CHAPTER 3

PROVINCIALISM IN CHINA – THE PROVINCES IN COMPETITION

While China's economic development policies have shifted from those of self-reliance to depending on comparative advantage and opening up, inter-province competition in China today, still arises from unequal distribution of national resources, unequal development and biased enactment and application of national policies. Provinces have competed in the political realm for investment, subsidies and preferential policies bestowed by the centre, while the economic competition between them has been suppressed or mainly confined to protectionist battles. As the central government has progressively reduced its direct intervention in the economy and allows for still more open competition, provinces have increasingly developed their own specific economic and business strategies and might eventually gaining what might be termed as "competitive identities" in addition to their political and cultural identities. China's economy could conceivably see a stronger division of labour. However, as of now, provincial policies suggest that provinces can be regarded more as competitors than as collaborators acting under central or regional coordination.\(^1\) While open competition is not always evident, or even usually the case, when several central and provincial institutions exist to regulate economic exchange between provinces, it is certainly not a far-fetched possibility\(^2\) in the light of China's accession to the WTO. As a WTO member, China's markets are open not only to external competition but also to internal competition as provinces compete with each other without resort to protective barriers.


\(^2\) Ibid., p. 3.
Inter-Provincial Disparities

China has the greatest regional development disparities of any country in the world and even within a province, income differentials are often huge. Income differentials in China are increasing and a 1997 World Bank report showed that the Gini coefficient in China had risen from 0.281 in 1981 to 0.388 in 1995. The dramatic increase in personal income inequalities stem from the increased emphasis on market incentives, and the reversal of the “iron rice bowl” policies. Inequalities in rural areas have grown fastest although urban inequality has also risen sharply in the period between 1988 and 1995. The human development index of the World Bank puts China in the intermediate category of countries in the world. However, whereas Shanghai and Beijing would fall in the highly development category according to the index with a rank of 33, Qinghai and Tibet, would be ranked as low as 121 and 131, falling in the least developed category. In the reform period, residents of most interior provinces also witnessed a declining living standard while those of most coastal provinces saw their living standards rise. There is a large section of opinion in China that believes the growing regional inequalities of the reform period in China have, to a large extent, been the result of deliberate state policy, perceptions that have led to conflict not only between the provinces and the centre but also between the provinces themselves.


5 Hu, n. 3, p. 222.


7 See Yeung Yue-man and Li Xiaoqian, “China’s Western Development: The Role of the State in Historical and Regional Perspective,” Shanghai-Hong Kong Development Institute, Occasional Paper, No. 10, 2004, p. 5.
The 'unbalanced' pattern of early industrialization in China however, began much earlier in the foreign-dominated Treaty Ports along the coast. At the beginning of the communist era, most industry was concentrated in the coastal regions, notably Shanghai, Jiangsu and Liaoning, and essentially in their urban centres, while the rest of the country was largely agricultural. Maoist policy considered this imbalance both economically inefficient as well as militarily dangerous. The location of the industry on the coast, especially close to the harbours made them vulnerable to attack and so the strategy was formed to balance regional development and encourage the construction of relative regional autonomy. This was first evident in the 1st Five-Year Plan (FYP, 1953-57) when the central government controlled as much as 78 per cent of state expenditure and focused on the 156 'key projects' which utilized Soviet aid and expertise. 70 per cent of these projects were, however, located in interior provinces away from the coast, and 58 per cent of the 1st FYP industrial investments went to interior provinces. No project with Soviet aid was implemented in the coastal regions. Although this policy was aimed at reordering economic weightage in the country, significant inequalities persisted. Relocating industry to the interior was constrained both by the lack of adequate transportation facilities and the fact that their natural resources were poorly utilized. 8

In general, Maoist-era policies led to a lack of provincial specialization and little effort to exploit economies of scale, each province being encouraged to have the widest scope of production. Generally, investment was made on a provincial basis, with no real national character and while state intervention was clearly aimed at reducing regional disparities in manufacturing industries and securing industrial bases in the anticipation of military conflict, the policies did not always result in sustained regional economic development in the area. In fact, the policies failed to

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narrow the regional economic gap. During the Great Leap Forward (GLF) from 1958 to 1960, for example, provinces and localities were given control of over 90 per cent of SOEs and some 200,000 new projects of all sizes were set up all over the country to enhance provincial self-reliance, without considering whether they were equipped to run them profitably or not. After a brief period of readjustment, the focus of national regional strategy shifted from espousing balanced distribution to strategic distribution, in the face of perceived threats from both the Soviet Union and the United States. Thus, during the 3rd and 4th FYPs, the emphasis was on locating strategically significant industries in China’s interior in what came to be called the Third Front or Third Line (sanxian) programme. At least half of all state investment went to 11 provinces, namely, Yunnan, Sichuan, Qinghai, Inner Mongolia, Gansu, Shaanxi, Shanxi, Henan, Hubei, Hunan, and Guizhou. Not only did continuous government support over a long period, not quite engender local growth-generating mechanisms in many parts of the interior, it probably even caused negative impact on regional development.

Further, under the planned economy, the interior provinces were net exporters of energy and raw materials to the coastal region, but received less from its exports at state-fixed prices than would have been the case had market prices prevailed. They were however, compensated by the central allocation of investment funds and fiscal subsidies as the coastal region that received under-priced inputs, surrendered much of the profits to the central government treasury as fiscal revenue, which the centre redistributed. The end of large-scale central government redistribution in China began in 1973-75. Following improvement in relations with the United States, imports developed quickly, particularly of

9 Yeung and Li, n. 7, p. 19.
12 Naughton, ibid., pp. 70-71.
13 Ibid., p. 68.
equipment from Western countries. And following the death of Mao, the focus of state investment quickly turned back to the coast which was in need of improved infrastructure and other policies to help it meet the needs of economic expansion. Regional imbalances immediately resulted with half of the imports being attributed to investments localized in the coastal regions. Investment policy had often been discriminatory at various times against key industrial provinces such as Shanghai, Guangdong, Sichuan and the three northeastern provinces. Coastal provinces such as Shandong, Jiangsu, and Zhejiang, which with their large non-state industrial sectors, never received state industrial investment proportional to their output, even though they were below the national average GDP per capita through the 1970s. Officials in Guangdong and Fujian argued in 1979 that their provinces had suffered badly and even deliberately left underdeveloped in the Maoist era as they pressed for special policies and measures to overcome their plight. Fujian, for example, had received only 1.5 per cent of the total capital investment from the centre between 1949 and 1978 and not one major investment project.

With the beginning of the reforms, the central government slowly switched from an interior-oriented development strategy to one that favoured the economically more advanced coast by adopting a series of preferential policies for the coastal region. With the open-door policy, around 1984, the central government made the choice of trying to develop comparative advantage. Deng’s policy objective was of first promoting growth in coastal regions – the coastal development strategy became official policy in 1988 – and both the 6th FYP (1981-1985) and 7th FYP (1986-1990) were based on the assumption that development would be diffused

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14 Brun and Renard, n. 8, p. 89. It remains a matter of debate whether the switch in economic development focus from the coast to the interior after 1949, actually resulted in greater regional equality. Wang et al, n. 10, p. 29. In fact, Wei has argued that the eastern region improved its position relative to the other regions during both the Maoist and post-Maoist periods. Wei, n. 11, p. 33.


spatially through technological transfers.\(^{17}\) The immediate objective was the maximization of growth in coastal regions, with the help of international trade and foreign direct investment (FDI) but the CPC leadership promised the central and western regions that they would not be forgotten, that they too would reap the benefits of rapid development in the coast and in the medium-to-long term, as the development focus would eventually be shifted to encourage growth away from the coast.\(^{18}\)

Throughout the 1980s and the beginning of the 1990s, the central government exempted the coastal provinces from many economic regulations such as those governing foreign investments, and from taxes such as import duties. The central government also allocated more funds (via the budget and state banks) for infrastructure investment in the coastal provinces. In short, central government actions raised the rate of return on capital in the coastal provinces relative to the rate of return on capital in the central provinces by deregulating and favouring the coastal provinces over the central provinces.\(^{19}\) In addition, geography too has contributed to the higher rate of return to capital in the coastal provinces. The inadequate transportation network in China meant that investments tended to be concentrated in the coastal provinces and this continues to be the case. This has resulted in disparities in income distribution and concentration of production in coastal regions with the problem of income disparity being worsened by the fact that labour mobility too, has been restricted in China.\(^{20}\) Meanwhile, the development of special economic zones (SEZs) and the opening up of coastal cities to foreign investment and trade continued to depend on the low state-set prices for raw materials that helped generate higher profit margins for light


