

# Central-Provincial Relations: Beyond Compliance Analysis

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## Introduction

The incessant conflicts between the central and provincial governments in China since the post-Mao reform have reinvigorated the old concern for understanding the division of power between the central, or national, level and the intermediate level of the state hierarchy. Amidst the debates a dominant model of central-provincial relations has emerged, depicting a conflictual power relationship between the Centre and the provinces.<sup>1</sup> In this view the conflicts are often understood in terms of compliance of provincial behaviour with central preferences. The domination of compliance analysis in the study of central-provincial relations, this chapter argues, leads analysts to portray the relationship in an implicitly zero-sum context, and fail to notice the coexistence of co-operation as well as conflicts within the relationship.

The problem of the conventional wisdom is not the emphasis on conflicts and compliance *per se*, it is contended, but the sole focus on their occurrence. By focusing only on the negative implications of escalating central-provincial conflicts, often in terms of the Centre losing its control over the periphery, many analysts have unknowingly adopted the historically hegemonic centrist narrative of history.<sup>2</sup> The possibility that there could exist amidst the conflicts also seeds for positive developments was not explored.<sup>3</sup> Conflicts were seen to exist in a unidimensional continuum, so that analysts neglected the possibility that intense conflicts may also induce the contending parties to compromise and to co-operate with one another, if only in order to keep their own neck above the water.

Against this background this chapter argues that the basis of central-provincial conflicts will be better understood in terms of the dynamics of internalization. It is imperative to go beyond the trap of the conventional reliance on compliance analysis and that of the zero-sum framework. Into the 1990s this need for a reconceptualization of the relationship has also been gradually recognized by the Chinese government. The pre-existing approach to central-provincial relations, stressing more, or less, centralization of

centrally delegated power, has not satisfactorily dealt with the inherent conflict within the relationship. A change in the scheme of thinking is thus required.<sup>4</sup>

### **Central-Provincial Relations as Compliance?**

A fundamental question underlying research in central-provincial relations is the nature of the relationship between the Centre and provinces. A major dimension to this question is addressed in the examination of whether the power relationship is characterized by a zero-sum or non-zero-sum situation. The presumption of a zero-sum relationship in most literature has resulted in an eclectic view which sees the pendulum of power swing unpredictably from the Centre to the provinces, and vice versa. Chinese politics, in this view, seems to be trapped in an endless cycle of centralization and decentralization, and characterized by both centralized authoritarianism and localized fragmentation.<sup>5</sup>

A major difficulty in the zero-sum view of central-provincial relations is its high degree of indeterminacy. Both centralization and decentralization, in this view, refer to the varying degrees of concentration (and deconcentration) of centrally originated power in the central and provincial governments. There is, however, no reliable clue to anticipate the circumstances whereby the pendulum swings from one end to the other. As a result changing preferences among the leadership, as well as changing personnel, have been resorted to as explanations. The impossibility to see through the leaders' minds makes any prediction, done in this manner, a highly speculative venture and any explanation *post hoc* and selective. One is at a loss to explain, not to say to anticipate, *when* specifically the phase of decentralization ends and when centralization again sets in. If central predominance and provincial fragmentation coexist at the same time, how do we account for the relative ascendancy of one at some point of time, and the other at another point of time?

One recent attempt to reconcile the duality of central and provincial power is to assign them to different spheres.<sup>6</sup> The coexistence of central and provincial power,

according to Huang, can be described as the ‘Chinese style of federalism’, in which provinces are powerful in the economic sphere and the central government omnipotent in the political sphere.<sup>7</sup> The notion of federalism, whilst emphasizing the internal checks and balances within the state structure, and the substantial economic autonomy enjoyed by local governments, however does not *explain* by itself the mutual power of the Centre and the provinces. In other words, given the authoritarian nature of the Chinese style of federalism, how is the economic power by provinces possible? Does the empirical fact of provinces enjoying economic power negate the notion that the Centre is omnipotent politically? Where is the dividing line between economic power and political power? To look for an answer we need to enquire further into the processes and dynamics of central-provincial interaction.

According to the analysis of the ‘Chinese style of federalism’, the economic power of provinces is rooted in the soft-budget constraints of the socialist economy, in which local leaders can literally ‘free ride’ on the ‘economic public goods’, namely macro-economic stability, provided by the Centre. This power is also fuelled by the successive delegation of fiscal and economic resources by the Centre to the provinces during and prior to the reform era. However, this power by the provinces has always been contained by the monopoly of political power by the Centre, Huang argues, notably by means of the Centre’s power over the career of provincial officials. Huang’s message is a rebuttal to the once popular disintegration thesis of the Chinese state: the Chinese system is inherently authoritarian so that the economic power possessed by provinces will not be sufficient to cause the disintegration of the country, or to threaten the central government.<sup>8</sup> Huang argues that the Centre’s control over the political future of local officials has impacted on the economic decisions of the latter---so that local officials in fact did not diverge much from central economic policy preference as would have been otherwise. After rebutting the disintegration thesis, Huang goes on to defend the power of provinces---that economic decentralization is necessary to balance the political centralization in the one-party political system. Economic decentralization builds in vested interests among a larger group of officials in the policy processes, and thus ensures

a higher level of participation and openness in the political system, than when both political and economic resources are concentrated at the top of the hierarchy in the hands of a few. As Huang puts it, ‘centralizing both political and fiscal controls is a highly risky strategy as it places an inordinate requirement on the honesty and rationality of the central government.’<sup>9</sup>

The argument is hinged heavily upon the Centre’s control over personnel decisions, and Huang’s data shows fairly frequent---every three or four years---reshuffles of provincial leaders, so that provincial party secretaries and governors in practice have had shorter tenures than what are legally prescribed. The average tenure for Party secretaries since 1979 has been 3.44 years, and governors 2.85 years, whilst the full term by law is five years.<sup>10</sup> This evidence of the Centre ‘flexing its muscle’ purportedly supports the thesis of central control: in Huang’s own words, ‘the scope, manner, and frequency of personnel changes in the provinces are all indicative of the strong hand of the central government at work...’<sup>11</sup> As a result of the political control by the Centre, the argument goes, provincial leaders voluntarily adjust their policy choices in the economic arena so that they come closer to the preferences of the Centre. (That is why the inflation rate in reform China was much more moderate than that in other reforming or former centrally planned economies). The duality of central and provincial power in separate spheres is thus integrated: the former being the stronger force ultimately reins in the latter. Underneath the notion of federalism we actually have a modified form of continued central predominance at work.

