CHAPTER 2

CENTRE-PROVINCE RELATIONS – THE SOURCES OF LOCALISM

The relationship between the central and local governments, in China, as elsewhere, is essentially one as obtains between national and local interests. Since the central government must acknowledge that the localities have their own particular interests, it must in the interest of proper governance, ensure that its bureaucratic system meshes both vertical (coordination from centre to locality) and horizontal (coordination within a given geographic area) requirements. The vertical bureaucracies are called ‘lines’ (tiao), while the horizontal coordinating bodies at various levels are called ‘pieces’ (kuai). The relationships between the vertical and horizontal bodies are called tiao/kuai guanxi. Further, there are numerous reporting lines throughout the system – through the party, through the government, to the territorial organs, and so on.

While these lines signify where the power flows from, actual authority in China’s political system, is in most instances, fragmented. Given the fact that great diversities have always existed among Chinese provinces, the reach of state power has its own limitations. As Shue puts it, the “unending struggle between central authority and local control… remained the dominant problematic of governance


3 Ibid., p. 188. Under the tiaotiao system, major policy decisions are made by the Politbureau, and major planning, financial, and supervisory responsibilities rest with the national ministries and their regional branch offices. While the Politbureau retains the power to make broad decisions under the kuaikuai system, the Party committee of each region is directly responsible for implementation and supervision. See Jonathan Unger, “The Struggle to Dictate China’s Administration: The Conflict of Branches vs Areas vs Reform,” Australian Journal of Chinese Affairs, No. 18, July 1987, pp. 15-45. Chien-min Chao, “Tiao-tiao versus K’uai-k’uai: A Perennial Dispute Between the Central and Local Governments in Mainland China,” in Bih-jaw Lin and James T Myers (eds.), Forces for Change in Contemporary China (Taipei: Institute of International Relations, National Chengchi University, 1992), p. 158; Li Si Ming, “China’s Regional Development Issues,” in David C B Teather and Herbert S Yee, China in Transition: Issues and Policies (London: Macmillan, 1999), pp. 142-43.
in China from Qin times through the 1911 revolution, and beyond. While imperial governments maintained tight control of provincial appointments and revenues, and tried to limit the scope of provinces for independent action, provincial governments, not surprisingly, sought sufficient autonomy to ensure effective local government. In the imperial era, the arrangement was such that appointed officials down to the level of district magistrate acted as the agents of the central authority, but left it to the local gentry both to implement imperial policy and to represent local interests when the need arose or the opportunity presented itself. However, since the latter depended on the empire for their status, it was the imperial institution that stood in the more favourable position.

Nevertheless, there was in the imperial system, plenty of leeway for local self-reliance, whether urban or rural, and in many areas, a substantial degree of de facto autonomy had emerged, with real power balanced between imperial officials and the leaders of local society. Further, over the course of the 19th century, the balance also appeared to have shifted very much in the latter’s favour. While legally imperial authority could not be challenged, in reality unreasonable orders could be turned back. This influence lying along various stages down the line of authority from the central government is not usually acknowledged in discussions on the formal governmental institutions of China, but was ‘effective nevertheless.’ The situation is not far different today and one of the main institutional contradictions of the Chinese administrative system remains that of

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“the centralizing predilections of the rulers and the decentralizing dictates of the environment.”

One of the enduring lessons of China’s history has been that to ensure a functioning national polity, the province needed to exercise sufficient authority to institutionalize and to oversee local government. Oi suggests that China’s experience indicates the ‘state’ ought to be disaggregated into its component parts to differentiate between levels of government and the incentives for each level to perform. While there is a need for strong state capacity it had had to exist as much at the local level as at the central level. Provinces have generally been blamed for China’s territorial disintegration without considering also their instrumental role in local state-building and in confronting the problem of state involution. There has however, always been a pattern in which relaxation followed centralization in central-provincial relations whether during the Republican and Nationalist eras or in the Communist period. The Republican Government of 1912 and the Nationalist Government of 1928 each tried to establish strong central control immediately after coming to power before settling down to a model that eliminated some of the excesses of over-centralization. The Communists, likewise, began by asserting strong central government control, believing the crises of their predecessors resulted from excessive latitude towards the provinces, confusing perhaps the symptoms for the cause of system breakdown. Relaxation of central control came very late in the life of both the Republican and Nationalist regimes, well after the onset of regime crisis and in each instance, constitutional amendments devolving greater power to the provinces – first under the Cao Kun constitution of 1923 and later under Chiang Kai-shek’s constitution of 1946 – turned out to be initiatives that provided not too much leeway to the provinces but too little, and came too late for the survival of each regime.

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9 Fitzgerald, n. 5, p. 20.

10 Ibid., p. 34.


12 Fitzgerald, n. 5, p. 35.
The Nationalist Government probably denied provinces a significant measure of formal autonomy for fear that they would become the major beneficiaries of intensive state-building. And this at times was indeed the case. During this period, when the pressures for local self-government encountered pressure for centralized control from above, the province often managed to improve its standing as arbiter between centre and locality. While centralizing nationalists appealed to the people in the hope of forming an alliance against the powerful regional forces that hindered them, provincial governments in Shanxi, Sichuan, Guangdong, Guangxi, Yunnan and the three Manchurian provinces consistently prevented central fiat from becoming national law. In reaction to such opposition, attempts were made to work around the province itself, as a significant echelon in the national system of territorial administration, but this was also where the central government’s limitations were the most apparent. While it was not probably possible for any one political movement to effectively control the nation without first ridding it of the warlords and their regional bases of power, local government in the Republic was also not possible without the aid of the same regional forces. Effective county administration was dependant on intermediate echelons in the hierarchy. The failure of successive attempts to implement the two echelon system and reduce the province to a “cipher” of central government under the government of Yuan Shikai, Sun Yat-sen and Chiang Kai-shek indicate that each of them overestimated the center’s capacity to communicate effectively with county and city administrations, and underestimated the problem of institutionalizing new state structures at county and sub-county level.

Centralization of state power under the new party-state of the Communists, successor to the Nationalist government, was different from the traditional system in that the governing principle was intended to be one of democratic centralism instead of despotism. The system would ensure not only the centralized and unified leadership of the central government, but allow local governments enough

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13 Ibid., p. 24.  
14 Ibid., p. 34.  
15 Ibid., p. 25.
autonomy to ensure the initiative and enthusiasm required to get things moving at the local level. To quote Shue, the centre “did not, could not, and plainly often did not wish to, control everything. What it did control, it often controlled indirectly.”  

However, the principle of democratic centralism remained “uninstitutionalised” more a function of political relationships between the centre and local governments rather than an institutional or legal relationship. The long-term integration of Party and government administration meant that vertical power relations within the Party frequently took the place of horizontal power relations among the government, not only intensifying the centralization of state power, but blurring power relationships between the central and local government as well.  

Thus, policy discrepancies between the centre and the localities were less of a problem under the centralized command economy of the Mao era as the centre had various means at its disposal for controlling provincial revenues and expenditures, thus maintaining its overall predominance. It assigned revenue sources to the provinces and stipulated revenue-sharing rates, regulated the level of local expenditure, and could, if necessary, enact extraordinary fiscal measures.  

Still, a question that Shue asks is worth considering, “...could the Communist Party under Mao have been both too centralized and too decentralized? Hyperstatized and yet politically parcelized?”  

This is an attractive argument. Despite Mao’s totalitarianism, the Chinese economy and regime were not well integrated, and the structure of decision-making was fragmented. Indeed, great local autonomy was preserved, even strengthened, by the two waves of economic decentralization Mao initiated during the Great Leap Forward and the Cultural Revolution. In addition, the institutional withdrawal of state power rendered the provinces pretty much independent in managing local affairs.  

16 Shue, n. 4, p. 104.  
17 Jin and Qian, n. 1, pp. 37-38.  
18 Shue, n. 4, p. 78.  
particular, the increased influence of the centre in personnel appointments during the Cultural Revolution, local interests and conflicts were far from absent in the provinces. Indeed, provincial origin was always an important consideration for Beijing in the appointment of provincial leaders. And in the 1950s, top posts in the Party and the government were fairly evenly divided between the local cadre who had participated in guerilla activity and the cadre who were sent south as part of work-teams and military forces.\textsuperscript{20} Besides, conflicts between local and non-local leaders, friction persisted also between central control and local initiative and one expression of this was in terms of the balance between “branches” and “areas.” Centralized control through the branches of the ministries created problems for local coordination and innovation in the areas while decentralization, especially of the administrative variety favoured by Mao, created problems of control and macro-management.\textsuperscript{21}

This friction has also been manifested in other forms. For example, as has been highlighted by Heberer and Jakobi, through the 1950s, 1960s and 1970s, the Henan provincial leadership implemented Mao Zedong’s radical campaigns with exemplary enthusiasm. As far as Mao was concerned, Henan was a “model province.” However, the nature of relations between province and centre underwent dramatic changes in the reform era. The centre’s reform measures such as agricultural decollectivization, enterprise reform and market economy adaptations, met with resistance from the Henan provincial leadership. Heberer and Jakobi argue that an apparent congruence between central and provincial policies up to the time of the Cultural Revolution was a consequence not of idealized superior-subordinate relations but of negotiated outcomes. Such a pattern of behaviour had existed between Henan and the centre long before the founding of the PRC. Far from unquestioned obedience, Henan’s behaviour possibly only reflected a coincidence of interests—the centre happened to promote policies that were to the liking of the provincial leadership. Another likely cause


could have been that the provincial leadership preferred a relationship of dependency with the centre. Aligning with the radical faction in Beijing during the period of the command economy paid off handsomely for the province in the form of investments, allocations and preferential treatment. Allying with central government market reformers, however, offered fewer comparable rewards as the discretionary authority of the centre declined under market conditions. A patron-client dependency as this would indicate could thus account for initial obedience to a powerful central government and the subsequent resistance to a weaker one.  