\(^{19}\) Wing Thye Woo, “Some Observations on the Ownership and Regional Aspects in Financing the Growth of China’s Rural Enterprises,” in Renard, n. 8, p. 255.

industrial producers. With the majority of China’s raw material and heavy industrial centres in the interior, this resulted in the interior effectively subsidizing the coastal region. 21

The interior leaders soon had enough of this arrangement and things came to a head during the economic crisis of the late 1980s. At the April 1988 NPC, delegates from the western and interior provinces called for greater redistribution of resources by the state to offset the effects of policies concentrating on export-oriented coastal development. 22 Interior interests were not discontented with the gap between the coastal region and the interior regions per se, understanding very well that no development process was even but took exception to the preferential policies for the coastal region and the distorted price structure in the post-Mao period, both of which were due to central government policies and could have been mitigated if market forces prevailed in China. 23 Meanwhile, provinces benefiting from the open policies lobbied for the reforms to move still faster and further. It has to be noted that even among this group of provinces, until 1990, Guangdong and Fujian were envied their policy privileges. 24 Indeed, it has been


23 Yang, n. 21, p. 62. In fact, as late as 1996, interior provinces were protesting that despite the promises, a well-formulated central government plan of action for their development was far from being a reality. Wang et al, n. 10, p. 40; Feng-cheng Fu and Chi-keung Li, “Disparities in Mainland China’s Regional Economic Development and Their Implications for Central-Local Economic Relations,” in Yu-ming Shaw (ed.), Tendencies of Regionalism in Contemporary China (Taipei, Taiwan: Institute of International Relations, National Chengchi University, 1997), pp. 114-15.

argued that the economic development of SEZs like Xiamen owed more to preferential policies rather than any substantial amount of investment from either central or provincial government coffers.  

In the 1990s, interior provinces continued to complain and demand more central government investments and in the absence of that at least for more favourable policies for development. In various internal meetings in 1996 and 1997, provincial leaders from China’s west and northwest demanded ‘Hong Kong-style autonomy’ from the centre recalling Deng Xiaoping’s statement about creating a ‘string of Hong Kongs’ in the interior. Many interior leaders were also unhappy with the growing numbers of officials from the coastal provinces in central government leadership posts. Cheng Li has noted that the higher representation of eastern provinces such as Jiangsu and Shandong in national leadership positions in the 1990s has come at the expense of southern and southwestern provinces such as Guangdong and Sichuan.

There are various explanations for and dimensions to the question of inter-provincial disparities. It has been noted that while inter-provincial inequality has declined in the reform period, the gap between the coastal and inland regions as a whole has widened. A number of studies have been devoted to regional disparities, based on two types of analysis – in terms of growth or in terms of location. In terms of income growth, the general observation is a trend toward convergence between 1978 and 1989 and toward divergence after that. The main explanation consists in regional policy. At the beginning of the period, like before

30 Lu and Wang, n. 22, p. 46.
31 Renard, n. 20.
the reforms, the central government made a balanced strategy with a redistributive system which reflected the choices made under a planned economy. There were two aspects to this system. First, a redistribution of industrial development implied for the central government, high investment in low-income provinces and low investments in high-income ones.\textsuperscript{32} It also “moved” population into the poorest provinces. So, when this policy was reversed, the regions which were the main beneficiaries collapsed while, the other grew. This explained the observed convergence during the first period of the reforms. The second form of the redistributive system has been the price system called “price scissors” which contributed to the government redistribution. It consisted in overvaluing manufactured products and in undervaluing agricultural ones. Consequently, manufacturing provinces had high income but they also had to contribute a lot to the central government budget in order to help the poorest regions. Naughton showed that if some regions were apparent beneficiaries, they were in fact sometimes also penalized. With the collapse of this system and prices closer to market prices, a more rapid growth of agriculture prices in the poorest provinces allowed them to catch up. After deflating provincial data, Naughton found that convergence disappeared in the 1980s, indicating that most of the convergence at the then current price income was due to changes in relative prices. These two reasons explain why the dissolution of the redistributive system contributed to convergence between the provinces.\textsuperscript{33}

Total central government investment became strongly regressive after the late 1980s and by the mid-1990s, total investment had become strongly positively correlated with provincial per capita income. In September 1995, the Chinese government endorsed the view that regional inequalities had widened since the reforms stating that in the \textit{People’s Daily},

\textsuperscript{32} As Yehua Wei says, for China’s leaders as well as socialists elsewhere, it was regional industrial distribution more than income distribution that was the more important. Yehua Wei, “Regional Inequality of Industrial Output in China, 1952 to 1990,” \textit{Geografiska Annaler. Series B, Human Geography}, Vol. 80, No. 1, 1998, p. 2.

... since the adoption of reforms and open door policies, we have encouraged some regions to develop faster and get richer, advocated that the richer should act as a model for and help the poor. Each region has had immense economic development and the people’s standard of living has had great improvement. But for some reason, regional economic inequalities have widened somewhat. 34

Again, the factors responsible for the changes in regional inequality in China in the reform era are widely debated. 35

In order to encourage investment in the central and western regions, the central government has since this period, extended preferential treatments to these regions in the areas of fiscal allocation, project approval and financing, bank loans and other relevant policies. The central and western regions have also become the focus of China’s poverty relief efforts. It is estimated that the country’s poverty-stricken population, mostly living in the central and western regions, decreased from 65 million in 1996 to 34 million in 1999. In January 2000, under the 9th FYP, China launched its Western Development Strategy (WDS), which, according to its proponents, was a much larger and more systematic program in promoting concerted regional economic development than any other regional economic development models employed before. In 2000 alone, the government channeled US$45.5 billion to develop the Western Economic Region. However, financial support for industrial development from the centre is an increasingly unviable option, as most central funding ends up in SOEs. The burden of infrastructure funding has also slowly shifted towards the provinces as central funding concentrates on fewer major projects. 36 Still, as investment pours into the richer provinces from both state and non-state funding sources, the growth processes that contribute to regional divergence will continue to accelerate. The two richest municipalities – Shanghai and Beijing – actually have the highest total investment rates. Investment flows on this scale contribute to inequality today, but just as crucially will fuel increasing divergence in the future. 37

34 Quoted in Pedroni and Yao, n. 4.
35 Lu and Wang, n. 22, p. 59.
36 Hendrischke, n. 1, p. 12.
37 Naughton, n. 8, pp. 71-72.
Another important point to be noted is that while disadvantaged provinces tend to argue that the centre is granting or withholding special policies for political reasons, Hendrischke et al. suggest that there is an economic rationale in that the main recipients of preferential policies seem to be those provinces that provide a wider range of competitive advantages.\(^{38}\) The example of Jiangsu shows that the centre gained considerable additional tax revenue in absolute terms from reducing the relative tax burden for the province. In other words, preferential policies are more likely to be given to provinces which promise a return on investment for the central government in terms of higher revenues. The most likely reason why other provinces do not receive special policies is that their expected economic performance does not warrant it.\(^ {39}\) What this has probably resulted in is that Jiangsu, Shanghai, Zhejiang and Guangdong have moved so far ahead in terms of competitive advantage that they will most likely be able to maintain a privileged position in the foreseeable future.

Just as important, it needs to be remembered that all coastal provinces and municipalities do not share the same advantages.\(^ {40}\) Further, in geographical terms, it is not the case that all of the coastal provinces have been growing faster than the interior provinces. For example, Pedroni and Yao found that the four coastal provinces, Tianjin, Hebei, Liaoning and Shanghai, grew annually at 8.53 per cent, 9.47 per cent, 7.88 per cent and 8.35 per cent, respectively, from 1978 until 1997, and among these, only Hebei exceeded the national average provincial growth rate of 9.09 per cent. The five interior provinces, Anhui, Jiangxi, Henan, Hubei and Sichuan, outperformed the three coastal provinces Tianjin, Liaoning and Shanghai. Hence, a coastal location alone is not sufficient condition for the

\(^{38}\) Hendrischke, n. 1, p. 12.