An alternative argument may be put forward, however, to call into question this entire line of argument. The frequent reshuffles of provincial leaders could be a reflection of central weakness rather than strength. This is especially possible since a similar, if not higher, level of divergence of policy preference between the Centre and provinces as of before is often witnessed after a new provincial leadership has been put into place for some time. Apparently provincial officials previously perceived by the Centre as reliable and loyal became the same unscrupulous people as their predecessors after they sat in

their office for a couple of years! In other words, whilst premature reshuffles confirm the possession of central discretionary power to hire and fire provincial leaders, what they imply for central-provincial relations is less than clear-cut. Does the central control over personnel decisions serve as a springboard of central influence from which provinces are enticed to follow central choices? Or is it merely the last major instrument of central resistance to growing provincial power?

In this light, the context in which the reshuffles have taken place in the 1980s is indicative. Reshuffles in the 1980s occurred amidst a background of increasing provincial assertiveness. If the changes in provincial personnel are effective in reasserting central power, as Huang argues, these reshuffles should have resulted in a changed atmosphere between the Centre and provinces. In other words, successful reshuffles should have made subsequent similar exercises unnecessary, or less likely. Repeated and frequent reshuffles thus in effect suggest the failure of the central effort to rein in the provinces with any sustained effect. Provincial leaders may have been tamed for a short while, but soon they picked up habits of their predecessors. The persistence of central complaints of 'problems' in the provinces in official and nonofficial channels also lends credibility to this interpretation.

The persistent recurrence of a noticeable gap in central-provincial policy preferences *despite* frequent central reshuffles of the provincial leaderships thus makes the thesis of central power highly questionable. The defence put forward seems to be that any gap in policy preferences is actually relatively modest, so that its occurrence or not is immaterial.<sup>12</sup> However, this argument is problematic because if the gap is so modest as to be immaterial, surely there should be no need for the central government to replace, time and again, the existing provincial leaders before the expiry of their legal term. The very occurrence of premature reshuffles suggests, therefore, that the central government perceived the gap as substantial and requiring remedy, although it might be modest when compared with other former, or reforming, socialist economies.

The interesting situation in China is, therefore, that the gap in central and provincial policy preferences is, at the same time, both substantial and modest. It is substantial in the subjective evaluation of the central leaders, who have thus felt the need to reduce the gap by replacing unruly provincial leaders with the trustworthy. On the other hand the gap is undeniably modest in comparison with other reforming socialist economies, as Huang has pointed out. In other words, however modest China's central-provincial differences in policy preference may be in comparison with other countries, they are still considered too large to be tolerable by its central leaders. The question thus becomes: how this 'objective' modesty may be explained. If provincial leaders are not enticed to narrow their differences with central leaders out of careerist concern, what causes the relative modesty in the differences?

This question points at the heart of the nature of central-provincial relations. Despite controlling substantial resources and being the targets of central complaints, provincial leaders are still often perceived to be merely reacting to stimuli and manipulations initiated at the Centre, instead of being independent agents of action. It is true that the central government has a decisive power over the political future of provincial leaders, who do care, as a general rule, for their own career development. The choice of loyal and like-minded personnel to be provincial leaders by the Centre was said to intend to reduce the need for external control and monitoring.<sup>13</sup> This was achieved 'because of the design of incentive structures', so that local officials comply 'in view of their careerist interests'.<sup>14</sup> The entire line of argument premises on the central monopoly of personnel control, which allows the Centre the liberty to tolerate provincial power in the economic arena, and keeps provinces under control. The rules of the game are already predetermined by the Centre, and provincial officials may only choose to comply and cherish, or to ignore and perish.

It is tenuous, however, to rely on central political control alone to explain provincial behaviour. For one thing this central authority is too crude a factor, and to be effective can only be used sparingly. Too frequent reshuffles should reflect as badly on

the Centre's ability to 'find' the right people, and to retain their loyalty, as on the ability of provincial officials to hold on their positions.

The problem rests in that no distinction has been drawn between the concepts of compliance and internalization, so that 'internalized norms' have been seen as the result of a 'carrot-and-stick' process. Research by psychologists has, however, firmly established the differences between three types of orientation or attitudes by individuals in an organizational context: compliance, identification, and internalization.<sup>15</sup> This indicates that individuals in an organization may accept influence, and thus change their behaviour, in three conceptually distinct ways. In the first case, compliance or exchange, individuals adopt attitudes or behaviour not because of shared beliefs but in order to gain specific rewards. In the second case, identification or affiliation, an individual accepts influence in order to establish or maintain a satisfying relationship, respecting the values of the group without adopting them as his or her own. In the third case, internalization, individuals adopt attitudes and new behavioural pattern because they accept the underlying values of such attitudes and behaviour as their own. Values of the individuals and the organization, or between individuals at the lower and upper hierarchy of the organization, in this situation become congruent.<sup>16</sup>

Internalized norms therefore need to be distinguished conceptually from the result of central manipulation and the careerist aspiration of the local officials, and much of Huang's difficulty resides in the confusion of compliance processes with those of internalization. To the extent that provincial officials adjusted their economic behaviour in line with central policy preference, because they wanted to seek career advancement, then they would have kept the central superiors happy. The actual dissatisfaction of their central superiors suggests two possibilities. First, provincial leaders did seek to please their superiors, but their efforts fell short of satisfying the latter. The subsequent question for this explanation is, then, to find out how, given the incentive and determination for provincial leaders to comply with the Centre, this failure of achieving compliance and getting the central superiors happy could possibly occur. Are the preferences of the

central leaders too obscure to be accurately read by provincial officials, for example? Alternatively, a second explanation would suggest that, notwithstanding any tendency among provincial officials to please their superiors, the narrowing of economic policy preferences was achieved not because of the concern of compliance, or the wish to please. The perceptions of priorities, values and choice of policy preferences of provincial officials are not hugely different from those of the central officials. Local officials shared many of the values of the central officials, and this worked to contain the differences in the central and provincial policy preferences. The modest 'objective' differences in economic policy preferences, then, are accounted for not by the provincial leaders trying to read the central leaders' mind, but by the provincial and central leaders, each as independent agents of action, having mind-sets not too different from one another.

Here it is worth remembering that anthropologists and historians have long noted the pervasiveness of a common core of 'Chineseness' in the collective consciousness of people from different regions, despite the many differences, cultural and other, between them.<sup>17</sup> The differences and conflicts between the centralist and federalist camps during the first two decades of the Twentieth Century, for example, do not negate their common concern for the well being of the Chinese land and its people *as a nation*. As Siu writes about the tension between the political centre at Beijing and the 'heterogeneous' south, centring in Guangzhou and Hong Kong, 'patriots and subversives are often the same group of people'.<sup>18</sup> The long history of a common written language, and the resultant common memory of a long history of unification and the stability of territory, have ingrained a strong sense of nationhood and common identity among the people.<sup>19</sup> Even in the periods of disunity, which by one account amounted to more than half of the years in 'Chinese' history since the Qin Dynasty in 221 BC,<sup>20</sup> the leaders were invariably competing among themselves in the task of unification. They might have different outlooks and substantive policies, but their orientation towards 'China' was remarkably similar.