This might also be the reason why Shaanxi provincial leaders resisted the widespread implementation of the household responsibility system within the province between 1980 and 1982 or the establishment of the enterprise responsibility system (chengbao zhi). Still, as Breslin says, participants in the decision-making process knew their roles and understood the rules of the game. In the Maoist era, as Lampton argues, the difference in outcomes of particular programmes between individual provinces did not necessarily imply a great deal of discretionary authority with the provinces. What most affected the outcomes were the result of decisions made in Beijing and thus provincial leaders often had to seek to influence national policymakers. This was first, because they needed central government leaders to adopt such programmes as would improve that particular province's performance and second, because central government investments in provincial economies continued to be crucial for provincial growth.

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24 Breslin, n. 21, p. 64.

When economic reforms were introduced, however, it was evident that the more flexible local regimes of the Maoist years that were quick to turn to their advantage the weaknesses of the centre and were adept at using different ownership structures and managerial instruments to promote local growth had also adjusted to the opportunities of the reform period and witnessed rapid growth.\textsuperscript{26} This is perhaps also implied when Solinger says, reform was facilitated because those promoting and implementing reform were sometimes doing so just by expanding, legalizing, formalizing, or in other words, by making explicit the formerly semi-licit and even illicit strategies used for years to cope with the shortcomings of the planned economy.\textsuperscript{27} In political terms, this could imply that at least in some cases, the greater autonomy being exercised by provinces in the post-reform period could be a similar legitimization of previously understated powers or behind-the-scenes abilities. According to Lan, crucial to such flexibility, is the capability of local leaders to articulate local interests and the closeness of their connections with the central leadership that allows them to negotiate favorable terms and policies for areas under their jurisdiction.\textsuperscript{28}

**Decentralization**

Before beginning our discussion of localism in China, it is important to briefly examine the process of decentralization in China in the reform period that has helped the phenomenon of localism along. Friedrich Hayek while discussing the use of knowledge in society noted that it was local governments that had better access to local information and could provide public goods and services that better

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\textsuperscript{26} Steven M Goldstein, "China in Transition: The Political Foundations of Incremental Reform," in Walder, n. 11, p. 160.


matched local preferences than the national government. In a country the size of China, therefore, local governments have an important role to play in ensuring an effective low-cost governance structure. Further, there are inherent problems within the Chinese administrative system that can only be solved by increased reliance on decentralization and its mechanisms. Lieberthal characterizes these problems as overload at the top, as lower-level officials avoid responsibility by pushing decisions upwards to higher ranked authorities; gridlock from the fragmentation of power into different functional bureaucracies and territorial fiefdoms; lack of accurate information; and indiscipline, corruption and petty dictatorship as officials at each level have the opportunities and incentives to violate rules and cover up their transgressions.

The issue of decentralization has however, not just been about the extent of the devolution of power but about the administrative level to which it should be devolved. This problem meant that there were numerous swings in policy between 1949 and 1978 as the CPC attempted to define a workable centre-local relationship. How has China survived these swings and uncertainties when other socialist states failed? One answer lies in not overstating the importance of aggregated political power in favour in China and paying greater attention to its distinctive conditions, crucial among which is an acknowledgement that much of the reform initiative has come from the bottom up. Others argue that the reforms in China have been able to get as far as they have without settling the crucial question of the relation between the market economy and the state, due largely to the Maoist legacy that facilitated an incremental approach to economic reform.

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31 Lieberthal, n. 2, p. 188.

32 Breslin, n. 21, pp. 63-64.

33 Goldstein, n. 26, p. 148.

34 Ibid., p. 169.
Solinger says that often those in charge of reform have had to both remove and rely on tools of the old planned economy. Reform has in many instances adapted the infrastructure, channels, personnel and relationships of the planned economy days. While this creates the possibility that the pace of change has been different in different provinces due to the differences in their adoption of the new ways and adaptation of the old, it also points to the possibility that provinces have the ability to exercise a fair degree of autonomy in their actions.

The reforms have introduced both economic and administrative decentralization. While economic decentralization, has given autonomy to independent units of production and, by its nature, demands interaction through the market, administrative decentralization – frequent in China for most of period between 1957 and 1978 – has given greater authority to local levels of government without changing the basic nature of the planned economy. Both kinds of decentralization have extended the operational powers of the provinces and given the issue of centre-province relations a contemporary relevance, dominated by its economic content.

A major advantage of decentralization is that it creates incentives for local governments to promote markets and pursue economic growth. In addition, decentralization was also aimed at winning over provincial leaders to the reform

35 Solinger, n. 27, p. 173.


38 Jin, et al, n. 29.
camp by giving them greater powers. However, decentralization also tends to increase the demand for investment and contributes to overheating as provincial and sub-provincial governments try to increase revenue by encouraging growth. It leads also to duplication and market segmentation and reinforces links between the various levels of government and economic enterprises which was precisely what decentralization was meant to avoid in the first place.

On the other hand, it has also been argued that economic decentralization has helped reduce the costs of decision-making and by encouraging competition between sub-national units has helped along the creation of markets and the opening up of the economy. Problems of irrational local investment and reluctance of local governments to subject themselves to macroeconomic control, it is believed will disappear as market structures and mechanisms are rationalized.

Overall, the results of decentralization over the past two decades appear to be mixed and reforms have been unable to completely tackle the dilemma of “everything los[ing] vitality under centralization,” or becoming “a complete mess as soon as decentralization begins.” Maoist era experience shows that both over-centralization and over-decentralization of control had negative impacts on centre-province relations and on enterprise management. While, the first meant the drying up of local initiative, decentralization of authority and resources, too soon and too fast, leads to unhealthy competition among cities, counties, and towns within the province as local governments often deliberately hold back information from the higher-level authorities and refuse support for other local governments at the same level.


40 Watson et al, in Hendrischke and Feng, n. 37, p. 174.

41 Watson et al, in Linge, n. 37, p. 175; Prybyla, n. 36, p. 95.


Today, the conflict between centralization and decentralization appears to be intensifying in many respects. Further, the relationship between the central and local governments still remains arbitrary without adequate checks on each other leading to "mutual-wrangling, mutual impeding, and mutual-infringing of rights." 44 As Prybyla notes, "[g]ranting quasi-ownership rights to provinces, counties, townships, and village government authorities without iron-clad constitutional guarantees and applying these rights arbitrarily... will distort rationalization. Decentralization in this situation takes on the attributes of an administrative adjustment and threatens long-term prospects of market reform." 45

While the introduction of market forces was meant to reduce the hand of the government in economic affairs, at the provincial level, governments still interfere in economic processes as and when they deem necessary. Often this is also a matter of compulsion, especially when one province compared its economic conditions with that of another. Just as important, the fact that in the mid-1980s economic activity was regulated neither by state-planning mechanisms, nor by an effective market system meant that provincial authorities moved to maximize their local industrial base in order to raise local finances, irrespective of the impact on the national economy as a whole. This divergence of interests between local and national economic priorities is at the heart of a central-provincial conflict that has become a prominent feature of contemporary Chinese politics. 46

Political, Cultural and Economic Dynamics in Localism

Historically, insofar as the state carried out its tasks of providing and upholding a common ideology, appointed and disciplined elites at all levels and, guaranteed


45 Prybyla, n. 36, p. 100.

46 Breslin, n. 21, pp. 66-67. See also Solinger, n. 27, p. 168.
economic security of the people, and assured national defence and internal order, the central state and its institutions were accepted. However, when these institutions faltered for whatever reason — foreign intervention, internal weaknesses or disorder — lower-level entities have tended to "encyst." This tendency reinforces regionally significant "latent factors" — internal natural barriers, poor communication and inadequate transportation, differences in dialects, cultures and historic traditions and specific loyalties and identities.47

Meanwhile, the historical role of the province in institutionalizing and bureaucratizing governance at the sub-provincial level is without question. The province is important also for the efficient collection of revenues and effective delivery of services in the face of rapid proliferation of local state and quasi-state agencies, a task that is beyond the capacity of not only the central state but also beyond the scope of markets themselves. If markets need a strong regulatory environment, then they also need provinces with sufficient authority to perform their historical function of overseeing sub-provincial arms of the state.48 Today, the relationship between the various levels of the Chinese administrative system is structured on the basis of the Constitution, the political system and the economic system.49 Constitutionally, Chinese provinces do not have powers that inherently belong to them by law as in the American system. Instead, whatever powers the provinces exercise are delegated from the centre50 and like in the Indian system, they constantly lobby the centre for resources and, particularly in the Chinese case, for greater flexibility in formulating and implementing policy.51 Chinese provinces today derive leverage from several sources, some of which are also true in the case of the states in India. Moreover, the fragmentation of authority in the Chinese political administrative hierarchy makes it relatively easy for one actor to frustrate the adoption or successful implementation of important policies,

47 Solinger, ibid., p. 154
48 Fitzgerald, n. 5, p. 35.
49 Shieh, n. 20, p. 91.
50 Kuhn, n. 39, p. 165.
51 Lieberthal, n. 2, p. 181.
especially since units (and officials) of the same bureaucratic rank cannot issue binding orders to each other. For example, since provinces are ranked the same as ministries in the government, the State Council cannot impose its orders on the provinces. In one instance, a hydroelectric project in Yunnan that was halted by Prime Minister Wen Jiabao until a proper project assessment could be carried out, was continued by the provincial leaders as a means of helping poverty alleviation in the region.