\(^{39}\) Ibid.

\(^{40}\) Ibid., p. 11.
highest growth rates. Geographical location is only one among many competitive advantages available to coastal provinces.

However, studies of the much touted spillover effects suggest that these have been insufficient to mitigate regional inequality, especially in western provinces, indicating a relative failure of the "ladder-step theory" (tidu kaifa lilun). One of the explanations is that the comparative advantage strategy focuses on the creation of an integrated national market and this was not so in China. Regional protectionism has been very strong in the country and has spread during the 1990s, following the flare-ups of the 1980s.

Economic Protectionism

As Watson et al, have defined it, provincialism is the rational outcome of a form of economic decentralization that creates clearly defined, independent local government interests," while "warlordism" results "when the development of a legal system to control the behaviour of local authorities is lacking and there are no effective instruments for macro-economic control." Donnithorne has observed that tendencies toward local or enterprise self-sufficiency had been evident in China from before the Cultural Revolution, particularly during the Great Leap Forward. Such tendencies were criticized by Liu Shaoqi and his supporters and would earn them the wrath of the Maoists later.

41 Pedroni and Yao, n. 4.
42 Hendrischke, n. 1, p. 11.
43 Brun et al, n. 17.
44 Renard, n. 20.
During the 1980s, the introduction of budget contracting and its impact on centre-provincial relations led to the emergence of local economic identities. Following decentralization, since local governments were motivated to pursue revenue maximization, it resulted in duplication of investment and proliferation of small-scale but high-cost industries. Local governments erected trade barriers to stop flows of goods and production resources and with banks under their close supervision, these governments were also able to get easy access to credits and ignore the macroeconomic consequences of their decisions. With much of the growth in the economy monopolized at provincial levels, the central government too, faced increasing difficulty in exercising macro-economic controls as central revenue came under pressure, and the ratio of central investment in total investment declined.

These changes affected not just central-local interaction but also the relationship between different provinces. The case of the interior provinces that were the major grain producers subsidizing those provinces which were importers has already been mentioned but there were several other economic conflicts between the provinces that arose out of the strong economic growth in the country between 1985 and 1988. With virtually identical industrial structures, several provinces (both on the coast and in the interior) struggled to ensure their supply of inputs of production fighting ‘wars’ over agricultural production. In 1988, for example, there were several instances when producer and consumer provinces (mainly coastal) confronted one another. In the silk wars, Sichuan, the main producer came into opposition against the consumer provinces of Guangdong, Jiangsu and Zhejiang. Similarly, Hunan and Fujian refused to supply provinces such as

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48 Watson et al, n. 21, p. 77
Guangdong, Zhejiang and Jiangxi with rice and cereals respectively. In the rice war between Guangdong and Hunan the same year, the former wanted to buy rice from the latter but was objected to the higher prices demanded. The Guangdong government therefore, set up purchasing agencies on the border offering better prices to Hunanese rice farmers. The Hunan government was incensed enough to send troops along the border to prevent the outflow of rice. 49 Similarly, in southern Jiangxi, peasants had to smuggle their produce by night to Guangdong and Fujian to avoid boundary check-posts between the provinces. As was observed, “check-posts stood like trees in a forest, separating the markets, blocking each other, and hindering the circulation of goods and the opening to the outside world.” 50

In the wool war, with growers disputing their contracts with the state purchasing system, and local levels of government instituting their own controls over the decentralized wool marketing system, merchants and processors competed for supplies in a market geared towards speculation and profiteering. In response to the profit structure and changes in price and marketing, the governments of the main wool producing areas – Gansu, Qinghai, Xinjiang and Inner Mongolia – adopted the policy of “own production, own use, and own sales.” As a result of the above policy, the three areas managed to increase their processing capacities substantially leading to reluctance to supply outsiders at all. 51 In order to satisfy local demand by local production, the authorities controlled imports by establishing and implementing quotas. Yunnan prohibited the “import” of 19 types of outside goods in November 1989. 52 In Xinjiang, 48 different products including colour televisions, soaps and bicycles, were subject to quantitative restrictions at the beginning of the 1990s. 53 Liaoning and Heilongjiang beers were

49 Chao, n. 47.


52 Yang, ibid., p. 298.

53 Ibid.; Brun and Renard, n. 8, p. 91.
not allowed to be marketed in Jilin and goods from Guangdong were especially affected by protectionism by other provinces.\textsuperscript{54}

Local governments also had considerable sway over local bank branches that tended to give priority to loans used to promote local products while enterprises from other provinces were sometimes asked to repay their loans before they were even due.\textsuperscript{55} Thus, local governments did not always act in order to liberalize trade or establish a greater degree of integration. In fact, the preferential treatment granted to the coastal provinces meant that without protectionism, interior provinces could not remain competitive in the face of the inflow of products from the coast.\textsuperscript{56} With the cooling of the economy at the end of 1989, the emphasis shifted from export restrictions on agricultural inputs to targeting imports of manufactured goods produced in the coastal regions.\textsuperscript{57}

As Premier Li Peng complained on 2 August 1990, after hearing a report on the National Production Work Conference,

\begin{quote}
Regional protectionism is in essence the protection of backwardness; it disrupts the unity of the national market, hinders technological advancement, and is in the end harmful to those that practice it. We must recognize its dangers and come up with measures to break through regional blockades.\textsuperscript{58}
\end{quote}

The Proposal on the Ten-Year Program noted that there were certain "inappropriate measures" adopted in the process of decentralization and that the central government was losing its grip on the economy at the macro-level.

\textsuperscript{54} Chao, n. 47, p. 164.

\textsuperscript{55} Ibid., p. 165.

\textsuperscript{56} Brun and Renard, n. 8, p. 91.


\textsuperscript{58} Chao, n. 47, p. 170.
However, contrary to expectations, the 8th FYP retained the system of allowing local governments to keep after-tax profits.59

Poncet notes that in the 1990s, not only were inter-provincial trade barriers within China as high as those between countries of the European Union, or between Canada and the United States, they had risen steadily since the 1980s even as barriers to imports fell. Poncet found that Chinese consumers bought 21 times more goods produced in their own province than goods from other provinces in 1997, compared to a figure in 1987 of just 11 times more. She estimated that goods crossing provincial borders in China faced the equivalent of a 46 per cent tariff in 1997, up from 35 per cent a decade earlier.60 Similarly, in a study on the determinants of industry location in Chinese provinces, Batisse and Poncet found that local protectionism seemed to have increased between 1992 and 1997 in the least open provinces. Provincial governments had put up trade barriers against goods from other provinces and thus localization of economic activities in Chinese provinces did not necessarily follow market rules.61 The problem has continued well into the new century with the call being made at the 16th Party Congress in 2002, to “get rid of trade monopolies and regional blockades to allow free movement of goods and production factors on markets around the country.”62 In 2005, a *People’s Daily* opinion piece was still arguing against that the setting up of trade barriers by some local governments and called for an environment of

59 *Ibid.*, p. 169. It was widely believed that the 7th Plenum of the CPC’s 13th Central Committee was postponed due to difficulties in satisfying both central and local demands regarding the 8th FYP. A preparatory meeting of provincial leaders to discuss the Plan, reportedly scheduled for September 1990, was cancelled at the last minute because of the differences between the centre and the provinces. A Central Economic Work Conference was held instead, but failed to reach any consensus either (p. 166).


fair competition to ensure “a sustainable and healthy development” of the Chinese economy. However, according to Watson et al, such problems are a result of China adopting a gradual approach to economic reform and trying to avoid the dislocation that would have resulted from the shock therapy model used in the former Soviet Union and Eastern Europe.

Inter-Provincial Political Dynamics

Chinese provinces vary greatly in size and have never been equal to each other in terms of influence, always being arranged in a hierarchy of some sort. The position of a province within this hierarchy was subject to change depending on the site of the central government, the origins of central leaders and the province’s stage of economic development. In addition, inter-provincial rivalries and mutual dislikes are a fact of Chinese history.