## **Dynamics of internalization**

The remaining question is to account for the remaining ‘gap’ between the central and provincial ‘minds’. Why is there still a gap, if the argument is to point at the commonality among central and provincial leaders *despite* their different role positions and other structural differences? Why is it that although the preference differences are in fact not huge, as compared with other transitional economies, the central leaders have nevertheless regarded the gap as very material and remained displeased?

Another look into the concept of internalization may suggest hints for an answer. Unlike compliance which focuses on behavioural patterns (thus there is often a difference between public behaviour and private attitude), in the case of internalization actors share values, perceptions, and beliefs. Whilst a congruence in values and norms facilitates agreement in choice of action, congruence in specific action is not a prerequisite of the internalization process. There could be, legitimately, differing interpretations of what constitutes appropriate behaviour among different actors, whilst each actor continues to believe that they share the same basic values and goals. Ultimately, there exists an order of values and beliefs, so that parties agreeing on the more basic level of values could legitimately disagree on other levels. Differences in interpretations and specific choices of behaviour and lower-order values are considered, basically, as non-threatening to the maintenance of the congruence in basic values. Such differences may often cause conflicts, however, especially as parties may hold different expectations regarding what constitute the basic values. It is important, therefore, that resolution of the conflicts is to be done through negotiation and dialogue. In other words, the power structure within an internalization scheme needs to be fundamentally collegial, as each party participates in the definition and redefinition of what constitutes the appropriate course of action, in conjunction with other parties. Differences in action preferences are thus expected, and normal, occurrences. They constitute part of the construct of internalization process.

In such circumstances, it is entirely natural for provincial leaders to have judgements about specific course of action on the national agenda which do not entirely conform with those of the central leaders. Gaps in central-provincial policy preference hence come into being. These differences are not huge in magnitude, given their many commonalities and values and outlooks, but their occurrence should have, in theory, caused no great surprise.

The practical problem for China is that the central leaders have not found these differences between themselves and the provinces tolerable, not to say legitimate. Seeing themselves as the political superior they interpret such differences as reflections of disloyalty on the part of the provincial officials, posing a challenge, even a threat, to their authority. The central leaders, in other words, have had complaints not because of the objective problems of provincial policy preference, or the magnitude of the differences in policy preferences *per se*, but because of the fact that provinces did not follow their own interpretation of what constituted the appropriate course of action. The historically dominant centralist and authoritarian political culture has had a further strengthening through the Leninist state machinery. As the beholders of vested interests in this system, the central leaders have every natural instinct to clamp down on any insurgence from provinces which attempt to share its prerogative to define orthodoxy.

The apparent contradictory coexistence of a 'modest' difference in central-provincial policy preference, and of strong feelings against such a difference among central government officials, is thus explained. Each of these phenomena results from entirely different processes and is analytically independent of one another, their coexistence thus constituting no inherent contradiction. Differences in central and provincial policy preferences are a natural offshoot from the dynamics of internalization. How these objective differences are perceived is then contingent upon a range of other contextual factors. In the case of China, beholders of the historically dominant centralist view of power relations have found the differences annoying and even threatening. The

conflict between the hegemonic authoritarian and centralist political culture and what is required by an internalization culture, participative and decentralist, is all too apparent.

### **Competing Orthodoxies**

The long-standing tension between the centralist and decentralist views of Chinese history, and of power relations, has been analogized as a conflict between the inward-looking, agricultural culture of the northern yellow plain, and the oceanic, mercantile culture of the sea-bordering frontier at the south.<sup>21</sup> This may be stereotypical but, as historians have noted, the conduct, as well as construction, of history is necessarily based upon the creation of stereotypes.<sup>22</sup> The course of recent developments in post-Mao China has apparently supported, yet again, this interpretation of a 'north-south' divide. The southern part of China, centring in Guangdong province, has been the major propellant of reform since the early 1980s. The rapid resurgence of Shanghai in the 1990s added further weight to this version of tension between the land-based northern culture and the oceanic outward-looking south. Interestingly, although geographically Shanghai is situated at the middle position along the eastern coastline, and its distance from Beijing, the national capital at the north, is shorter than its distance from Guangzhou in the south, Shanghai has always been regarded as part of the 'south' nationally, and especially among the 'northerners'.<sup>23</sup>

By the late 1970s, the isolationist, Maoist state programme had faced total bankruptcy. In its place the call from the southern frontier for opening to the outside world and for economic pragmatism gained the upper hand. Eager to resurrect its failing legitimacy the central leadership was receptive to suggestions from Guangdong that the 'bamboo curtain' should be demolished and foreign investment, and thus foreign influence, be invited in.<sup>24</sup> Guangdong was subsequently made the 'pioneer' of reform and the base of 'experiments', with the target of reform expanding gradually from foreign investment, to economic reform broadly defined, and then to 'comprehensive', including administrative, reform. Until the resurgence of Shanghai in the 1990s, changes in

Guangdong and the behaviour of Guangdong officials attracted most attention from within the country and among outside observers on China's economic development. Local dynamism came into increasing conflict with the dominant authoritarian culture and the existing hierarchical political structure.

### *Contestation and Participation*

Since the 1980s it has been commonplace to attribute Guangdong's impressive economic performance to favourable central policies, as well as to the boldness of the Guangdong leaders in exploiting, and even changing, these central policies. It is important to take note, however, that Guangdong's flexible treatment of central policy does not reflect merely the failure or unpreparedness on the part of the central leaders to strengthen control. The flexibility also suggests an activist tendency within the Guangdong leadership to put forward its own interpretation of what constituted the appropriate reform measures. To recap the famous 'red lights theory', publicized reportedly after a pilgrimage trip by a north-east province to Guangdong, Guangdong's strategies regarding central policy are described as:

'go quickly when the green light is on;  
proceed immediately when the (red) light turns yellow;  
find a bypass route to proceed when the red light is on.'

