuan, North Sichuan, South
Sichuan and West Sichuan. Similarly, Anhui was split into North and South
Anhui.

347 These were North Anhui, South Anhui, Anshan, Benxi, Guangzhou, Chahar,
Chongqing, Fushun, North Jiangsu, South Jiangsu, Liaodong, Liaoxi, Luda,
Nanjing, Pingyuan, Rehe, Shenyang, East Sichuan, North Sichuan, South
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