Under Mao Zedong, most provinces were ruled by outsiders. Sichuan had its Shanxi Gang (also known as the ‘Potato Clique’), and Zhejiang its Shandong Gang. Guangdong was dominated by Shandong, Hebei and Shanxi cadres, Fujian by Shandong and Shanxi cadres, Hunan by Hebei and Shanxi cadres and Anhui by Chahar (Mongolian) cadres. Manchurians dominated Jiangxi, but Manchuria was itself dominated by people from Yenan in Shaanxi. To some extent, these patterns of outsider dominance were related to the armies that liberated these areas and established control over them. In this context, Jiangsu was unusual in being controlled by a group from within the province, called the Subei Gang.

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Similarly, in 1965, on the eve of the Cultural Revolution, the leftist ‘Court Faction’ included within its ranks several Shanghai figures. During the Cultural Revolution itself, the movie-operetta *Song of the Gardeners*, about two wise schoolteachers who guided youth toward light and justice was promoted by the rising Hunan politician, Hua Guofeng. It won widespread acclaim but Jiang Qing – perceiving that it was a veiled attack on the Cultural Revolution, when culture was derided and teachers were sent to feed livestock – promptly attacked the movie. However, the powerful Hua Guofeng, hailing as he did from Mao’s own home province of Hunan, began a counterattack began from Changsha. The movie was shown to Mao who liked and applauded it. A Hunan staff member took advantage of the situation to tell Mao, that the film was being criticized, to which Mao expressed puzzlement and declared that it was a good movie. Hunanese officials and other anti-Jiang officials in Beijing carefully used Mao’s remark to their advantage and Jiang’s attack failed. However, the Shanghai Gang did succeed in targeting Jiang Hua, Party Secretary of Zhejiang who had declared in the early 1960s that ‘Zhejiang was not a colony of Shanghai.’ It is also worth noting that during Jiang Qing’s imprisonment following Mao’s death, leaflets appeared in Beijing and in Shandong (Jiang’s home province) that were supposed to have come from Jiang’s cell and in which she defended the Cultural Revolution. Similarly, when Peng Chong, the Jiangsu Party Secretary was transferred to Shanghai following the fall of the Gang of Four, he was poorly received by the locals coming as he did from a rival province.

Guangdong is a province that has occupied a unique place and power among Chinese provinces. The Republican revolution against the Qing dynasty was

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68 Ibid., pp. 329-331.

69 Quoted in Donnithorne, n. 46, pp. 616-17.

70 Terrill, n. 67, p. 393.

largely financed in the province which for a time was also the centre of the revolutionaries. Similarly, the Northern Campaign (1926-28) under the leadership of Chiang Kai-shek also started in the province. And to carry on with examples from the Cultural Revolution, Lin Biao had planned to set up an alternative government in Guangzhou, before he was killed in a plane crash and Deng Xiaoping, too, was based in Guangdong during the Cultural Revolution when he was out of favour at Beijing.

In the reforms period, meanwhile, Tianjin's relative backwardness has been blamed on the conservative outlook of the leadership which was not able to defend the city's interests against the dominating influence of neighbouring Beijing. Similarly, Hubei, and especially Wuhan, produced a number of successful ideas regarding the reform of SOEs, such as enterprise mergers, restructuring by introducing foreign capital, privatization and leasing but , while all of these served to inspire and enlighten other provinces and were put into practice in many of them, this was the case in Hubei itself. A popular saying went that Hubei produced more talk and less action, while Guangdong provided more action and less talk, and this when economically Hubei had been the most powerful province in central China before 1985. Finally, in the mid-1990s, Hubei had enough of an unsatisfactory economic situation and its neighbours challenging it and came up with its “Rising Abruptly over Central China” strategy. In part the strategy also reflected a desire to restore the historical position of the ‘heavenly favoured province.’ Similarly, Shanxi too, in 1996, began implementing a 15

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75 Henan, Jiangxi and Anhui have overtaken Hubei in the development of trade, agriculture and collective enterprises respectively. Zhao Ling Yun, “Hubei: Rising Abruptly over Central China?,” in Hendrischke and Feng, ibid., p. 175.
year-long “Overtaking Strategy” that aimed in the first stage from 1996-2000, to become the leader of the mid-western provinces in economic terms.\textsuperscript{76}

From the point of view of elite politics, Dali Yang cites Hirschman’s hypothesis dealing with elite career choice mechanism noting that while the more prosperous provinces tend to produce elites who are content to stay in business, “the poorer sections of the country, where careers in industry and trade are not promising, often produce, for this very reason, a majority of the country’s successful politicians and thereby acquire influential spokesman in the councils of government.” Yang himself, however, holds the opposite view in the current context, namely, that there is a coastal oligarchy that walks the corridors of power at Beijing. For it is in the constitution of the Politburo and the Standing Committees that the real power lies and these have generally been populated by those from the coastal provinces. This is important to note and might partly explain how the interior provinces pleas for greater attention from the centre in the matter of economic development have been ignored.\textsuperscript{77}

South Korea provides a very good example of such regional domination. Since starting out on its rapid development in the early 1960s, the country’s political elite has hailed mainly from the eastern Taegu and Kyongsang regions, which have received more government investment and are now the most prosperous and industrialized. Areas such as the Northern Cholla province, by contrast, have been discriminated against leading to the perpetuation of economic disparities between eastern and western parts of the country.\textsuperscript{78} The pattern of regional policies can become self-reinforcing as China’s coastal region converts its economic dominance into political dominance. However, according to Cheng Li the composition of important state and party institutions is for now, fairly well balanced between members of the Jiang Zemin and Hu Jintao factions. The Jiang faction comprises mostly members from the coastal provinces while the Hu

\textsuperscript{76} David S G Goodman, “King Coal and Secretary Hu: Shanxi’s Third Modernization,” in Hendrischke and Feng, \textit{ibid.}, p. 225.

\textsuperscript{77} Yang, n. 21, p. 137.

\textsuperscript{78} \textit{Ibid.}, p. 12.
faction comprises those who have either served in the interior provinces or belong to one.\textsuperscript{79} It can be argued also that the complex political events leading up to the Tiananmen incident also created the new arrangement in China’s political economy that prevails today. While retaining the “policies of reform and open door,” post-Tiananmen economic policy appears to favour the formation of countervailing centres of economic power. Shanghai’s Pudong area has been developed at least in part as a means of being a counterweight to southern China’s economic power and preponderance in foreign trade. In fact, Shenzhen leaders have complained that Pudong has received far greater investment and in a much shorter time frame that it had.\textsuperscript{80}

Dependency

The coastal provinces in China are by far the most important actors on the domestic scene in China and their influence overshadows that of the poorer and less populous provinces in the interior. As Wei has noted the core-periphery structure of China’s semi-colonial period has persisted in socialist China.\textsuperscript{81} Further, as Donnithorne argued as early as 1972, economies of scale meant that major industrial centres could spread their economic influence “into their hinterlands as they seek to widen their markets and provide themselves with raw materials.”\textsuperscript{82} Not much later, between 1973 and 1975, according to Naughton, large-scale redistribution by the Chinese central government also wound down and with the beginning of the reforms and preferential policies for the coast, what redistribution remained turned more regressive.\textsuperscript{83} Indeed, while the CPC’s focus on interior regions at the expense of the more developed coast has been


\textsuperscript{80} Lam, n. 26, p. 238.

\textsuperscript{81} Wei, n. 11, p. 46.

\textsuperscript{82} Donnithorne, n. 46, p. 619.