The message is simple: one should keep on going forward (in reform) regardless the change of the lights (central policy), adjusting only tactically the pace or specific course of action according to changing circumstances, but should never let changes in detailed central policy or other circumstances divert the province from the established goal (economic reform and development). To the extent that the 'red lights theory' is about Guangdong's strategies regarding central policy, it is still reactive in nature -- but only to that extent. Guangdong's officials themselves are to decide independently regarding *how* specifically they are to react to changes in central policy. They would need

to judge *when* a light turns red, yellow or green, and *what* specific course of action is appropriate in light of the changing circumstances. In the case of a 'red light' situation, for instance, Guangdong's leaders would have to evaluate the changed policy context as well as the broader environment, and then to decide what is exactly to be done so that the 'red light' may be safely bypassed, but not crushed, and yet the traffic continues to proceed in the desired direction. The presence of independent thinking and action is obvious.<sup>25</sup>

Underlining the boldness is the belief that definition of what constitutes 'appropriate' behaviour is not the exclusive prerogative of the Centre. The rhetoric is, ultimately, functional: central monopoly simply will not work given the varied local situations and rapidly changing circumstances. In this light, Guangdong's state bank officials justified their violation of central rules regarding investment loans by saying simply that the rules had become outdated and ill suited the changed time of reform.<sup>26</sup> An almost explicit challenge to the Centre's monopoly took place in the aftermath of the central economic retrenchment policy in 1989. In response to the straitened economic atmosphere, Guangdong's provincial leadership launched its offensive in a series of articles in a provincial paper. The gist of the argument went as follows: the national consensus and fundamental policy since 1979 has been to develop the economy through reform. The role of Guangdong, as pioneer of reform in the country, was to make experiments in that direction, and in the process needed to decide *how* and *what* specific experiments were to be conducted. Given the established national goal economic productivity was the ultimate criterion of evaluation, and Guangdong's performance was to be judged only in terms of success or failure, over the longer run, of its experiments. Constraining Guangdong's ability to experiment, through the imposition of pedantic regulations, was commensurate to sabotaging the established national policy. Therefore, unless there had been a change in the basic consensus in the national goal, or unless Guangdong's experiments had failed to bear fruit, those national measures which obstructed Guangdong's work should give way.<sup>27</sup>

In this case the challenge against the Centre's customary monopoly of orthodoxy is apparent. The provincial leaders were demanding the right to participate in the definition and redefinition of what constituted the 'correct' approach towards the national consensus for economic development. The latter is not the issue here, as both the Centre and provinces have firmly upheld, since the late 1970s, economic development as the new agenda for the nation. What requires to be done in order to achieve that common goal, however, has not had complete agreement. Guangdong's leaders are of the view that the experimentation for a workable path should be a matter for both the Centre and provinces. The contribution of each party may differ, as central and provincial governments often participate in different aspects of the experimentation process. Their participation as *independent* actors means, however, that central and provincial leaders are in effect partners in the process. Whilst the respective influence of the parties may still be asymmetrical, given the organizationally super-ordinate position of the central leaders, the important implication is that central leaders should not attempt to dictate the process. To do so is to attempt to wipe out any independence of thinking within the provincial leaders, an attempt doomed to failure whether by historical experience or philosophical analysis.<sup>28</sup>

The same independence could be found within the Shanghai leaders both before and after the resurgence of Shanghai in the 1990s, though the manifestations may be somewhat different. During the 1980s, the development of Shanghai's economy was constrained by its rear-guard role in the economic reform and opening programme. As the largest industrial and commercial city Shanghai was too important to the nation both politically and financially to bear the risk of being an experimental ground. As a result its formal policy environment remained the old-style one of the earlier era of central planning, and as the central plan gradually receded during the decade the circumstances of Shanghai became increasingly difficult. In this situation Shanghai's officials, despite their reputation as rule-abiding and loyal, had engaged in various 'adaptations'. A municipal finance official admitted, for instance, that the Shanghai government had been adapting generally worded central policies and laws so that they were 'tailored' to local

circumstances.<sup>29</sup> In order to increase investment and, at the same time, retain a good, loyalist, image to the central leaders, Shanghai's officials had manipulated investment statistics by underreporting, and bargained for a higher investment quota by excluding valuable projects from the initial plan.<sup>30</sup> In another move, Shanghai's state enterprises had been continuously squeezed by the municipal government for revenue during the 1980s, despite the central policy of decentralizing more funds to the enterprises. The extra-budgetary revenue of state enterprises in Shanghai grew much more slowly than the national trend, and its share in total extrabudgetary revenue fell substantially, whilst more of the revenue concentrated in the local finance coffers and administrative units.<sup>31</sup> The Shanghai leadership was then attempting to steer through rough waters of the straitened fiscal environment in the 1980s. To do so it had to balance the competing needs of containing the financial exposure to possible central manipulation on the one hand, and that of centralizing as much revenue as possible for its own flexible deployment on the other. To achieve the latter, funds dispersed amongst state enterprises had not been allowed to grow as quickly as in other provinces. The collected funds were then put outside the scope of the budget for fear of possible encroachments by the Centre.

In power relations we thus witness the concurrent existence of both subordination and insubordination. On the one hand there is a simultaneous attempt by both parties to influence their opposite number, to cause the other to subordinate to oneself. On the other hand both parties are resisting the attempt of the other party, and in so doing produce the persistent element of insubordination in a power relationship. As Foucault has pointed out, there is no 'face to face confrontation of power and freedom which is mutually exclusive, but a much more complicated interplay... (and) freedom may well appear as the condition for the exercise of power'.<sup>32</sup> Despite their organizationally more inferior position provincial leaders do not merely comply, or fail to comply, with central directives as a function of the effectiveness of central control. Provincial officials perceive and strategize about goals and means, much in the same manner as their central counterparts do. As independent agents they share as well as differ with central officials in terms of goals and values, perceptions of possibilities, and judgements about appropriateness. Their

competition with central leaders' definition of orthodoxy is inherent in the nature of their power relationship.

### **Recent Trend: Beyond Compliance?**

Into the 1990s there has been a trend within China searching for new thinking and new solutions to the old issue of central-local relations. The driving force for change comes from two sources. First is the recognition that the context of central-provincial relations has changed radically as a result of progress in reform, so that traditional conceptions about the relationship, which are unavoidably linked with the traditional planning system, are now felt to be inappropriate. A second reason of the felt need for a new approach is the fact that the previous approach to the problem has not been perceived to be successful, as illustrated by the escalating level of central-local tension. In the Decision of the CCP Central Committee arrived at the Third Plenum of the Fourteenth Party Congress in November 1993, a long list of aggressive changes in various arenas was announced to lead China into the socialist market economy.<sup>33</sup> A number of reform measures undertaken since then has born the mark of the search for a new approach, especially in the case of the fiscal reform of tax-sharing system.<sup>34</sup>