Certain core features of the political system also give provinces leverage vis-à-vis the central government. Since 1984, for example, each province has largely controlled the appointment of all but the highest officials—the provincial territorial party system is an extremely important actor in the Chinese system. Also as Shirk contends, a relationship of "reciprocal accountability" exists between the CPC's Central Committee (especially its members serving concurrently in the provinces) and the central leaders in the Politbureau and its Standing Committee. After all, provinces comprise the bulk of the 30-odd delegations attending Party Congresses and provincial officials constitute a large chunk of the full Central Committee membership. Shirk says that despite the centre's perceived dominance, this full membership of the Central Committee has a major say in the choice of the country's top national leadership. As she says, "party leaders hold their positions at the pleasure of the officials in the selectorate." Also, in the 1990s, provincial representation on the Central

52 Ibid., p. 188.


54 The parallel with the Yuan Dynasty is striking. During the Yuan, appointments to provincial positions were originally central-ranking positions but towards the final years of the dynasty they were considered local ones. Fitzgerald, n. 5, p. 17.


Committee of the CPC has become institutionalized with each provincial-level administration usually receiving two full membership seats.\(^{57}\) At the 16\(^{th}\) Party Congress in 2002, in fact, the party secretaries and provincial governors or mayors of all 31 provinces became full members of the Central Committee and in the new Politbureau, 10 out of 24 held provincial leadership posts when they were selected and another 10 had served previously as top provincial leaders.\(^{58}\)

The importance of support from provincial leaders is also apparent in the fact that following his accession, Jiang Zemin had to try and establish authority over “key power centres” like Beijing, Shanghai and Guangdong first.\(^{59}\) Similarly, in the run-up to the 16\(^{th}\) Party Congress in 2002, Jiang took his protégé, Zeng Qinghong, who was then Head of the CPC Organization Department, along with him on several provincial tours in order to increase the latter’s profile.\(^{60}\) Zeng would, following the Congress become number two in the Standing Committee of the Politbureau and later, the Vice-president of the country. However, State Councillor, Wu Yi, a protégé of Zhu Rongji, ran into opposition in her bid for a more senior post in the Party hierarchy during the Congress. She was reportedly unpopular – like the Premier himself – with provincial chieftains, for her key role in hurrying China into accession of the World Trade Organization (WTO).\(^{61}\) Further, Jiang and Zeng had also, from late 2001, been engaged in effecting personnel changes in the provinces. In this way, they were successful in appointing or ensuring the reelection of Party Secretaries allied with the Shanghai

\(^{57}\) Li, n. 55, p. 30.


faction at party congresses in 22 out of 31 provincial-level units. 62 Hu Jintao, too has engaged in reshuffling provincial leaders following the consolidation of his power at the 4th Plenum of the 16th Central Committee in 2004, in preparation for the 17th Party Congress. 63

Willy Lam has also argued that following their ascension to power, Hu and Wen would seek to compensate for their lack of national stature by espousing the cause of the under-developed interior provinces that had suffered during the Jiang years when the coastal provinces received most of the attention and opportunities. 64 So far this prediction has proven to be largely true with major central government attention being directed to the western provinces. 65 Also, the fact that like Hu, several of his protégés have served in the interior provinces is likely to help in the interior provinces receiving a better hearing in Beijing.

The central government has also over time adopted a policy approach that has let every province do the most by itself to develop the local economy and to do so


fast enough to maintain political and social stability. This also means that the
centre gives provinces and sub-provincial territorial units enough room for taking
initiative and the freedom for them to enjoy the results of their own efforts.
Indeed, by virtue of their size, provinces often require their political leaders to
have considerable authority to coordinate the development of goods and services
in their territories.\textsuperscript{66} As Yabuki has noted, the Deng era’s policy of allowing
provinces like Guangdong, Shandong, Zhejiang and Jiangsu to carry out their own
independent financial policies was for them “akin to surreptitiously receiving an
award of independence from the central government.”\textsuperscript{67} While central authorities
can rein in the provinces by establishing macro-economic controls, as was often
attempted and is indeed being done, increasingly, they also run the risk of
alienating provincial-level authorities, if the latter perceive such moves as being
against the interests of the province.\textsuperscript{68} The ability of the central government to
reverse such tendencies, especially when its own integrative mechanisms have
weakened considerably over the years, is limited when compared to the strength
of economic localism, once activated.\textsuperscript{69}

Provincial authorities, meanwhile, see themselves as acting rationally, given both
the prevailing economic climate and the obligations to raise capital that the central
government itself has imposed on them. The local revenue targets demanded by
the centre together with the availability of investment capital from non-central
government sources has increased the ability of provincial governments to
develop a degree of autonomy.\textsuperscript{70} In fact, as Kueh notes, provincial absorption of
FDI between 1979 and 1991 has been continuously higher than that of the central
ministries indicating greater delegation of powers to the provinces in the area of
foreign investments. Similarly, provincial percentages of foreign borrowings also

\textsuperscript{66} Lan, n. 28, p. 216.
\textsuperscript{67} Susumu Yabuki, \textit{China’s New Political Economy: The Giant Awakens} (Boulder, San Francisco
\textsuperscript{68} Breslin, n. 21, p. 67.
\textsuperscript{69} Solinger, n. 27, p. 168.
\textsuperscript{70} Breslin, n. 21, pp. 66-67.
went up at the expense of the centre between 1985 and 1990, even as the latter continued to exercise significant leverage.\textsuperscript{71}

Provincial leaders have for long now, had enough maneuverability to either ignore orders or prioritize them lower than the central government would.\textsuperscript{72} Leaders from different provinces at the centre have also on occasion cooperated with each other to press their case for further relaxation of economic restrictions.\textsuperscript{73} A pattern of selective policy implementation has emerged in the Chinese countryside that is quite extensive in nature.\textsuperscript{74} "Policy on the top, and countermeasures down below" (\textit{shangyou zhengce, xiayou duice}) is perhaps an apt description of centre-local relations in reform era China.\textsuperscript{75} Meanwhile, frequent reforms aimed at downsizing and reorganization, have resulted in local officials developing short-term goals such as securing promotions or amassing wealth before specific reforms can be implemented. Particularly in rural areas, local leaders have violated governmental regulations and laws for personal gain and imposed excessive taxes that have led to the outbreak of social conflicts between farmers and rural leaders, workers and management, and citizens and officials.\textsuperscript{76}

Similarly, provincial governments have also ignored larger national goals of moving China up the value-added chain or promoting the adoption of improved technology by being willing to settle for 'simple assembling workplace' models where a large part of the product is imported into China and only usually just put together within the country. The automobile sector is a prime example where local


\textsuperscript{73} Elfed Roberts and Winston Ng, "Government and Politics," in Brian Hook (ed.), \textit{Guangdong: China’s Promised Land} (Hong Kong: Oxford University Press, 1996), p. 49

\textsuperscript{74} Linge, n. 64, p. 194.

\textsuperscript{75} Ming, n. 3, p. 145.

governments have sought quick investments by just such a policy. Local officials have been accused by central government authorities of granting too many concessions to foreign investors in the expectation that increased foreign investment would lead to increases in GDP and export volumes, which would in turn reflect well on themselves in terms of career prospects. Another example comes from the area of environmental regulations where local officials have often chosen to ignore energy efficiency targets set by the central government, in their pursuit of high GDP growth. In this case, while provincial governments and the centre were in agreement on the need to follow environment rules, county-level governments were the culprits in provinces such as Shanxi, Shandong and Guizhou, where they were responsible for approving and launching high energy consumption projects. In August 2006, following a fatal accident at the construction site of an unauthorized power station in Inner Mongolia, central authorities came down heavily on the government of the Autonomous Region saying that local authorities had failed to stop the project even after it had been labeled illegal by Beijing. Further, the chairman of Inner Mongolia, and his two vice-chairmen, were ordered to write letters of self-criticism to the State Council for failing to stop billions of renminbi worth of investment being poured into unauthorized power stations in the province and becoming in the process the first senior local leaders against whom strictures were issued by the central government for ignoring its directives on macroeconomic control. Local governments tended to prioritize economic growth because it meant more jobs and less risk of social unrest and thus frequent injunctions from Beijing to the provinces to bring fixed-asset investment under control and for more efforts to lower energy consumption and improve environmental protection have been ignored. The differing agendas of the central government and the provincial and


other local governments are reflected for example, in the fact that 90 per cent of all investments in the first half of 2006 had been approved at below the level of the central government.  