\textsuperscript{83} Naughton, n. 8, p. 69.
interpreted as a return to Maoist egalitarianism, it is more likely that pragmatism rather than any theories of regional social equality has always been the governing principle in China's regional development programme. Kirkby and Cannon have contended that never during the Maoist era was the theme of regional equity itself ever the main principle and policy. Rather, regional development policy was driven by what was thought necessary to achieve efficient and rapid industrialization as well as national defence requirements. ⑧⁴

The dependency theory as enunciated by Wallerstein describes three structural positions in the world economy – core, periphery and semi-periphery. Core and periphery are differentiated based on the fact that production in the core utilizes capital-intensive technology and skilled labour while that of the periphery has been exploited with low-skill labour. The semi-periphery lies in the middle as both "exploited and exploiter." China's provinces have already begun to be classified in this manner with the core broadly comprising the coastal provinces, semi-periphery made up of the central provinces and the western provinces forming the periphery. ⑧⁵ Hu Angang uses the World Bank's method of classifying regions by per capita purchasing power (PPP) to divide China into four worlds. The high income "First World" includes Shanghai, Beijing and Shenzhen with just over 2 per cent of the Chinese population; the middle-income "Second World" comprises of Tianjin and Guangdong and the provinces of southeast coastal China where approximately 22 per cent of Chinese live; the "Third World" comprise regions in the lower-middle income level covering about 26 per cent of the population; and the "Fourth World" takes in the impoverished central and western parts of China holding about half of China's population. ⑧⁶

⑧⁴ Oakes, n. 8. See also Wei, n. 11, p. 133.
⑧⁵ See also Godfrey Linge, "Towards 2020: Crossing the River by Feeling the Stones," in Linge, n. 10, p. 195.
⑧⁶ Hu, n. 3, p. 220.
Important components of such dependency include the flow of labour — skilled and unskilled — and of capital between the provinces. While international experiences indicate that labor tends to flow from the poor regions to the rich regions, they also indicate that capital has a less reliable tendency to flow from high-wage areas to low-wage areas. In quite a few cases, capital has in fact, moved from low-wage to high-wage areas. In some of these "perverse" cases, this reverse flow could be traced to the already prosperous urban centers being the centers of endogenous growth, where constant technological innovation keeps the rate of return to investment high. Capital also flows this way because the interest rates in liberalized financial markets are higher than the regulated interest rates of state banking systems. Funds have therefore, flown to the coastal provinces from the provinces which lag in financial deregulation and financial development.

One implication is that when China’s metropolises and other large coastal cities do develop into endogenous growth centers in the future, labour mobility is the only easy solution to slow down (or reverse) the increase in regional inequality.

In the case of China, however, when education level is incorporated into the economic growth model, the difference in the rates of return to capital between Shanghai and poorer regions has fallen indicating the important role that human capital plays in equalizing rates of return to capital between a rich region and a poor region. Moreover, FDI inflows to China have been positively correlated to

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88 Woo, n. 19. Shaanxi, for example, has suffered from this phenomenon. In fact, in the first half of 1993, some RMB2 billion flowed out of the provincial and authorities had to borrow over RMB1 billion from Guangdong at high interest rates to deal with the crisis. See Kevin P Lane, “One Step Behind: Shaanxi in Reform, 1978-1995,” in Cheung et al., n. 71, p. 229. Investments in the 1990s by interior provinces in coastal areas was termed as "boat-borrowing" and often designed to enable the former to attract more investments through "window enterprises. Lin, n. 71, p. 423.


90 Cong Cao has noted that it is the economically advantaged regions in China that have monopolized the country’s higher educational opportunities. Their prosperity has allowed both governments and individuals in coastal provinces to devote more money for education. Cong Cao, “Social Origins of the Chinese Scientific Elite,” The China Quarterly, No. 160, December 1999, p.
the level of human capital development, size of market, and growth of private sector of the target area. Thus, the difference in human capital among regions helps to explain the unbalanced regional pattern of FDI in China. Since poorer regions are more likely to suffer a brain drain to coastal regions and Beijing, funds for a human resource development push should come at least initially from the central government. 91

Of the seven provinces that saw the highest number of their people leave for jobs in other provinces in 1999, six were interior provinces. Nearly half of all 1999 trans-provincial migrants went to Guangdong while the other major recipients of migrants are also all eastern coastal provinces namely, Jiangsu, Fujian, Shanghai, Beijing, and Zhejiang. 92 The traditional restraints that limited migration within China have been relaxed for highly-educated Chinese and the top cities provide several incentives to attract talent from across the country. 93 By 1989, about 90 per cent of the administrators and technicians in Shenzhen SEZ, some of whom belonged to the temporary population, had been brought in from the interior. 94 It is, in fact, believed that one-fifth of China's PhD holders now work in Shenzhen. 95 Thus, poorer provinces are affected by both brain drain and capital drain, in

997. The majority of China's scientific elite too are to be found in universities in the east of the country and despite certain key universities and centres for scientific research being based in interior cities, these have not made a significant contribution to educating a sizeable scientific elite (p. 1009).


addition to the fact that they already do not get enough investment either from the centre or from the richer provinces.96

The phenomenon of exit and voice means that provincial governments also work under the constraint of the populace’s response to government regulation and taxation.97 A reforming provincial leadership needs to listen to popular opinion, even in the absence of elections,98 and must open up avenues for private action as against state-organized collective action. As governments relinquish control over movement and settlement, capital flows and employment generation, individual actors have greater freedom to stay or leave99 and in China, today, the costs of exit and voice are lower than in the Maoist era but given the generally high unemployment level across China, emigration of people from one province can hardly place an effective constraint on provincial behaviour. Exit and voice therefore appears, and is most effective, in the form of capital movements, that is, the threat to invest in another province, and in forms of protest whose suppression needs to be financed out of the provincial coffer. Thus, provinces with a high concentration of domestic or foreign capital owners will perforce follow an economic policy that gives high premiums for further investment, in the form of legislation and complementary state-financed infrastructure investment, for example. In other words, the richer the province the more accommodating it will

96 In fact, Ezra Vogel says that the central government was also quite reluctant to invest in enterprises located in the interior and encouraged them to move or establish branches in more open and better established market areas. Vogel, n. 72, p. 142. See also Yang Zhongmei, “Regional inequality in China. East-West dichotomy,” in Hsin-hsing Wu (ed.), PRC Political Economy: Prospects under Jiang Zemin (Tainan: Graduate Institute of Political Economy, National Cheng Kung University, 1999), pp. 202, 204; Terry Cannon, “National Minorities and the Internal Frontier,” in Goodman, n. 22, p. 167.


98 Ibid., footnote 48, p. 275.

99 Thus, an estimated 5.5 million people left Sichuan in 1993, for Guangdong, and many moved to Hainan to take advantage of better conditions and higher returns. Krug, ibid., p. 262. It is estimated that there are some 50 million migrant workers from Sichuan in other parts of China who between 1996 and 2000 are estimated to have sent home some RMB100 billion. Liu Qingquan and Gary M C Shiu, “Sichuan,” in Y M Yeung and Shen Jianfa (eds.), Developing China’s West: A Critical Path to Balanced National Development (Hong Kong: The Chinese University Press, 2004), p. 416.
be to the needs of private and collective entrepreneurs,\(^{100}\) affecting possibly the chances of the poorer provinces that do not have the wherewithal yet to offer such high premiums on their own or in the absence of central government support. This can lead to frictions between the provinces as well as between the poorer provinces and the centre. The mutual dependency of the provincial leadership and the business community is, in fact, an important consideration as public budgets depend increasingly on revenue from the business community and earners of taxable income and the business community depends on favourable legislation to become (and remain) competitive. Lobbying at the national level for more power to legislate is thus a necessary first step to increasing the province’s ranking among other provinces and to fill the provincial coffers.\(^{101}\)

Although the central government sought to redistribute wealth in China, richer provinces seeking industrial maximization were able to significantly determine spatial patterns of accumulation. For example, the development of the western region has historically been driven by national interests, not least in the period from the 1950s to the 1970s. Although the local area derived benefit from the 156 Projects and the Third Front programme, its socioeconomic development was not a major policy goal.\(^{102}\) In Guizhou, the central government’s attention to development was focused on turning the province, with its large coal and iron ore reserves, into a centre of extraction for fuelling rapid industrial development and integration throughout southwest China. The poor planning, design and construction of Third Front projects which followed the GLF, along with their enormous costs and diversion of investments, resulted in decline in both industrial and agricultural output. By way of compensation, Third Front investments in Guizhou were increased still more, peaking in 1971 at RMB1.46 billion. This did little, however, to alter the dependency structure of the economy which defence industrialization and resource extraction created. Guizhou simply survived on subsidies – which primarily went to urban residents for the purchase of

\(^{100}\) Krug, n. 97, p. 265.