The tax-sharing system reform in 1994 has been widely interpreted as a major effort by the central government, with the 'acquiescence' of provinces, to re-delineate their obligations and responsibilities in terms of fiscal revenue and expenditure.<sup>35</sup> One major objective of the reform, from the perspective of the central government, was to correct the trend of diminishing share of national fiscal revenue, and especially central fiscal revenue, as a proportion of Gross Domestic Product (GDP) since the 1980s. Another and related objective is to enable the central government a greater capacity of macro economic management, by means of fiscal policy and transfer payments. It has been pointed out, however, that these objectives have not been met since the implementation of the reform.<sup>36</sup> The share of national fiscal revenue as a proportion of GDP fell from 13.7% in 1993 to 11.9% in 1994, 11.2% in 1995, and 11.3% in 1996

respectively. The net fiscal inflow from the central government to the richer provinces along the coast has also been much larger than the inflow to inland provinces, with the exception of border minority provinces. Table 1 at appendix shows the net central fiscal transfers to the provinces in 1995 and 1996 (years where such data is available). It indicates that the bias in favour of the eastern provinces in 1995 is further strengthened, if not slightly, in 1996. The net central fiscal transfers in eastern provinces as a whole is 113% of the national average in 1996, a rise from 107.1% in 1995. The respective percentages in 1996 and 1995 for central provinces are 81.3% and 82.5%, and for western provinces 113.7% and 114.4%, the latter including a number of border minority provinces. The suggestion is that the central government has not been able to increase its capacity of fiscal reallocation to redress the disparity of regional development.<sup>37</sup>

It may be too early to draw conclusions about the success or failure of the reform, however. The phenomena perceived as indications of a failure could be the result of the interaction of multiple factors other than the tax-sharing system. The fall of national revenue as a proportion of GDP since 1994, for instance, may not be attributable to the reform and the design of the new tax-sharing system. Since GDP has grown by a much bigger margin during 1994 (35%) and 1995 (25%) than the growth in fiscal revenue (around 17%), an alternative explanation is that the fall in proportion is due to the rapid growth in economy, and specifically to the possibility that the capacity of the taxation administration has not coped with the demand of a rapidly expanding tax base. The central-provincial dynamics in the fiscal system, in other words, may not be directly relevant. This interpretation is lent support by the fact that national fiscal revenue did increase substantially on a yearly basis subsequent to the implementation of the new fiscal system. On top of the rapid surge of over 20% in 1993, (which may be partly accounted for by the revenue scrambling behaviour by provincial governments during the last months of 1993),<sup>38</sup> the subsequent three years between 1994 and 1996 consistently saw national revenue to increase by a comfortable 17-18%, whilst fiscal revenues in the few years before 1993 grew only by a small single-digit percentage.<sup>39</sup> It may thus be argued that national fiscal revenue did increase with the implementation of tax-sharing system,

and the share as a proportion of GDP may well be even lower if the contractual system was still in place. A significant improvement in the proportion share requires improvement in the taxation administration, including clear rules and workable procedures to collect the taxes, a subject which is analytically independent of the specific design of central-provincial fiscal system.

Likewise the question of regional equalization is likely compounded by factors extraneous to the design of the new system. Whilst a good number of inland provinces have not received substantial transfer payments, and some coastal provinces have apparently benefited more (see Table 1), this is partly a historical effect of the previous fiscal system than derivative solely of the tax-sharing system. A major factor causing some richer coastal provinces to have enjoyed a large net central flow of revenue, it has been pointed out, is that some coastal provinces have been more capable of expanding the revenue collected in 1993 than other provinces.<sup>40</sup> The revenue scrambling manoeuvres during the last few months of 1993 enabled the richer provinces to increase the revenue base upon which the central government calculated the subsequent 'rebate' of fiscal revenue under the tax-sharing system. However, as Table 1 shows, some rich coastal provinces apparently did not benefit as others did, for instance Jiangsu, Shandong, and Zhejiang. Similarly, border provinces generally did fairly well in terms of transfer payments. Whilst the 1996 figures seem to support the disequalization thesis, it is worth noting that of the twelve eastern provinces, nine provinces received a smaller amount of net central fiscal transfers in relative terms than in 1995, measured as a percentage of national average. A closer look at the data indicates that the overall figure for eastern provinces has seen an increase principally due to a big rise in the single case of Shanghai, where the percentage share jumped by more than 30 percentage points from 230.2% to 261.2% of the national average. The two other eastern provinces that have seen an increase in net central transfers, Guangxi and Hainan, should have no major impact on the overall picture as their gains are very small (0.1 percentage point for Guangxi and 6.2 percentage points for Hainan). Similarly, notwithstanding the slight drop in average figures for central and western provinces as a whole, seven out of nine central provinces

actually see a rise in their net central fiscal transfers as a proportion of the national average, and five out of nine western provinces do similarly. These gains are however overturned by a big drop in the case of Heilongjiang (a drop of nearly 20 percentage points from 139.9% to 120.4%) for central provinces and in the case of Tibet for western provinces (a drop of 92 percentage points from 797.9% to 705.6%). The wide variation within the spatial groups of provinces suggests that multiple factors may be operating in a criss-cross manner. These include the lingering effect of the previous fiscal system, the differential economic capacity and/or political skills of the provinces, the central policy in favour of border minority provinces, as well as the specific design of the tax-sharing system as implemented since 1994. The respective influences of these factors would require further analysis, and it would be premature to arrive at conclusion regarding the tax-sharing system before this has been done.

The fact that the specific design of the new system has been temporized by features of the previous system indicates the strength of provincial influence, and the influence of the richer coastal provinces in particular. Such compromise may well be needed, or unavoidable, in order to make change possible. The question then is whether the tax-sharing system has any meaning at all, given the extent of the compromise. Is the shift from the contractual system to the tax-sharing system a mere change in name and a matter of rhetoric, in other words, or does it symbolize some genuine process of change?

In this regard it is important to remember that the tax-sharing system was first conceived as an attempt to chart a new approach to regulate central-provincial fiscal relations, and to delineate respective revenue privileges and expenditure responsibilities. There is a need to distinguish the defining characteristics of the system from its desired consequences since, as noted above, the non-fulfilment of the latter in the first few years of implementation may be a result of an interaction of various factors not directly related to the tax-sharing system *per se*. The context of the reform was the rising costs of the previous contractual system, as the central and provincial governments sought to outmanoeuvre each other in the observance and non-observance of the revenue-sharing

contracts.<sup>41</sup> Amidst the escalating tension and outright conflicts there emerged gradually a recognition within the central and provincial leaderships that there was a need to find a new way out, and that playing ambiguity alone would no longer bear benefits to oneself. The central leaders were more anxious to seek change in this respect, as it felt more threatened than the provinces as a result of its declining share in national fiscal revenue.<sup>42</sup> The dominant perception within the central government was that the central coffers have been the loser in the distribution of fiscal resources since the reform. As a result the central government sought to increase its share in total fiscal revenue in a new fiscal system, but it also knew that to do so would require a new approach other than a mere administrative centralization of taxation powers or adjustment in remittance ratios.