Powerful provincial governments have also often enacted their own domestic/foreign policies as a way of keeping down central government 'interference' and sought to launch joint ventures with foreign investors in order to benefit from the privileges accorded to such initiatives. During the tenure of Ye Xuanping, as Guangdong governor, for example, central policies were often disregarded or tailored to local needs and Guangdong's leaders were not afraid to criticize Premier Li Peng's policy of economic retrenchment launched in 1988.  

Similarly, during the Tiananmen Incident in June 1989, Guangdong's reaction to orders to suppress dissidents remained muted. Provincial governments such as Guangdong, for example, were also lukewarm about the recentralization drive proposed in the 8th FYP and amid slogans extolling "stability" and "spiritual civilization" propagated on the eve of the 7th Plenum of the 15th Central Committee, many governors stressed a faster pace of reform so as to not get bogged down in the name of stability. That provincial governments wielded enormous influence within their domains is evident also from the demand that Hu Angang specifically makes for PLA units not to be allowed to accept presents, donations or expenses from local authorities where they were stationed, which is another way of saying that they had done precisely this.

82 Chao, n. 3, pp. 169-70. See also Martin Lockett, "Foreign Trade," in Goodman, n. 30, p. 72.
84 Ibid., p. 41.
85 Chao, n. 3, pp. 169-70.
86 Hu Angang, "Equity and Efficiency," in Wang Chaohua (ed.), One China, Many Paths (London and New York: Verso, 2003), p. 228. In Shenzhen, for example, while the PLA garrison was financed by the central government, the SEZ was responsible for food, welfare, infrastructure, and demobilization expenses among others. It also paid for part of the expenses of the Hong Kong garrison of the PLA. These links allowed Shenzhen leaders to claim that the city had 'friends in the forces.' Willy Wo-Lap Lam, The Era of Jiang Zemin (Singapore: Prentice-Hall, 1999), p. 240.
According to Lieberthal all major central construction projects and enterprises require active provincial cooperation in mobilizing and organizing resources and support services and, in the post-Mao period particularly, reforms have depended heavily on a cooperative relationship with the provinces including encouraging provinces to take major initiatives to improve their own economies and to experiment with new approaches to challenges thrown up by the reforms. Still, according to Yang Zhongmei, as the 1990s drew to a close, there were only two projects in the central and western regions where the centre and the provincial governments were acting in close coordination and where regular systems and mechanisms for transfer payments from the former to the latter existed – the Three Gorges Dam project and the granting of metropolitan level status to Chongqing.

It appears that during the 1980s, even the central policy, of letting the coastal region ‘get rich first,’ was not imposed on the provinces as a central government directive that they had to adopt, but as something that they had to be convinced to accept. In this sense, the central government’s policy was not implemented on a larger regional basis as would have been the case in the Maoist era, but on a provincial basis. The policy resulted in the provinces receiving not only greater economic benefits but also a greater share of the responsibility over their own affairs and resulted in a still greater growth in provincial autonomy, which meant that by the time of the 1994 tax system reforms, the provinces had gained considerable leverage over the central government. Since then this leverage has decreased but has not entirely disappeared.

What is more, the examples set by powerful provinces in their dealings with the central government have caused other provinces also, to engage in lobbying to ensure redress for their grievances. When for example, Shanghai renegotiated its

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87 Lieberthal, n. 2, pp. 181-82.
financial arrangements with the central government in the mid-1990s, Inner Mongolia and Jilin too, asked for a similar system. They were not successful, however. Similarly, Hunan and Jiangsu too, frequently asked to have some of the preferential treatment that Guangdong enjoyed. 90 Issues of this kind led some to argue that provincial autonomy posed a challenge to the integrity of the Chinese political and economic system.

It is also to be noted that provincial autonomy has also had a history of being encouraged by the centre. Local self-reliance was a constant theme in Maoist politics encouraged as it was by the perception of a threatening international environment. In the Third Front period, 91 this took the form of the massive relocation of China's defence industry away from the coast to the provinces of the interior—Guizhou, Yunnan, Sichuan, Shaanxi, Gansu, and parts of Henan, Hubei, and Hunan. While at its peak in the late 1960s and early 1970s, two-thirds of the state's industrial budget was going to Third Front investments, 92 it was however, unlikely, that Third Front industrialization contributed much to regional self-sufficiency. As Naughton points out, the project was highly centralized and local governments had little say in the use of Third Front funds. 93 During the Cultural Revolution, on the other hand, while sometimes, lines of command cut across functional and regional administrative boundaries, the regional self-sufficiency strategy, saw every region striving to provide for its own internal needs. This allowed economic activity to be dominated by a number of self-contained cells rather than a single national market and thus, the notion of a "cellular economy." 94

90 Breslin, n. 21, p. 70.

91 During the GLF, industrial growth was centred on heavy industry and still largely concerned with military security. The policy during this period has been called the Third Front, each front corresponding to a regional group: coastal, central and western.


93 Ibid.

This is a pattern that repeated itself during the reform era, throughout the 1980s and early 1990s when localist and provincialist behaviour showed itself in the duplication of industrial capacity across China. The centre ordered local authorities to do away with regional barriers, such as road blockades, and promote inter-regional trade and cooperation but such instructions to promote integration had little effect on local behaviour. Partly this has to do with the fact that economic integration at the national level is still comparatively weak in China. Another reason lies in the increasing autonomy of the provinces in determining policies at the local level. The SEZs for example, have increasingly sought the means to keep up their exclusivity, often to the point of going against central government directives, creating a “zone fever” that often went beyond the directives of state policy.

As the decision-making powers by provinces over their investments expanded, the centre has continued to reduce its coordination of provincial economic policies. Often in fact, the centre has appeared to adopt a policy of trying to appease local governments by providing a variety of policies favourable to the provinces rather than actual funds which it lacks (zhigei zhengce bugei qian). On many issues, provincial officials no longer have to conform completely to Beijing’s directives nor demonstrate complete uniformity in their views. There has thus been a progressive alteration in many aspects of the reforms, with actual practice moving in advance of official authorization in a significant number of instances. For

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example, in Guangdong, production teams in some of the province’s poorer areas had already adopted the household responsibility system in 1978 and it was only in 1981 that the Provincial Committee of the CPC approved the system. Similarly, in Wenzhou in 1980, competition from “folk finance” (minjian rongzhi) institutions led a local collective credit union to abandon the fixed interest rate and adopted a floating interest rate which fluctuated in accordance with market demand but remained within the upper limit set by the state – all this without informing the superior authority. Despite the dubious legality of the floating interest rate, the local state bank branches and all the credit unions in city had adopted it long before the central government officially ratified it in 1984. In another instance, in early 1985, the city of Shenyang introduced enterprise bankruptcy regulations which stipulated that firms had to declare bankruptcy if their debts exceeded total assets and if accumulated losses were more than 80 per cent of fixed assets. When a firm declares bankruptcy, care of the displaced workers is the responsibility of the city government. The bankruptcy law prompted a heated debate in the National People’s Congress (NPC) and was finally adopted toward the end of 1986. In fact, China’s first private farms, factories and schools and first, joint-stock companies and stock exchanges were all local efforts that, when they succeeded were later recognized as pilot reform projects.

Another important dynamic in centre-province relations in the history of the PRC has been the local origin of a high proportion of provincial leaders in many


100 Cheng, n. 43, p. 13.


103 You, n. 76.
provinces. During the imperial eras, there was a strict “law of avoidance” according to which government officials were not allowed to serve in their home localities or to serve in any one particular place for extended periods. The Communists however, tried to create a balance between native and non-native leaders to marry local knowledge and experience with central control.\textsuperscript{104} While there were several conflicts between the two groups in different provinces throughout the Maoist era, it might also be recalled that during this period, merely having local leaders at the top echelons of the provincial government hierarchy did not guarantee that provincial interests would be espoused vis-à-vis those of the centre. For example, in Fujian between 1949 and the beginning of the Cultural Revolution, two natives – Zhang Dingcheng and Ye Fei – held the top Party, government and military posts either all at the same time or separately and either could be counted on to reliably enforce central writ no matter what the local demands.\textsuperscript{105} Still in the 1990s, the people’s congresses have often held their own against the CPC’s diktats. For example, in 1993, the Guizhou and Zhejiang provincial congresses rejected the Party’s candidates for governorship and elected their own. Similarly, in 1998 despite the lack of a formal endorsement from the CPC leadership, five candidates nominated by the congresses were elected vice-governors.\textsuperscript{106}

The Centre’s Response

Provinces are today, encouraged and often forced to articulate their interests in economic terms and to develop competitive economic strategies. Consequently, they cannot but begin formulating their own political strategies and subsequently their own political and cultural identities as well. This is inevitable, if provinces have to begin justifying their policies on local grounds and to their local

\textsuperscript{104} Goodman, n. 30, p. 31; Li, n. 55, pp. 49-53; Bo, n. 62, pp. 84-85. In the case of officials from minority nationalities, over 68 per cent in 1988 served in their home provinces while the figure for 1994 was 65.8 per cent. Xiaowei Zang, “Ethnic Representation in the Current Chinese Leadership,” \textit{The China Quarterly}, March 1998, No. 153, pp. 115-17.