\(^{101}\) Ibid., p. 262.

manufactured goods from wealthier provinces and of food at deflated prices. Ultimately, however, the situation led to economic and political chaos in Guizhou. The Guizhou leadership was unable to implement national policies and confront ethnic tensions resulting from the campaign against ‘local nationalism,’ and was dismissed in 1965 to be replaced by functionaries from the Southwest Regional Bureau in Sichuan. It would be another 15 years before the province saw one of its natives become a leader.\(^{103}\)

Even as late as the 8th FYP and its Key Regions of the Comprehensive National Development Plan finalized in August 1990, resource extraction continued to be intensified in Guizhou. The centre’s prescription for Guizhou remained the same— it would serve as a net energy and raw materials provider in light of the increasing redundancy of its manufacturing sector left over from the Third Front era. In an effort to make these industries profitable, many have been converted to consumer goods production and moved to new development zones near the provinces major urban areas of Guiyang, Anshun and Zunyi. Yet, this transformation of Guizhou’s ordnance industry has also entailed a reduced dependence on central investments. Thus, the comprehensive development plan means an increased concentration of central investment in the energy in the energy and mining sectors, while the province is given the responsibility of reviving a manufacturing industry that is in bad shape.\(^{104}\) A sense of internal colonialism is apparent with ever increasing opportunities likely for the richer provinces to access Guizhou’s raw materials more easily through the central government. Also with central investments in other sectors dwindling, and if capital for reviving the manufacturing industry does not come from FDI, it must come from domestic sources, which again means depending on other richer provinces. Interestingly, however, during the Great Leap Forward, Guizhou’s leaders had perceived the programme and its increased investments from the centre as helping along the province’s integration, and

\(^{103}\) Oakes, n. 8, p. 40.

\(^{104}\) Oakes, n. 8, p. 42.
welcomed it as an opportunity for Guizhou to cast off its colonial status as obtained before the Revolution.\textsuperscript{105}

Other examples come from Qinghai, where, of its several proposed power plants most will provide power for the Han-dominated capital city of Xining rather than Tibetan-dominated rural areas. Similarly, gas from the Tsaidam basin in the province will make its way through to Lanzhou in Gansu, before joining the gas grid aimed at the coastal provinces.\textsuperscript{106} Similarly, Beijing-sponsored development of Tibet is also closely linked to resource exploitation in Tibet including the great water transfer projects designed to draw water from the rivers of Tibet to supply the arid north.

That dependency in the case of Tibet is being reinforced is evident in the fact that the volume of goods brought into Tibet via the Qinghai-Tibet Railway (QTR), completed in mid-2006, was expected to exceed that of goods exported from the province. Grain crops, construction material and consumption goods would be brought into Tibet, while handicrafts and agricultural products would make up the bulk of the province’s exports.\textsuperscript{107} As important as the economic benefits are, the QTR and other infrastructure projects in Tibet are also about improving the integration of the autonomous region with the rest of China.\textsuperscript{108}


\textsuperscript{108} As Jiang Zemin declared in his Report at the 16\textsuperscript{th} Party Congress, “The implementation of the strategy for the development of the western region bears on the overall situation of national development, the ethnic unity and the stability in border areas.” Jiang, n. 62.
Meanwhile, even as the central government's own abilities for investment decline, it has encouraged rich provinces and profit-making state corporations to take up the slack. The process is helped along no doubt by the special loans set aside for entrepreneurs willing to invest in the interior provinces.\(^{109}\) As Naughton has pointed out, the enormous sums involved in the WDS provide the central government the opportunity "to distribute particularistic benefits to a network of political clients," allowing almost all existing institutions to get a "cut."\(^{110}\) In Tibet, for example, Guangdong, Fujian and Shanghai and the oil major Sinopec have built infrastructure, hotels, apartment blocks, and exhibition centres.\(^{111}\) While the flow of public funds into Tibet works out to each of its 2.7 million people being subsidized to the tune of more than the average annual salary in China, much of the money actually ends up in urban areas where it is the Han migrants who dominate. While the average disposable income in Tibet's towns is the highest in China, its farmers are among the poorest in the country.\(^{112}\) In 2005, a Tibetan herdsman's income stood at RMB2,075 whilst the average urban income was RMB8,411.\(^{113}\) As Cannon, says the Han and the non-Han are likely to view the benefits of modernization very differently\(^ {114}\) and these could lead to conflicts in the future

Notwithstanding this, there is also fierce competition among provinces for commercial investment, domestic as well as foreign. While foreign investment is controlled at provincial and central levels and the central government can grant

\(^{109}\) Yang and Wei, n. 22, p. 86.

\(^{110}\) Barry J Naughton, "The Western Development Program," in Naughton and Yang, n. 27, p. 288.


\(^{113}\) Watts, ibid.

\(^{114}\) "Tibet's economy welcomes new railway era," People's Daily, 8 July 2006, http://english.people.com.cn/20050707/eng20060708_281250.html. The 11th FYP was expected to raise the income of Tibetan herdsmen by 13 per cent every year, an increase that was linked closely to expected gains from the QTR.
and withdraw preferential policies and incentives, competition for domestic investment is much less controlled by the central government and forms of competitive behaviour include the informal granting of tax preferences and incentives, such as cheaper land rates, and so on. These developments point to a trend among provinces to take an increasingly active role in promoting their economic interests. These measures are often commercially sensitive and provincial institutions are unlikely to announce them to anyone but potential investors, making it difficult to assess their strategies.\textsuperscript{115} Local authorities in less developed areas have tried to attract investments from Shanghai, Shenzhen, and other coastal areas with incentives such as access to credit and the local market, tax breaks, and offers of cooperative agreements with more developed provinces and cities.\textsuperscript{116}

Indeed, developed areas like Shanghai have been aware of the need to strengthen their links with the domestic market and in particular the interior provinces owing to its need for energy and raw materials for production\textsuperscript{117} while SEZs such as Xiamen, have also had permission since the late 1980s to act as trading agents for inland areas.\textsuperscript{118} However, some of these arrangements have led to the interior provinces being “ripped off” as cheap raw material bought from them by the coastal provinces and SEZs were exported at huge profits while machinery imported by the eastern provinces was sold inland at inflated prices.\textsuperscript{119} Nevertheless, since it is the cities on China’s coast that will in the future develop the closest links to the world economic system, given their more favourable location,\textsuperscript{120} the cities of the interior might have to continue their efforts to develop still closer links with the coast to reduce their distance from the global economic

\textsuperscript{115} Hendrischke, n. 1, p. 8.
\textsuperscript{116} Yang, n. 21, p. 135.
\textsuperscript{118} Howell, n. 24, p. 127.
\textsuperscript{119} Lam, n. 26, p. 237. See also Cheung, n. 73, p. 32. See also Breslin, n. 102, pp. 148-49.
\textsuperscript{120} Zhou, n. 74, p. 62.
system and if they are not to be left further behind - a process that will be aided, no doubt, by increasing Han numbers in the interior cities.

Thus, where on the one side, the coast seeks investments from the outside world, the interior seeks investments from the coast. Like the PRC as a whole, has dangled the market before multinational corporations (MNCs) to get them to agree to its terms, the less developed areas in China may seek the same sort of leverage over companies from the developed coastal provinces and metropolitan centres, by holding forth the promise of much needed energy resources. In fact, there is already intense competition among the coastal provinces to attract domestic investment.\textsuperscript{121} Still, the replication of economic relations under the framework of globalization implies the continued predominance of the coastal region, even though some cities in the interior may also become significant players. In a way, the richer provinces could be turning themselves into something akin to corporate entities with investments and holdings abroad as well as in other, often poorer, provinces. As Tie-ting Su et al, have noted, provincial authorities increasingly act as executives of giant corporations in capitalist economies would.\textsuperscript{122}

According to Lary, disparities between coast and interior have, in fact, “revived some unequal couplings of provinces” in the form of traditional patterns of labour supply as Hunan and Guangxi labour move to Guangdong for work and migrants from Subei (northern Jiangsu) travel to Shanghai to find work.\textsuperscript{123} As a poor province adjacent to wealthier areas, Anhui, for example, has earned a reputation as “the Philippines of China” and the total income remitted by internal migrants for expenditure back home occupies a greater portion of the province economy than provincial government revenues and expenditures. Anhui women are to be


\textsuperscript{123} Lary, n. 64, p. 190. See also Fan Jie and Wolfgang Taubmann, “Migrant Enclaves in Large Chinese Cities,” pp. 183-97 and Chaolin Gu and Haiyong Liu, “Social Polarization and Segregation in Beijing,” in Logan, n. 74, pp. 198-211.
found working as nannies in Beijing, Shanghai, and many smaller metropolitan centres along the coast.\textsuperscript{124} It has to be noted however, that this is only one side of the picture. There is a severe shortage of domestic help in Shanghai such that in 2005 for example, employment agencies in Shanghai had to sign an agreement with labor authorities in Hefei, Anhui’s capital, to make up for shortfalls particularly during Chinese national holidays. Average salaries have in fact risen to ensure that domestic help stayed on and to attract new help.\textsuperscript{125} Earlier in 2004, Beijing and Heilongjiang had signed an “unprecedented” agreement to deal with the national capital’s labour shortage. The deal guaranteed the rights of migrant labourers from the northeastern province and dealt with issues such as employment rights, timely payment of wages, working hours, work environment, health conditions and social security. Heilongjiang has also established service centres in other cities such as Shanghai and Guangzhou with their large numbers of migrant workers.\textsuperscript{126} While this may be interpreted as a division of labour between the provinces, a hierarchy in the economic structure is also, no doubt, being formed at the same time.