In the provinces one early supporter of the tax-sharing system was the Shanghai government. In as early as 1984 Shanghai's finance officials have stated their preference for a tax-sharing system, in which Shanghai would obtain its revenue through a division of the types of tax.<sup>43</sup> The evaluation was that Shanghai would be able to greatly improve its fiscal position if it was given clearly defined fiscal jurisdiction and greater local autonomy to regulate the local budget. The stress for the design of a new fiscal system between the Centre and the provinces was thus, in this view, very much on the institutionalization of the division of revenue privileges and expenditure obligations between the central and provincial governments, with the provincial governments allowed a much greater fiscal autonomy within the boundaries of the demarcation.

From the provincialist perspective, therefore, the crux of a new fiscal system was to enhance provincial fiscal autonomy and to reduce provincial exposure to arbitrary intervention by the central government. The ultimate purpose was to enhance the ability of provincial governments to develop the provincial resource base, and to increase the resources within the provincial jurisdiction. The bottom line in terms of resources, in other words, was that pre-existing levels of provincial revenue must not be reduced in the new fiscal system.

This concern about protecting pre-existing resources was most conspicuous in the case of Guangdong, the province arguably being awarded the most favourable deal under the contractual system. Whilst Guangdong had enjoyed a large and swelling retained local revenue during the 1980s, the feeling within the province was that this was part and parcel of the intended consequences of central policy, which required Guangdong to have more fiscal autonomy so as to be able to experiment boldly in opening and reform. In this light the provincial manoeuvring strategies, whereby provincial governments sought to undercut the revenue base of the revenue-sharing contract entered with the central government, were only reactions to similar moves by the Centre.<sup>44</sup> Diversion of budgetary resources to the extrabudgetary was, for instance, a provincial response to the arbitrary intervention of the central government in provincial fiscal administration and the resultant ‘softness’, or insecurity, of the fiscal contract. The interest of Guangdong leadership in the change of fiscal system, therefore, was a better protection of their pre-existing, and legitimate, hold of resources.

This explains why the Guangdong government took a lead in persuading the central government to change the base line of calculation of central transfers under the new system from 1992 to 1993.<sup>45</sup> The result was that Guangdong has been able to increase substantially the base line and thus to better protect its interests under the new system. Since at least maintaining the pre-existing level of local revenue was the common interest of all provinces, it would be difficult for the central government to deny the Guangdong government the ‘right’ of vested interests only. One relevant consideration was of course the strategic importance of Guangdong in the national reform process, though in the 1990s this has become somewhat diminished than before. The resultant compromise was thus to recognize the vested interests of *all* provinces under the contractual system, in terms of local retained revenue, and only to adjust the balance between central and provinces, and among provinces, through the growth part of the national revenue.<sup>46</sup> As noted previously, a further adjustment in the calculation of the increment in central tax rebates has once more watered down the equalization effect of the central tax rebates.

Despite the compromise and watering down, the tax-sharing system has by and large changed the rule of the game in the central-provincial fiscal relationship. Whilst previously both the Centre and provinces sought to undercut the contract and outmanoeuvre each other, the current central-provincial contention focuses on the delineation of respective responsibilities and privileges. An important indicator of the change is that notwithstanding the dissatisfaction on both sides on the operation of the new system, it was admitted readily that flows of fiscal revenues between the central and provincial governments have since followed, by and large, the rules as prescribed by the tax-sharing system.<sup>47</sup> Tax revenues were divided according to prescribed formula, as were the cases of rebates and other prescribed transfers. The promulgation of the Budget Law in 1994 helped somewhat, as it specified that the avenue to finance central budgetary deficit was through the issue of state bonds, within China and internationally.<sup>48</sup> Since 1994 the value of newly incurred government debts has surged substantially.<sup>49</sup> Whilst this may be a matter of concern it also suggests that the practice of asking for additional contributions from provincial coffers to finance central budgetary deficit during the 1980s may have become less common.

Current issues of concern focus upon the calculation of central transfers and the delineation of expenditure responsibilities. There is an increasingly intense feeling within the central government and among the central inland provinces that the calculation of central transfers need to be changed to enable a larger flow of transfers to inland provinces.<sup>50</sup> Meanwhile, there is the demand from all provinces, and especially from the richer provinces, for a better delineation of expenditure responsibilities between themselves and the central government. The feeling is that the 'zoning' of responsibilities should be part and parcel of the fiscal system reform, and that the tax-sharing system as implemented has only dealt with the division of revenues, leaving the expenditure side of the equation virtually untouched.<sup>51</sup> Even on the revenue side, there is the demand that provinces should have the power to legislate local taxes, in order to be fully responsible for the management of the local economy.<sup>52</sup>

The emergent picture is that notwithstanding the inherent contradiction between the national agenda and local interests, and between the richer and less well-off provinces, there has been a new politics under a new set of rules. Whether central and provincial governments, and different provinces, will all become better off as a result of this new game may be too premature to tell decisively. It is quite certain that, however, there has been a genuine change in the manner whereby Centre and provinces interact among themselves. Central to this new mode of interaction is the recognition that the respective concerns and interests of each party have to be respected, and that neither a centralist nor provincialist framework can adequately define the central-provincial relationship.

### **Centre and Provinces: Conflict and Co-operation**

The historically dominant centralist culture have led many analysts to neglect, if not ignore, the independence of provincial officials as agents of action. Differences in choices and judgements were accordingly treated as if they were incidences of non-compliance. However, whilst the resolution of differences in opinion, if resolution is necessary at all, is a matter of dialogue and negotiation, acts of non-compliance raise issues of loyalty and control. These latter questions are by nature emotionally inciting, themselves feeding on and reinforced by the traditionally hegemonic centralist political culture. If provinces act only to comply or not to comply, a unidimensional focus on conflict, or co-operation, will suffice. Conflicts would mean simply the absence of co-operation, and likewise co-operation as the absence of conflicts.

This unidimensional focus, and often on conflicts,<sup>53</sup> results in a view of central-provincial relations swinging from one extreme of total central control to the other extreme of provincial fragmentation, one being the antithesis of the other. When co-operation is reduced to mean merely the non-occurrence of conflicts, the options envisaged to achieve 'co-operation' can only be those of control – whether by means of coercion or incentives. The best possible scenario in this schema of compliance is one of

‘absence of conflicts’, not genuine co-operation. Central-provincial relations thus by definition become a relationship of conflicts.