\textsuperscript{105} Shieh, n. 20, p. 86.

\textsuperscript{106} Bo, n. 62, pp. 99-100.
constituencies. Policies that are funded from local resources have to be justified within the different political and cultural contexts of provinces and this adds another political dimension to the role of provincial leaders.\footnote{Hendrischke, n. 89, p. 14.} Once provinces formulate their own economic and social policies and are able to articulate their specific interests in the light of their differing circumstances, it is but to be expected that they will also gain stronger political identities.\footnote{Ibid., p. 2.} Still, even as fiscal decentralization has created a sort of quasi-federal structure in China, central government influence over local governments continues to be considerable. While provincial and local governments have had a new set of incentives with the advent of decentralization, these have to be situated within the context of institutions that are slow to change, that is, the impact of centre-local relations on the political and economic institutions of a locality tend to be cumulative.\footnote{Eric Thun, “Keeping Up with the Jones’: Decentralization, Policy Imitation, and Industrial Development in China,” \textit{World Development}, Vol. 32, No. 8, 2004, pp. 1292-93}

Throughout the 1990s, in fact, the central government has actively tried to recentralize some powers – decentralization measures, in fact, seem constantly to be followed by attempts at recentralization\footnote{Wei, n. 37, p. 25. Jae Ho Chung while agreeing that such a trend has existed in the post-Mao, however, believes that ‘each cycle at its end has generated a set of structures and interests more favourable to local incentives and discretion.’ See Ashley W Esarey, “Reconsidering Weingast Market-preserving Federalism in Contemporary China,” 2002, http://www.columbia.edu/as48/Comparative%20Federalism_files/MPF%202002-02-04.pdf.} – and to bring provincial leaders in line.\footnote{See Lam, n. 86.} In June 1990, Beijing reportedly formulated a policy of rotating provincial leaders more frequently so as to avoid a possible reemergence of “independent kingdoms” or “mountain tops.”\footnote{Term and age limits for leaders at both national, provincial, and sub-provincial levels have slowly been institutionalized in the 1990s. See Li, n. 55.} A month later, new governors were announced for Hebei, Henan and Liaoning, a move, it was speculated was aimed at eventually prising out Ye Xuanping, the longtime governor of Guangdong. A \textit{People’s Daily} commentary of 5 August 1990, titled, “Let Cadres Receive Training and Grow Healthily in Rotation,” presumably aimed at provincial chiefs like Ye, urged
government organs at all levels to implement the rotation policy. Ye was finally “promoted” to vice-chairman of the nominal Chinese People’s Political Consultative Conference in April 1991.113 Similarly, in May 1991, Wang Zhaoguo, the governor of Fujian was transferred to Beijing as head of the State Council’s Taiwan Affairs Office apparently because Beijing thought he identified too closely with local interests.114 In 1997, Jiang Zemin again targeted Guangdong as he tried to put an end to the machinations of the Guangdong clique by appointing Li Changchun from Liaoning as Guangdong Party chief in 1997.115 The move however was strongly resisted by Guangdong officials who objected to the native Xie Fei, being replaced by an outsider.116 Such instances alone could not suffice however, in the absence of an institutionalized arrangement of power-sharing between the central and provincial governments and over a decade later, Jiang was still criticizing provincial officials and asking them to conform to central government directives by “unifying thinking in the course of emancipating the mind.”117 While the centre could replace provincial chiefs, it still could not generally replace too many native officials owing to the latter’s influence and bargaining abilities.118 Attempts have however, been made to curb the growing numbers leaders from particular provinces or regions in the central leadership. Hu Angang has in fact argued for every province receiving one seat each in the

113 Chao, n. 3, p. 169; Qi, n. 59, p. 239; Li, n. 55, p. 65. For more on the difficulty of removing Ye, see Cheung, n. 83, p. 41.


116 Li, n. 55, p. 52. Earlier, during the Maoist era too, when there were frequent conflicts between local and ‘outside’ officials appointed by the central government in the provinces, these were conveyed by the provinces to the centre in no uncertain terms even if they were not always heeded by the centre or, as happened beginning with the Anti-Rightist Campaign, they were suppressed. See Forster, n. 99, pp. 55-56. For more on this aspect, see section titled, “Inter-Provincial Political Dynamics,” Chapter 3.

117 Yu, n. 98.

118 Esarey, n. 110.
Politbureau as a means of ensuring that policy was aimed at reducing the disparity between the coastal and inland provinces.  \(^{119}\)

The Jiang era campaigns against corruption, for example, were aimed at punishing recalcitrant provincial leaders, the biggest victim of whom was Beijing mayor Chen Xitong in 1995. Again in 1995, the State Council sent work teams to Beijing, Shanghai, Guangdong, Guangxi, Hebei, Henan, Jiangsu and Zhejiang to curb overspending by provincial officials to ensure speedy economic growth.  \(^{120}\)

Similarly, in September 2001, soon after the 6\(^{th}\) Plenum of the 15\(^{th}\) Central Committee, the Standing Committee decided to dispatch special work teams to ‘conduct investigations’ aimed at bringing disobedient provincial leaders into line. The provinces targeted included Jilin, Heilongjiang, Zhejiang, Sichuan, Guizhou, Shandong and Anhui.  \(^{121}\)

And before the year was out, personnel changes had been effected in Shanghai, the Shenzhen SEZ and Hebei.  \(^{122}\)

At the 16\(^{th}\) Party Congress in 2002, the emphasis on “an administrative system featuring standardized behaviors” and “coordinated operation” and the injunction to “standardize the functions and powers of the Central Government and local authorities according to law and properly handle relations between the departments directly under the Central Government and the local governments”  \(^{123}\)

seemed to indicate that the problem of localism continued to pose problems for the central government at the end of the Jiang era. Various annual government work reports since have continued to berate local officials for their various

\(^{119}\) Li, n. 55, pp. 59-60.

\(^{120}\) Lam, n. 86, p. 224.

\(^{121}\) Yu, n. 98.


misdemeanours and admitted to the fact of "institutional deficiencies and poor oversight." At the same the admission has also been made that there was a "need to correctly balance the relationship between central and local government organizations to give full play to the initiative of each."124

Another way in which the centre has tried to keep provincial power in check has been by engaging in "control by map-making" – by rearranging provincial and other administrative boundaries. This has happened several times in Chinese imperial history, following Communist Liberation and most recently in the separation of Hainan from Guangdong in 1988 and the hiving off of Chongqing from Sichuan in 1997. Nevertheless, it has to be noted that another attempt in the 1980s to create Sanxia province out of territory from Sichuan and Hubei – as a means of reducing provincial opposition to the Three Gorges Dam project – ended in failure.125

According to Zheng Yongnian, cultural norms are another important institutional feature of centre-local relations. These shape behaviour by providing ways to organize action rather than by specifying the ends of action. They create habits of interpretation and a range of practices grounded in experience. Given that the centre and the provinces have interacted for centuries, the shadow of the past necessarily affects the way the two actors define their interests and construct their strategies for dealing with each other.126 For example, it has been noted that Shaanxi's leaders have been less demanding than many other provinces in seeking


125 Lary, n. 72, p. 186, 188-89. For more on Sanxia see Goodman, n. 30, pp. 32-34.

advantages from the centre. This traditional Shaanxi mindset has persisted despite the province’s often severe difficulties.\(^\text{127}\)

It is important to note also that there are vast differences in the relationships of individual provinces with Beijing – not all provinces have the same wherewithal or desire to gain equal degrees of autonomy from the centre. The policy of decentralization is a significant factor in defining provincial relationships with the capital, but the particular nature of each province’s position relative to Beijing is defined by the complex interaction of a number of factors.\(^\text{128}\) The responses of provinces to the forces generated by reforms are largely defined by the level and nature of their economic and social development. For coastal provinces with high rates of growth, large non-state sectors and substantial budget revenues financing their own development is feasible and therefore, their desire for greater economic autonomy is not surprising. For the less-developed provinces with slow growth, large numbers of state enterprises and poor finances, expectations of central support continue to be high and there is considerable sensitivity to central decisions over the distribution of funds and projects. While their local economic interests are clear and they do work towards them, such provinces are neither able nor desire to adopt a strongly independent economic position in conflict with the centre.\(^\text{129}\) Alternatively, provinces might quietly go about their own ways without seeking the national limelight. It has been observed for example, that in spite of its leading economic position, Jiangsu takes a low profile nationally and has found a way to represent different regional interests locally. The province might represent a new framework of central-provincial relations where the province manages its own affairs in a stable political and economic environment and the centre exerts very little direct influence in matters other than macro-coordination.\(^\text{130}\)

\(^{127}\) Lane, n. 23, p. 243.  
\(^{128}\) Breslin, n. 21, p. 64.  
\(^{129}\) Watson et al, in Hendrischke and Feng, n. 37, p. 78.  
\(^{130}\) Hendrischke, n. 89, p. 21.
Often, it has also been the case, that reform-minded authorities in Beijing and elsewhere can in many cases throw the weight of the state behind local models or test points in order to promote particular projects that they had sanctioned, sometimes creating the impression that the central government followed local initiative. Central government authorities were also open to ideas and proposals that originated in the provinces. For example, in November 1978, Fujian Party officials argued for a development strategy that relied on light industry and foreign trade to generate the capital necessary for modernization of agriculture and heavy industry. A few months later in 1979, Fujian leaders also won approval for the first provincially-controlled investment corporation in China. Both ideas were eventually part of the “special policies” formulated by the central government for Guangdong and Fujian that opened up the provinces to foreign trade and investment and allowed them to test a range of economic reform measures.