What is more, it is not just the rich provinces that have the capability to make large-scale investments in the poorer provinces but rich individual businessmen as well. The latter have been accused of tricking unsophisticated local government officials in remote areas or bribing their way to lucrative contracts. Yan Jiehe, owner of China Pacific Construction Group and believed to be China’s second-richest individual with a personal fortune estimated at US$1.6 billion has garnered construction contracts worth US$50 billion since the launch of his company in 2002. Admitting that he specifically targeted ‘remote, underdeveloped provinces’ that lacked finance and construction expertise, Yan said by putting up nearly all the costs himself, he was able to make deals directly with local officials, avoid competition and in the process, achieve an average profit margins of 35 per cent.

\textsuperscript{124} It has to be remembered however, that four times as many males as females leave Anhui each year in search of work. John Fitzgerald, “Introduction,” in Fitzgerald, n. 97, pp. 5-6.


Often such construction in the provinces flies in the face of central government attempts to avoid overheating in the economy by limiting such construction.\textsuperscript{127}

Not only are such processes already underway, it might also be said that the direction of and views in academic studies of China’s weaker provinces and the solutions proposed to resolve their backwardness, help the process along. Yeung and Li, for example, in their study of China’s western development programmes begin by saying that “the methods employed by the government to support less developed regions are crucial,” for regional disparities have now reached such a level that they may well jeopardize further economic growth or national stability. While Yeung and Li agree that without state intervention, backward regions are likely to be left further behind,\textsuperscript{128} they have “reservations” about whether state budgetary power in the 21\textsuperscript{st} century ought to be revived, believing that “development of the west should not hinder growth in the coastal provinces.” Indeed, they believe that state intervention in China’s economy still remains “rather strong”\textsuperscript{129} and appear to be trying to counter a ‘wrong’ trend embodied in the works of some Chinese scholars of asking for greater state intervention for fear what implications it might have for the freedom of economic policies in the coastal regions. The two authors are forthright in arguing that priority should shift from national industrialization to local interests, especially those of the local people. While this is stated in the context of the western provinces, it might be equally applicable to the coastal provinces.\textsuperscript{130}

Yeung and Li also argue that state support be implemented through market rules. They stress that state investment should be used as a catalyst and that economic growth in the region should not entirely be driven by capital investment. Domestic demand and exports should also play their part.\textsuperscript{131} While there is a certain logic to


\textsuperscript{128} Yeung and Li, n. 7, p. 25.

\textsuperscript{129} \textit{Ibid.}, p. 26.

\textsuperscript{130} \textit{Ibid.}

\textsuperscript{131} \textit{Ibid.}, p. 27.
the argument, one implication is that the west should open itself up more to the coastal regions. Another would mean that the western provinces open up to the countries on China's borders which contacts however are, for the most part limited by lack of adequate infrastructure (as in the case of the border with India) as of present or limited by the small size of the markets (as in the case of the Central Asian Republics). The two authors also state that the government should be mindful of the return rates of state investment when implementing relevant projects. In other words, they once again imply that the coastal provinces should not be bled to develop the west. Further, Yeung and Li suggest that since clustering of economic activities is the most distinctive feature of the spatial economy, various levels of growth be selected on the basis of cities and towns. The implication of this line of argument too is troubling considering the fact that in the frontier provinces the major cities are either Han-majority areas or Han-dominated and the main industries and enterprises too conceivably are thus dominated.

Finally, in stating that institutional innovation is key to the development of the west and that endogenous factors, such as institutional strengths and cultural values have been responsible for the continuing growth in the coastal provinces even after central government policy has refocused on the inland area, a degree of cultural typecasting is also evident in the argument. Indeed, a similar sentiment seems also apparent in the Report to the 16th Party Congress in 2002, when Jiang Zemin says, “People [of the western region] should further emancipate their minds, enhance their self-development capabilities and explore a new path to accelerated development in reform and opening up.”

132 Ibid.
133 Ibid.
134 Ibid., p. 28.
135 Jiang, n. 62.
Culture and Ethnicity

An important area where provinces have jostled for superiority is in the realm of ideas and the reclaiming of history and culture. Oakes says that China’s provinces are engaged not just in economic development but in a process of trying to distinguish themselves from each other as “coherent cultural units.” Cultural and historical identities have been used by provinces as a means of reinforcing their status and advantages. Globalization impacts on provincial identity as transnational corporations exploit local culture to naturalize the consumption of a particular product and localities themselves pursue the aim of creating a local culture that can attract international capital. Thus, provinces such as Shanxi, Anhui and Guizhou have each tried to project themselves as representing an ideal “Chineseness” – a means also, for provincial elites, to negotiate for autonomy vis-à-vis the central government. In part, such efforts, particularly by the interior provinces, arise owing to their desire to combat their own dissolution as their citizens orient their lives toward other more prosperous regions in their search for better livelihoods and in part to allow themselves to connect directly with overseas Chinese capital without the intermediary of the coast.

Anhui began promoting a provincial culture in the context of its modernization and development efforts in the 1990s. The move was a reaction to the slowness of, failure even, of the trickle-down effects of the development of the coastal region reaching the province. In addition, Anhui, with its celebration of the indigenous culture of Hui merchants showed a desire to create an “imagined community of Anhui provincials that would ground regional diversity in provincial unity.” The Anhui government, in addition to disaggregating its own internal regions to take advantage of their physiographic, economic and cultural connections with adjacent areas beyond the provincial borders, also tried at the same time to

136 Oakes, n. 105, pp. 668-69, 674. See also Lary, n. 64, pp. 184-85.

137 Oakes, *ibid.*, pp. 675, 679, 685. This particular fact might also provide an added reason why larger economic regions may be formed with possibly the locus of political power drifting toward the economic power centre.

reintegrate these regions back into the province around historical myths of common provincial culture and ancestry.\textsuperscript{139}

Similarly in Shanxi, with an existing, historically formed provincial identity and the site of the warlord Yan Xishan’s economic reforms, the mechanism of party propaganda has been transformed and used to serve efforts to create local political support and goodwill.\textsuperscript{140} Further, the province has in the 1990s, sought to shed its Mao-era identity as home to some of China’s most important communist revolutionaries and the site of significant revolutionary base areas to market itself as a province conducive to capital accumulation.\textsuperscript{141}

The Jiangxi provincial leadership too has tried to enlist the support of the provincial elite in preaching a liberal attitude towards economic reforms and overcoming the attitude of reliance on state support. In the course of this, a new cultural identity for the province has been created contributing to a new provincial self-awareness among the intellectuals of the province.\textsuperscript{142}

Faced with the problem of dwindling subsidies, the Guizhou provincial government, on the other hand, was quick to take advantage of the marketability of its cultural traditions. However, the challenge has been to refrain from an overt commercialization of traditional culture. Not surprisingly, the government was not able to resist the temptation and this has resulted in an almost colonial exploitation of the minorities, as the latter control neither the production nor access to marketing channels for their products.\textsuperscript{143} If this were not enough, Guizhou also has to compete with the other minority province of Yunnan for revenue from tourism.