As long as provincial officials are deprived of independent status as agents of action, no genuine co-operation can possibly take place between the central and provincial actors, since only independent agents are capable of co-operation. As a result this conflict perspective not only has the effect of exaggerating the magnitude of conflicts, and their threat, in the central-provincial relationship. It is also gravely incomplete. Discussion in this chapter indicates that provincial officials have acted independently, notwithstanding their subordinate position in the political hierarchy. Their adaptation strategies and behaviour reflect the interplay of their commonalities and differences with the central officials, their organizational subordination, and insubordination as independent agents. Central-provincial relations constitute both conflicts *and* co-operation, the latter having an existence independent of the former.

Co-operation in this sense takes place in two types of circumstances. First, co-operation is analytically embodied in the independent status, as actors, of central and provincial officials. Given their many common experiences central and provincial officials have abundant ground for agreement and co-operation, though there is also much room for conflict. Agreement and hence co-operation, or disagreement and hence conflicts, are both common and normal occurrences among independent actors. The existence of co-operation and conflict need not be mutually exclusive, contrary to the unidimensional compliance analysis. There are a variety of levels whereby one may agree or disagree with the others, and the parallel existence of co-operation and conflict qualifies the *nature of existence* of one another. The magnitude, configuration, and significance of conflict needs to be understood and defined in the context of co-operation, and vice versa.

Secondly, co-operation as a phenomenon is often the result of intensifying conflicts between the disagreeing parties. As conflicts become intense, each party is

compelled to re-order its priorities to gain tolerance, if not acceptance, by the other party. A new consensus or compromise is reached as a result, achieving co-operation and change.<sup>54</sup> In this case co-operation does not appear in parallel, in different levels of values and beliefs, with the occurrence of conflicts, as in the first type of situation. Here co-operation takes place in the same arena as conflict as a result of the intensity and duration of the latter. In other words, as central and provincial officials have had increasing conflicts over their different interpretations regarding the appropriate approach to their agreed goal, these conflicts gradually compel them to adjust their own interpretation in the light of that of the other. During recent years of reform, these adjustments on both sides have informed various developments in policy with a major implication for central-provincial relations.

It is thus of utmost importance to the understanding of the power relations between the Centre and provinces that we are not trapped by the simplicity of compliance analysis. It leaves too many questions unexplained. Why have central officials felt so alarmed and threatened by the central-provincial policy (and political) differences if these are, in comparison with other transitional economies, in fact rather modest? If compliance is the crux then what novel control mechanisms may be possibly envisaged to bring along the desirable state -- an absence of conflict? How could these measures be possible if they were not previously? To come out from the dead-end we need to have an analytical breakthrough. In this respect it is encouraging to note that this change towards a new thinking of the relationship has in fact started in the practice of Chinese politics and central-provincial relations, as noted in the above discussion on the fiscal reform. A qualitative change in the theoretical understanding is thus made even more imperative, not only to reflect but also to guide adequately the real-life practice. The understanding of the nature of central-provincial relations needs to go beyond the single-minded focus on compliance and conflict. The centralist perspective of history needs to be complemented with the other side of history, the decentralist view. As Mao's dictum goes, 'two enthusiasms are better than only one', central-provincial relations are better understood as

the relationship between two parties, each as independent agents, rather than as a story of the Centre (or of the provinces), with the other seen as merely the passive respondent.

**Table 1****Net Central Fiscal Transfers Per Capita, all provinces, 1995-1996**

Provinces	Net central fiscal transfers per capita* (yuan)		As a percentage of national average (%)	
	1995	1996	1995	1996
<i>Eastern provinces</i>	<b>170.7</b>	<b>200.8</b>	<b>107.1</b>	<b>113.0</b>
Beijing	415.5	403.6	260.8	227.0
Tianjin	347.6	320.7	218.2	180.4
Shanghai	366.8	464.5	261.2	230.2
Hebei	111.4	123.6	69.9	69.5
Liaoning	235.3	251.9	147.7	141.7
Jiangsu	111.0	122.3	69.7	68.8
Zhejiang	157.8	170.5	99.0	95.9
Fujian	180.4	187.9	113.2	105.7
Shandong	118.5	130.3	74.4	73.3
Guangdong	228.4	212.2	143.4	119.3
Guangxi	142.3	159.0	89.3	89.4
Hainan	170.6	201.5	107.1	113.3
<i>Central Provinces</i>	<b>131.4</b>	<b>144.5</b>	<b>82.5</b>	<b>81.3</b>
Shanxi	131.0	149.6	82.2	84.1
Neimenggu	272.9	314.3	171.3	176.8
Jilin	241.3	277.6	151.5	156.1
Heilongjiang	222.8	214.1	139.9	120.4
Anhui	84.9	104.1	53.3	58.6
Jiangsi	120.4	136.0	75.6	76.5
Henan	94.2	100.1	59.1	56.3

Hubei	102.0	121.1	64.0	68.1
Hunan	114.0	136.3	71.6	76.7
<b>Western Provinces</b>	<b>182.3</b>	<b>202.1</b>	<b>114.4</b>	<b>113.7</b>
Sichuan	98.2	115.8	61.7	65.1
Guizhou	135.5	153.2	85.0	86.2
Yunan	332.7	340.0	208.8	191.2
Tibet	1271.1	1254.6	797.9	705.6
Shaanxi	143.3	155.6	90.0	87.5
Gansu	188.7	213.4	118.4	120.0
Qinghai	390.8	447.5	245.3	251.7
Ningxia	310.7	342.9	195.0	192.9
Zinjiang	308.2	374.1	193.5	210.4
<b>National average</b>	<b>159.3</b>	<b>177.8</b>	<b>100.0</b>	<b>100.0</b>

\* Net central fiscal transfers refer to central tax rebates, central subsidy under the previous contractual system (if any), other earmarked central subsidies and budgetary grants minus provincial remittances under the previous contractual system (if any), and other remittances.

Source: calculated from *China Finance Yearbook*, 1996, pp. 469-514, and 1997, pp. 402-39. The 1995 figures are first done by Lee, 'Tax-sharing system and state capacity', Table 5.

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<sup>1</sup> See Linda Chelan Li, 'Towards a Non-zero-sum Interactive Framework of Spatial Politics: the Case of Centre-Province in Contemporary China', *Political Studies*, Vol.45, No.1 (March 1997): 49-65, for an extensive review of the existing literature on central-provincial relations in China. See also Jae Ho Chung, 'Studies of Central-Provincial Relations in the People's Republic of China: A Mid-term Appraisal', *China*

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*Quarterly*, No.142 (June 1995): 487-508, pp.501-6; and Linda Chelan Li, 'Provincial Discretion and National Power: Investment Policy in Guangdong and Shanghai, 1978-93', *China Quarterly*, No.152 (December 1997), 778-804.