However, the degree of autonomy exercised by different provinces in their negotiations with the centre has been difficult to assess, because it emerges as the result of an on-going bargaining process. Even what constitutes local interests and who articulates them is difficult to discern. Jae Ho Chung has said that the central government has not been completely incapable of dealing with provincial autonomy, noting that even in the case of provincial fiscal autonomy the centre has been capable of regulating it. For example, in 1983, all local governments had to pay a 10 per cent surcharge, later raised to 15 per cent, on extra-budgetary finances. Similarly, the central government imposed a system of forced loans (difang jiekuan) under which several provinces lent money to the central government which it never repaid. Further, the provinces were also forced to buy national bonds under a fixed quota which mopped quite a large amount of provincial finances. The central government also often readjusted the provincial

131 Solinger, n. 27, p. 173; Goodman, n. 30, p. 28.
132 Shieh, n. 20, p. 94.
133 Hendrischke, n. 89, p. 1.
revenue-sharing ratio whenever it found itself short of finances. Beginning in the late 1990s, the central government also sought to gather back some of its control over the provincial economies with the creation of national regulatory bodies and the enactment of national legislation. The case of fiscal reforms of 1994 is a case in point and is discussed in detail below.

Further, it has been argued that post-Mao era decentralization should be understood not as devolving central power or returning power to the provinces, but as withdrawing national institutions from the provinces or reducing the reach of state power. It is a process of localizing state power, as evidenced by property rights localization, the fiscal contract system, the tax-division system, and the one-level-downward appointment system. Under this scheme of central-local relations, the provinces are allowed to plan economic development and implement different policies to provide economic incentives in their jurisdictions.

Of the “growing tension” in China’s central/local government relations in the 1990s, therefore, the China Daily has claimed that it “neither reflected Beijing’s inadequate ties with local governments nor signalled those local governments’ readiness to break away from the former’s orbit.” As Chelan Li has noted, with specific reference to Guangdong and Shanghai, provincial discretion, is not an indicator of provincial non-compliance and decline in central control but rather the calculated response by provinces arising out of constraints imposed by central policies and aimed at giving themselves maximum benefits. The provinces attempt to work their way around central control but the influence of the centre on provincial behaviour cannot be discounted either. Hence, it is contentious, to

137 You, n. 76. See also Wang, n. 59, p. 250.
138 Li, n. 25, pp. 282-85.
argue that decentralization in the economic realm has necessarily led to the waning of the central government’s political power over the provinces. China’s nomenklatura system of personnel appointment has been considered a powerful tool in the hands of the central government to keep provinces in line. This system together with the fact that the CPC’s personnel choices and decisions are not open to public scrutiny, points the balance of power considerably towards the central government as against the provinces.139

Differentiating between three types of CPC Central Committee membership in the period from 1978 to 2002, Yumin Sheng argues that there is evidence of declining provincial shares in full Central Committee membership – something that has been generally used as an indicator of provincial influence at the centre – even as provincial shares in its alternate membership and Politburo full membership have risen. It is the centre however, that plays the major role in deciding the candidates for full and alternate Central Committee memberships by dominating the two agenda-setting institutions involved – the Politburo and Standing Committee of Congress Presidium. Also, it is the centre that runs the Party’s day-to-day business while the National People’s Congress (NPC) is only convened once in five years and Central Committee plenary sessions are limited to two or less in a year. Yet another important factor is that the share of provincial membership in the Central Committee can change when provincial officials are reassigned by the Party to positions in Beijing. This ability of the centre to reassign provincial officials can also constrain their espousal of provincial interests in anticipation of central government careers. This last factor could also be responsible for constraining alternate members who too it might be assumed will expect promotion to full

139 Barry J Naughton and Dali L Yang, “Holding China Together: Introduction,” in Naughton and Yang, n. 55, pp. 9-10. As against this runs the argument that frequent reassignment of the top provincial leaders has meant provincial governors for example, had to depend to an even greater extent on the permanent staff and local bureaucrats who controlled the files and knew the means to get things done in the local environment. Kuhn, n. 39, p. 155. Further as a way of mollifying local sentiments, following his appointment as Guangdong Party Secretary replacing the native Xie Fei, Li Changchun and other non-Cantonese officials repeatedly stressed that they would continue to depend on local officials and not bring officials from other parts of the country to replace them. Li, n. 55, p. 53.
membership in due course. Sheng therefore, concludes that central political strength has remained resilient in the reform period.140

Indeed, as ideology has weakened as a control mechanism, it is bureaucratic control such as the control over personnel appointments or that exercised through monitoring mechanisms such as the Central Discipline Inspection Commission and the Ministry of Supervision that the central government has come to increasingly rely on for control over the provinces. The frequent visits of central leaders to the provinces may be considered another such means.141

Similarly, it also needs to be noted that while a provincial leader, the paramount interest is in maintaining provincial autonomy; when however, a window opens to central leadership the idea of China becomes all important. Indeed, it might be argued that this happened also with respect to the warlords during the interregnum between the Republican and Communist eras. As Cheng Li, notes top provincial leadership posts have become “the most important stepping stones” to national-level political posts in China.142 He goes on to say that provincial leaders have in the reform era carried more weight at the national level than they did during the Maoist era and besides advancing through the provincial ranks, national leaders also back their power and influence at the central government level with support from the provinces.143 Other measures such as compulsory training for county party secretaries at the Central Party School in Beijing also form part of central government measures to ensure obedience down the administrative hierarchy.144

140 Sheng, n. 56, pp. 338-55. Here it might be noted that Guangdong cadres preferred often to consolidate their positions in their native province and unlike Shanghai cadre did not seek promotions elsewhere. Cheng, n. 43, p. 12.

141 Goodman, n. 30, p. 27; Shieh, n. 20, p. 92. See also Bo, n. 62, pp. 70-100.

142 Li, n. 55, p. 33.

143 Ibid., p. 34.

Naughton and Dali Yang point out that national institutions responsible for fostering national unity have undergone transformation and adapted themselves during the reform era with their powers becoming more apparent in the 1990s and, in particular, since 1994, when significant changes in the administrative and political system have become increasingly evident in the policy realm. While acknowledging that there exist centrifugal forces in China that threaten the traditional state structure, they point out that there are also centripetal political, economic and cultural forces that exist in a dynamic tension with the former. Such tension, they say, might even be desirable as a means of preventing China from disintegrating or from going to the other extreme of a centre that overwhelms all else before it.

The fiscal system of China has been a major site of centre-province tensions in the reform era with frequent changes effected by the centre in order to rationalize the system while maintaining its dominance on the one hand, and continuous lobbying, on the other hand, by the provinces either for greater privileges than other provinces or for uniform treatment of all provinces by the central government. The fiscal system is examined below to identify sources and methods of the exercise of provincial autonomy.

The Fiscal System pre-1994

In Warlord Politics, Lucien Pye talks of the period during 1926-27 when, as Zhang Zuolin consolidated his power in Beijing, and was bringing the Beijing-Tianjin area deeper into the Manchurian orbit of power, he could not also at the same time absorb the rest of North China. One effect of this deepening split between capital and provinces was a marked decline in the flow of revenue and governmental expenditures between the two areas. This example from history is

145 Naughton and Yang, n. 139, p. 6.
146 Ibid., pp. 6-7.
relevant even today in indicating the importance of fiscal flows as means of maintaining legitimacy and exercising authority in a centre-province hierarchical system of governance. Indeed, one of the sources of provincial autonomy in the reforms period has been the way the fiscal system has functioned. Yasheng Huang has stated that the major difference between the reform and pre-reform periods is that local governments have become an “economic interest group” rather than an “extension of the central government,” while Suisheng Zao calls the relationship between the central government and the provincial governments a “negotiatory relationship.”

China has exhibited two basic differences from other socialist states in the existence of two significantly different economic systems contained within (and legitimized by) the pre-reform political economy – one managed from Beijing, the other managed at a local level. That local fiscal autonomy has been fairly strong for several years both before and after the reforms began is evident from the fact that state revenue as percentage of total revenue declined dramatically from 70 per cent in 1957, to 60 per cent in 1960, and to only 47.2 per cent in 1988. Throughout the 1950s, in fact, the provinces called for reforms that would give them a fiscal base independent of the central government and for freedom from annual expenditure limits imposed by Beijing. The several fiscal reforms of 1951, 1954, 1956 and 1958 were steps in this direction. According to Lardy, the central government however, continued to be principal arbiter in the fiscal system and many of the features of the system in the 1950s continued to be found in the 1970s, including its highly redistributive nature.

148 Both quotes from Goldstein, n. 26, p. 166.

149 Goldstein, ibid., p. 159. For a detailed examination of how this happened in the management of local enterprises, see Oi, n. 11, pp. 170-87.