\textsuperscript{139} Fitzgerald, n. 124, p. 6.
\textsuperscript{140} Goodman, n. 76, pp. 212-15.
\textsuperscript{141} Oakes, n. 105, p. 677.
\textsuperscript{142} Feng, n. 50, pp. 261-67, 270-71.
\textsuperscript{143} Hendrischke, n. 1, p. 20.
At the provincial level, some of the post-Mao reforms taken for granted in other provinces – such as the household responsibility system – have come to be interpreted in Yunnan as one more “Confucian civilizing project” promoting the virtues of family solidarity, loyalty, diligence and thrift. At the central level, Beijing is inclined to interpret the problems that it encounters in implementing central reforms in Yunnan as evidence of the “low-cultural level” of the non-Han communities in the province while at the local level, commodification of peoples and places in the political economy of national development erodes territorial integrity and cultural differentiation. In response, local communities have devised strategies to recover their unique identities, some by reinventing territorial myths, others by reviving or redefining their proprietary cultural symbols, and in either case supporting claims to particularity against the homogenizing tendencies of national development.¹⁴⁴

‘Hanification’ or ‘Sinicization’ is a phenomenon in several frontier provinces populated by the minority nationalities and shapes negatively the ways of interaction between provinces and their peoples. The case of Tibet is perhaps the most well-known with a strongly-held feeling among certain sections that development in Tibet is very closely associated with Hanification of the region.¹⁴⁵ Even infrastructure projects such as the QTR are not spared the association whether by Tibetan activists or by the Chinese state. Indeed, promoting “cultural exchanges” between Tibet and the areas along the rail route, with the rest of the country has been one of the declared objectives.¹⁴⁶ Inaugurating the railway, Chinese President, Hu Jintao, noted that one of its objectives would be to foster ethnic unity in the country’s western areas.¹⁴⁷ A Tibetan member of the Standing Committee of the National People’s Congress (NPC), meanwhile, called the QTR

¹⁴⁴ Fitzgerald, n. 124, p. 6.


a ‘road to heaven’ that would bring Tibetans “harmony, happiness and economic prosperity” and said that it was “a railway that people of various ethnic groups in Tibet have expected for more than half a century.”\textsuperscript{148} In fact, the \textit{People’s Daily}, has reacted strongly to Western criticism of the QTR – on grounds of the cultural threat that it posed to Tibet – asking, “why the railways, which had ‘worked wonders for industrialization in United States’ and brought ‘benefits for the people in India,’ would sabotage the ‘ethnical culture of Tibet’.”\textsuperscript{149} Meanwhile, the International Campaign for Tibet (ICT) has said that the US$3.2 billion construction cost of the QTR in fact exceeded the combined central government allocation for education and health care in the Tibet Autonomous Region (TAR) since 1952, and was justified neither in financial nor social terms but based primarily on Beijing’s political and military objectives.\textsuperscript{150} As Politbureau member Li Ruihuan, stated in 1997, “Expanding Tibet’s economy is not a mere economic issue, but a major political issue that has a vital bearing on Tibet’s social stability and progress. This work not only helps Tibet, but is also related directly to the struggle against the Dalai Lama’s splittist attempts.” Similarly, in 2001, Jiang Zemin was quoted thus by \textit{The New York Times}, “Some people advised me not to go ahead with this project because it is not commercially viable. I said this is a political decision.”\textsuperscript{151} Further, the elimination of border controls for the TAR and the lax application of the \textit{hukou} system in the region have combined to step up the pace of Han migration.\textsuperscript{152}

On the border with Laos, in the Dai (Tai Lue) Autonomous Region of Xishuangbanna, established in 1953 by the PRC with Jinghong as its capital, one-third of the population is Han Chinese. For several hundred years this region had a variable tributary relationship with the Chinese empire in which the latter


\textsuperscript{150} “Crossing the Line: China’s Railway to Lhasa, Tibet,” n. 145, p. 2.

\textsuperscript{151} Both quotes from “Crossing the Line: China’s Railway to Lhasa, Tibet,” \textit{ibid.}, p. 11.

\textsuperscript{152} See “Crossing the Line: China’s Railway to Lhasa, Tibet,” \textit{ibid.}
increasingly exercised its power through a *tusi* system (a form of indirect rule) in which Han political control was exercised from the cities and towns, while the rural areas remained exclusively populated by Dai and other groups. In the 1950s, the Han made up only 2.3 per cent of the population but this began to change in the 1950s with the creation of state farms for growing tea, and in the 1960s, state rubber plantations, all of which were almost completely staffed by Han immigrants.\(^\text{153}\)

One observer has noted that the Dai who live in the town – usually civil servants and a majority of them former aristocrats and their relatives and descendants – seemed the most determined to assimilate into the dominant Han culture and to shake off their “stigmatized” Dai ethnicity. Ironically, or perhaps predictably, along with this irrevocable Hanification, Jinghong has at the same time tried to embellish itself with “ethnic characteristics” to make itself attractive to tourists.\(^\text{154}\)

Minorities, as Gladney has argued, receive an inordinate amount of publicity in the PRC because by looking at minorities, the Han have the opportunity to differentiate themselves helping thus also to consolidate the idea of a unified Han ethnicity in modern China. In this sense, it is a certain “domestication of the frontier” that has taken place in contemporary China, and travelling to the frontier only helps consolidate the center. Similarly, sexualization of Dai women coincides with the Han sense of the frontier being lawless and therefore, in a manner of speaking, falls out of normal cultural constraints. Hence, the Han have fantasies of sexual freedom and licence among minorities, and among the Dai in particular. Such views also grow out of Confucian society’s inability to locate the status of women in non-Confucian societies, where relative female freedom in choosing the male partner is mistaken for sexual libertarianism.\(^\text{155}\)


\(^\text{154}\) Ibid., pp. 221-22.

\(^\text{155}\) Ibid., pp. 223-24.
The Han believe they have brought “advanced Chinese culture” to these “backward” peoples but an interesting study by Mette Halskov Hansen suggests that Han attitudes are perhaps more nuanced. She notes that the Han who were sent to the minority areas by Mao in the 1950s and 1960s to establish the state farms, believed they were doing it for the good of the nation, and went to bring “civilization” to the border minorities. Today, these Han however, differentiate themselves from the new wave of migrants who come for “selfish” motives only and look down on them. While these first settlers, came from “civilized” areas, their children, on the other hand, have been born in Xishuangbanna, and as much as their parents have tried to make them identify with their own native villages in Hunan or Sichuan the children feel that they are somehow “local” (bendi ren) and not “outsiders.” These children do not have a “homeland” like their parents, but nor have they fully acquired a new one. Since the government is headed by a Dai and the majority of the government cadres have to be Dai as well – the head of the Communist Party, however, is always Han – the Han born in Yunnan have come to accept Dai criticisms of the “poor and dirty” Han from outside the province and wish to be identified as insiders, and claim like their parents higher motives for their attachment to the region.¹⁵⁶

Thus, cultural and identity factors form a very important arena of inter-provincial relationships, tending more often than not, towards the negative. These factors tend to alienate minority areas from the Han mainstream or create new ways of interaction between Han and non-Han, the consequences of both of which can be unpredictable. At the same time, within traditionally Han areas itself, cultural identity is increasingly a tool to be used to ensure market advantage and to this end, there are growing attempts at cultural differentiation between provinces in China. In an increasingly market-driven economy, it is perhaps inevitable that old animosities will arise afresh or new ones be created in the quest either to stay at the top of the heap or to get there.

Conclusion

At the provincial level, ideas such as economic development or of a single "Chineseness" need to be translated into enforceable policies. Constraints imposed by natural and cultural endowment need to be taken into account, if the party-state wishes to maintain control over the nature and pace of social and economic change and provincial leaders have to constantly and carefully weigh the trade-offs between compliance with the centre and the need to respond flexibly to actual requirements in the province, especially as local demands increasingly clamour to be heard.\textsuperscript{157} Such considerations mean that not only might a province defy the centre but it may also end up confronting and competing with other provinces and the latter option will perhaps look like a more feasible option the more the central government succeeds in recentralizing some of its powers. Indeed, with growing economic disparities between provinces, discrimination based on provincial antecedents, including cultural stereotypes, and increasing provincial identification, there are additional reasons for provinces to come into conflict with each other.

However, inter-province competition is not the only manner of provincial action vis-à-vis other provinces. Either independent of the centre or under central guidance, there have been and exist instances of provinces interacting with each other towards positive and common goals. Indeed, one major way economic transformation is being carried out in China today is in the formation of large economic regions, of hub-and-spoke arrangements that have certain prominent economic centres as the central drivers of growth. These arrangements and their political implications are examined in the following chapter.

\textsuperscript{157} Krug, n. 97, p. 260.