150 Cheng, n. 102, p. 280. By 1995, the central government’s share of tax revenues had fallen by three times compared to what it was in 1979. See Esarey, n. 110.


152 Ibid., pp. 57-59. Donnithorne has however, contested Lardy’s contention that decentralization in the late 1950s did not affect the central government’s control over allocation of resources. See Audrey Donnithorne, “Comment: Centralization and Decentralization in China’s Fiscal Management,” The China Quarterly, No. 66, June 1976, pp. 328-40.
The system of "unified revenue collection and unified spending" (tongshou tongzhi also known as "eating from one big pot" or chi daguofan) was the traditional fiscal system during China's pre-reform era, in which budgetary revenue collection and budgetary expenditure were highly controlled by the central government, so as to meet the needs of production and resource allocation under the centrally planned economy. Since the end of the 1970s, fiscal decentralization — the devolution of authority on budgetary collection and spending — from the central government to the lower-tier governments has been carried out in China. By replacing the traditional fiscal system of tongshou tongzhi by the fiscal contract responsibility system in 1980, also known as "eating from separate kitchens" (fenzao chifan), China's fiscal reforms separated the central and local budgets thus making each level of government responsible for balancing its own budget and stopping falls in central budget revenues. Under this system, each provincial-level unit negotiated a minimum or base amount to be paid to the central government annually. However, the increasing powers of local authorities in tax revenue and surplus sharing also provided strong incentives for local governments to protect local production and maintain local employment. This led to the rise of various types of trade barriers at the local level to shield local industries and firms from inter-provincial competition. Provincial governments were also less than diligent tax collectors often granting exemptions or ignoring misconduct because the central government itself had less to offer the provinces from its coffers. Instead, they put much more effort into reforms and efficiency-enhancing policy innovations since it was these changes that produced


154 Ibid., footnote 3, p. 233.


156 Liang and Xu, n. 153.

157 Goldstein, n. 26, p. 158.
high returns for them. One offshoot was that local governments also became more sensitive to spontaneous local demand for policy changes, and consequently played a pivotal role in state-society interactions that had been so important in China's reform process.\textsuperscript{158}

Nevertheless, senior Chinese economists in Beijing and in the provinces held that China's fiscal system was 'unfair,' 'defective' and 'unable to satisfy requirements.'\textsuperscript{159} There were two systems in place. Guangdong arranged to keep the full surplus over and above its base amount while Shanghai and Jiangsu had to pay a fixed proportion of their fiscal revenues above the base amount to the centre. While historical circumstances played a role in determining the base amount each province paid, this amount as well as any percentages above the base amount paid to the centre depended also on the negotiating skills of the provincial representatives and any 'particularistic ties' which the provincial officials may have had with the centre. The system was thus, extraordinarily arbitrary and secretive to boot. Unlike Shanghai, Jiangsu was forced to send a large proportion of its fiscal revenues to the centre and between 1949 and 1985 the latter reportedly contributed about 60 per cent of its fiscal revenues to the centre.\textsuperscript{160} Later, in 1988, Shanghai persuaded the centre to allow it to retain a larger share of revenues locally under the \textit{da baogan} (lump-sum transfer system) like Guangdong, but even this was considered to be a "rotten deal" for the city and it was not until the 1994 reforms that Shanghai believed that it had a level playing field with Guangdong.\textsuperscript{161}

This mode of revenue sharing worked well for the central government in the early 1980s. The system satisfied the conservatives at the Ministry of Finance by providing a designated amount of tax revenue for the centre. It however became

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\textsuperscript{158} Gu and Chen, n. 155.
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\textsuperscript{159} Quoted in J Bruce Jacobs, "Uneven Development: Prosperity and Poverty in Jiangsu," in Hendrischke and Feng, n. 37, p. 140.
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\textsuperscript{160} Jacobs, \textit{ibid.}, p. 140.
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clear that the system could not be sustained. Like all transition economies, the
government in China relied principally on the state sector for tax revenue. However, the state-owned enterprises (SOEs) faced competition from new non-state enterprises and were losing their previous dominant position in the economy. As profits of the state enterprises declined, the revenues collected by local governments also declined, and less tax revenue was available for sharing with the centre. Total budgetary revenue dropped from 23.7 per cent of GDP in 1985 to 13.5 per cent in 1993. Budgetary revenue shared between the centre and provinces also declined from 14.4 per cent of GDP to 10.8 per cent during the same period of time, which meant that the part of revenue collected directly by the central government and not shared with provinces had decreased by an even bigger magnitude. Those provinces remitting to the centre, however, had been able to increase their share of revenue from 61.8 per cent in 1985 to 85.8 per cent in 1993 probably because some of them possessed strong bargaining power under the revenue sharing system, and because they were able to enter into agreements with the centre that stipulated fixed amounts of remittances.162

The central government, on the verge of bankruptcy, frequently sought to renegotiate the tax-sharing agreements with local governments with the richer provinces often also asked to make “extra contributions” (duozuo gongxian) to the central government budget.163 The centre’s fiscal situation did not improve, however, because the centre did not have its own tax collection administration and had to rely on local governments to remit the tax revenues they collected. The provincial and local governments could easily find excuses to default on their tax transfer obligations and could withhold remittances to the central government by diverting tax revenues from budget to off-budget that were not subject to sharing with the centre. They could also keep resources within their locality by giving enterprises tax holidays and exemptions, and funds “stored” in this way could then be transferred to local governments by ad hoc levies.164

162 Gu and Chen, n. 155.
163 For Shandong’s experience as one such province, see Chung, n. 97, pp. 268-69.
164 Gu and Chen, n. 155.
This expansion of local economic power inevitably reduced the power of the central authority. During the late 1980s when pressure from the central government to close down less profitable enterprises increased, local governments protected them through mergers and other forms of evasion. The ability of local governments to blunt market pressures using bureaucratic power was also evident in their ability to influence the tax and banking systems. Local governments put pressure on bank branches to grant preferential loans, lend beyond limits, ease loan requirements or extend loan payments.\(^{165}\)

All of these significantly reduced the capacity of the central government to redistribute income to poorer provinces and the revenue share of provinces receiving subsidies from the centre declined continuously from 142 per cent in 1986 to only 113 per cent in 1993.\(^{166}\) Of the centre’s budgetary transfers to provinces, only quota subsidies are based on need, and by 1990 these had declined to only 15 per cent of total transfers. In terms of direct aid, these subsidies did not amount to much. They equaled only 0.1 per cent of China’s national income in 1986, and were being distributed to 60 per cent of China’s counties. Over 50 per cent of transfers were earmarked grants that were mostly absorbed as price subsidies in grain, oil and cotton for relatively prosperous urban populations. The transfers were generally insufficient or ineffective in raising the growth of capital investment in these poor provinces to match the national level. Even in the 1990s, however, these funds continued to be the primary source of central investment for most counties even though their effectiveness remained minimal with substantial amounts of such funds used usually to cover everyday expenses in county

\(^{165}\) The central government has since recentralized powers related to the functioning of the People’s Bank of China. The People’s Bank has centralized control along the pattern of the US Federal Bank and limited its regional head offices to only nine, so as to reduce provincial influence on decisions. Until the late 1990s, branches of the People’s Bank had been subject to “dual subordination” (shuangzhong lingdao) of both the central banking system and the local governments. Dali L Yang, “Economic Transformation and State Rebuilding in China,” in Naughton and Yang, n. 55, p. 126-34.

\(^{166}\) Gu and Chen, n. 155.
budgets, such as salaries for teachers and government cadres, rather than stimulating the intended development projects.\textsuperscript{167}

The 1994 Tax-Sharing Arrangement

In 1990, Wang Shaoguang and Hu Angang drew similarities between the circumstances obtaining in China then to that which preceded the breakup of Yugoslavia, saying more than ethnic hatred it was the weak fiscal system in the country that was the major factor responsible. The authors also pointed to the examples of the late Ming and the late Qing when as the fiscal powers of the localities increased, they began to first only feign obedience to the centre and then ended up competing with it and setting up their own 'separate regimes.' While this argument – a mix of the declining state capacity and the dukedoms (\textit{zhuhou}) arguments – was countered by other scholars who believed it to be an attack on the reform process itself, the report by Wang and Hu provided impetus to the fiscal and financial reforms begun in 1994,\textsuperscript{168} that were seen as means of imposing central government will on the provinces.\textsuperscript{169}

The central government had started reversal of policy at the 5\textsuperscript{th} Plenum of the CPC’s 13\textsuperscript{th} Central Committee in the November 1989, with the adoption of a “thirty-nine-point plan” which called for recentralization of economic power. The move, however, prompted great local resistance and intensified the conflicts between central planners and local authorities.\textsuperscript{170} Nevertheless, beginning in the early 1990s, Beijing also set about changing the revenue sharing system in an effort to arrest fiscal decline and increase central revenue shares. A new tax sharing arrangement was introduced by the Ministry of Finance in 1994 following lengthy negotiations with provincial governments. The 1994 fiscal reforms

\textsuperscript{167} Oakes, n. 92, pp. 42-43.

\textsuperscript{168} Kuhn, n. 39, pp. 152-53.

\textsuperscript{169} Watson et al in Hendrischke and Feng, n. 37, p. 77.

\textsuperscript{170} Cheng, n. 102, p. 280.
adopted two essential principles. First, the system of fiscal revenue sharing between the center and the provinces was replaced by a system of allocation of the different categories of taxation between the center and the provinces (fenshuizhi); and second, the center and the provinces now became responsible, respectively, for the administration and collection of taxes due to themselves.\textsuperscript{171} Shared taxes included the value-added tax (VAT) the bulk of which, in addition to business tax and product tax, the centre succeeded in shifting to itself. It also created a new consumption tax on luxury goods, including alcohol and tobacco, which too were to be remitted directly to the centre.\textsuperscript{172}

Until 1993, the central government did not have its own tax collection office, apart from the State Bureau of Customs collecting customs duties and the State Administration for Taxation collecting the taxes from a small number of large public enterprises.\textsuperscript{173} The Central Tax Bureau was therefore set up to collect the central and shared taxes, while local tax bureaus collected local taxes. The central government aimed to increase its share in total tax revenues from 40 per cent to 60 per cent and as an incentive for compliance from local governments, agreed to give a special transfer payment, called shuishou fanhuan (tax repayment), to provinces such that their revenue level would not be less than what they would have received under the old system. It was also decided to base the tax repayment on the actual provincial government revenue in 1993.\textsuperscript{174} This recentralization of revenues has, in fact, been an on-going trend throughout the reform era; whereas in 1980, the centre collected only 19 per cent of state revenues, by 1994, it was collecting nearly 58 per cent.\textsuperscript{175}


\textsuperscript{172} Wang, n. 59, p. 245; Jeanneney and Hua, \textit{ibid.}, footnote 5, p. 541.


\textsuperscript{174} Gu and Chen, n. 155.

\textsuperscript{175} Oakes, n. 92, p. 43.
While fiscal regulations were supposed to have increased central government say, they seem also to have increased the fiscal autonomy of the provinces. The central government still maintained the responsibility for defining the fiscal system so that the rate of taxation and the fiscal bases remained uniform for the whole of China. The share of fiscal revenues available to the central government increased in line with the objective of the reform but in certain aspects the reform was able to reinforce the fiscal autonomy of the provinces. First, the sharing of tax revenues between the center and the provinces was regularized and made uniform for all provinces – in this way, the revenues of the provinces no longer depend on the unpredictable results of negotiation with the center, and allowing better planning of public expenditure. Second, the taxes which were left to the provinces such as the taxes on company profit for the most dynamic companies, private and collective, on personal income and property tax, hold significant fiscal potential. Provinces retain a certain amount of discretion in the administration of these taxes, as it is very difficult for the central administration to control an activity as vast as local fiscal administration. Third, the provinces are the main beneficiaries of the revenues that they collect themselves; this leads them to adapt their collection effort, as has occurred before the reforms, to the desired level of their fiscal expenditure. This liberty of the provinces is however, characterized by an extremely different fiscal effort from one province to the next.

Unlike previous fiscal reforms, the reform of 1994 thus, implemented a transparent and objective fiscal policy, more likely to encourage the provinces to lead a budgetary policy related to their own interest. The new regime reduced the role of the provinces in revenue collection while increasing their role in revenue expenditure, but the trend toward recentralization was through systemic reforms rather than “short, superficial campaigns.” Nevertheless, throughout

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176 Jeanneney and Hua, n. 171, p. 528.
177 Ibid., p. 529; Chu-chia Lin, “Economic Relationship between China’s Central and Local Governments after the 1994 Tax Reform,” in Shaw n. 36, p. 146.
178 Zhang, n. 173, p. 121.
179 Wang, n. 59, p. 251. However, there was greater likelihood of prosperous provinces such as Guangdong and Shanghai benefiting from the 1994 reforms than the interior provinces that had
China, local governments were faced with the contradictory combination of fiscal decentralization (giving them greater responsibility for their budgets) and fiscal decline (giving them responsibility for more of their expenditures). The fiscal burdens of this situation resulted in a tremendous amount of local activity in independently promoting regional economic development, especially by expanding the light industrial sector. This often led to irrational duplication, regional protectionism and real estate and trade speculation aimed at attracting fast capital from domestic and foreign sources. Further, Jeanneney and Ping Hua have mooted the possibility that with respect to public expenditure, governments of Chinese provinces have been behaving like those of developing countries significantly affected by external shocks, and that in order to alleviate external risk, they take control of a more significant share of the resources of the economy.

In addition, extra-budgetary revenue is a major source of income for local governments and is an example of the central government’s tolerance of provincial initiatives with respect to local public services. Alongside these budgetary and extra-budgetary expenditures, there also exists off-budget spending, also called “extra-extrabudgetary spending,” which is financed by additional fiscal revenues, such as those from the transfer of profits from rural companies, rent from property, fines and fees for various informal public services, and voluntary contributions from individuals and companies, notably Chinese non-residents. These off-budget funds – mostly collected locally without the authorization of the central government and not published – provide the provinces with the freedom to choose at least the level of extra-budgetary spending if not the level of comparatively less potential to raise taxes through local taxes. Lin, n. 161, footnote 93, p. 87. See also Lane, n. 23, p. 225.


181 Oakes, n. 92, p. 44.

182 Jeanneney and Hua, n. 171, p. 537.

183 Lan, n. 28, p. 215. For more on extra-budgetary funds see Zhang, n. 178, pp. 222-27.

184 Jeanneney and Hua, n. 171, p. 529.
budgetary expenditure itself.\textsuperscript{185} Indeed, it is now a familiar pattern throughout China that provincial governments faced with increasing fiscal responsibilities and increasingly inadequate revenues, take to reaching ‘beyond the budget’ to generate revenues through extra-budgetary and self-raised funds.\textsuperscript{186}

**Conclusion**

China’s accession to the WTO implies further commitments to decentralization in both its central and local administrative systems that are likely to have far-reaching impact on centre-province relations, and which will continue to be played out in the coming years. Among the major consequences are the necessity of involving the people’s congresses at various levels in order to meet administrative requirements,\textsuperscript{187} the legal obligations upon all levels of government to exercise its authority legally and reasonably and the need to do away with local protectionism. Such externally-tied commitment means that it might be harder for decentralization measures to be rolled back later.\textsuperscript{188}

During the reform years, many of the Chinese state’s previous mechanisms of control over the provinces have fallen away leaving it short of powers to arbitrate, and the centre is left the dilemma of using the instruments that remain at hand in such a way as to ensure maximum effect.\textsuperscript{189} As Pye has stated,

\begin{list}{\textsuperscript{185}}{\item \textit{Ibid.}, p. 528.}
\item \textsuperscript{186} Oakes, n. 92, p. 43.
\item \textsuperscript{187} Thus far, most administrative reform in China has originated with the executive branches of government rather than coming from the legislatures.
\item \textsuperscript{188} See Lin Feng, “The Impact of China’s Accession to the WTO upon Administrative Approval in the Pearl River Delta Region,” in Joseph Y S Cheng (ed.), \textit{Guangdong: Preparing for the WTO Challenge} (Hong Kong: The Chinese University Press, 2003), pp. 81-115. Following its entry into the WTO, the central government has revised over 2,300 laws and regulations, publicized all WTO-related legal documents, while various local governments have similarly “sorted out, revised or abrogated” some 190,000 local regulations, rules and policy measures, drastically reducing tariffs in the process. “10 Key words depicting China in ‘10th Five-Year Plan’ Period,” \textit{People’s Daily}, 28 September 2005, http://english.people.com.cn/200509/28/eng20050928_211432.html.
\item \textsuperscript{189} Breslin, n. 21, p. 71.
although the government in the People’s Republic involves more concerted policy efforts, it is one of the great illusions of the day that Chinese authorities are as omnipotent as they pretend to be. In a host of fields, from tax collecting to controlling economic activities in Guangdong, Fujian and other dynamic provinces, central authorities know that feigned compliance still reigns and that it is best not to attempt the impossible by demanding precise obedience. Sovereignty, after all, calls for theatrical representation.\textsuperscript{190}

Naughton and Yang, however, argue that the central government retains the capacity to implement its policies by mobilizing institutional and other resources where fundamental state interests have been involved.\textsuperscript{191} For example, since 2004, the central government has been stressing that local leaders follow regulatory procedures in the urban land transactions but were opposed as the latter tried to retain their control over land. Beginning in late 2006, therefore, the central government launched several new measures to reform the urban land market by increasing central government supervision and reducing the discretionary power available to the localities. Among the many explanations for the fall of Chen Liangyu, the Shanghai Party Secretary, in September 2006, one has been opposition to such central government measures on land control.\textsuperscript{192}

In the following chapters, three specific aspects related to the role of the province in the Chinese political economy are analysed. In the next chapter, the theme of provincialism or inter-provincial competition is taken up while examples of provinces grouped together on a regional basis and of provinces cooperating to achieve common goals are examined in the fourth chapter. The fifth chapter studies the consequences of the foreign economic ties of provinces for both the nation and the provinces involved.

\textsuperscript{190} Quoted in Zheng, n. 19, footnote 5, pp. 229-30.
\textsuperscript{191} Naughton Yang, n. 139, p. 22.
\textsuperscript{192} Naughton, n. 135.