<sup>2</sup> For a succinct account of the dominant centrist narrative of history, versus the marginalized provincial narrative, see Praesentit Duara, *Rescuing History from the Nation: Questioning Narratives of Modern China*, Chicago: University of Chicago Press, 1995, ch. 6.

<sup>3</sup> For a similar comment, see Wu Guoguang and Cheng Yongnian, *Lun Zhongyang Yu Difang Guanxi* (On Central-Local Relations), Hong Kong: Oxford University Press, 1995, p. 5.

<sup>4</sup> The central government spearheaded several research projects on central-provincial relations since late 1980s and early 1990s, one of which is reported in Wai Liquan ed., *Shichang Jingji Zhong de Zhongyang Yu Difang Jingji Guanxi* (Central-Local Economic Relationship in the Market Economy), Beijing: Zhongguo Jingji chubanshe, 1994. For pieces of work by Chinese scholars explicitly seeking a reconceptualization of central-local relations in China, see Wu Guoguang and Cheng Yongnian, *On Central-Local Relations*, and Yan Jiaqi, *Lianbang Zhongguo Gouxiang* (Conceptualizing the Chinese Federation), Hong Kong: Ming Pao Publishing House, 1992. A similar and forceful call for new thinking is urged in a book collectively written by a group of Chinese scholars in the Chinese Academy of Social Sciences, which is widely seen as having a substantial influence on the thinking of the central leadership. See Wang Jieming et al. Eds., *Yu Zongshuji Tanxin* (Thinking in private with the Secretary General), Hong Kong: Ming Pao Publishing House, 1996, ch. 11.

<sup>5</sup> An argument for a non-zero-sum view of the relationship in Li, 'Towards a Non-zero-sum Interactive Framework of Spatial Politics'.

<sup>6</sup> Huang Yasheng, *Inflation and Investment Controls in China: The Political Economy of Central-Local Relations During the Reform Era* (New York: Cambridge University Press, 1996).

<sup>7</sup> For a detailed analysis of the notion of 'federalism, Chinese style', as a variant of market-preserving federalism, see Gabriella Morntinola, Yingyi Qian, and Barry R. Weingast, 'Federalism, Chinese Style: The Political Basis for Economic Success in China', *World Politics*, Vol. 48 (October 1995), pp. 50-81.

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<sup>8</sup> For an example of the disintegration thesis of the Chinese nation and another rebuttal by Huang, see Jack A. Goldstone, 'The Coming Chinese Collapse', *Foreign Policy*, No. 99 (1995), pp. 35-52, and Huang Yasheng, 'Why China Will Not Collapse', *Foreign Policy*, No. 99 (1995), pp. 54-68.

<sup>9</sup> Huang, *Inflation and Investment Control*, p. 328.

<sup>10</sup> *ibid.*, p. 115.

<sup>11</sup> *ibid.*, p. 111.

<sup>12</sup> Huang argues that the gap in central and provincial policy preferences in reform China is very modest, when compared with other reforming socialist economies, and thus should not lead to any major crisis. *ibid.*, p. 312.

<sup>13</sup> *ibid.*, p. 122.

<sup>14</sup> *Ibid.*, p. 313.

<sup>15</sup> See Charles O'Reilly III and Jennifer Chatman, 'Organizational Commitment and Psychological Attachment: The Effects of Compliance, Identification, and Internationalization on Prosocial Behaviour', *Journal of Applied Psychology*, Vol. 71, No. 3 (1986), pp. 492-9.

<sup>16</sup> H. C. Kelman, 'Compliance, Identification and Internalization: Three Processes of Attitude Change', *Journal of Conflict Resolution*, Vol. 2 (1958), pp. 51-60.

<sup>17</sup> Tao Tao Liu, and David Faure, eds., *Unity and Diversity: Local Cultures and Identities in China* (Hong Kong: Hong Kong University Press, 1996); Duara, *Rescuing History from the Nation*; Helen F. Siu, 'Cultural Identity and the Politics of Difference in South China', in Tu Wei-ming, ed., *China in Transformation* (Cambridge, Mass.: Harvard University Press, 1994), pp. 19-44.

<sup>18</sup> Siu, 'Cultural Identity and the Politics of Difference', p. 37.

<sup>19</sup> Ge Jianxiong, *Tongi Yu Fenlie: Zhongguo Lishi de Qishi* (Unity and Disunity: Insights from Chinese history), Beijing: Joint Publishing House, 1994, p. 5.

<sup>20</sup> *ibid.*, p. 79.

<sup>21</sup> See for instance Edward Friedman, *National Identity and Democratic Prospects in Socialist China* (Armonk, New York: M E Sharpe, 1995), chs. 5-6; Friedman, 'A Failed Chinese Modernity'; Siu, 'Cultural Identity and the Politics of Difference'; Lynn White and Li Cheng, 'China Coast Identities: Regional,

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National and Global', in Lowell Dittmer and Samuel S. Kim, eds., *China's Quest for National Identity* (Ithaca, New York: Cornell University Press, 1993), pp. 154-93.

<sup>22</sup> Tao Tao Liu and David Faure, 'Introduction: What does the Chinese Person Identity With?', in Liu and Faure, eds., *Unity and Diversity*, p. 3.

<sup>23</sup> The distance, measured by drawing a straight line on the map, between Beijing and Shanghai is 1125 km., and that between Guangzhou and Shanghai is 1200 km. For a succinct insider's account of the Shanghainese identity, see Xiong Yuezhi, 'The Image and Identity of the Shanghainese', in Liu and Faure, eds., *Unity and Diversity*, pp. 99-106.

<sup>24</sup> See Ezra Vogel, *One Step Ahead in China: Guangdong Under Reform* (Cambridge, Mass.: Harvard University Press, 1989), pp. 82-4; and Linda Chelan Li, *Centre and Province: China, 1978-1993. Power as Non-Zero-Sum* (Oxford: Clarendon Press, 1998), Ch. 5.

<sup>25</sup> See Li, *Centre and Province*, Ch. 5.

<sup>26</sup> Li Chaoyong, 'The capital problem in the development of externally-oriented economy of the special economic zones', *Theory and Practice of the Special Economic Zone*, 4 (August 1990), p. 59. See also Li, 'Provincial Discretion and National Power', pp. 75-6.

<sup>27</sup> *ibid.*, pp. 74-5.

<sup>28</sup> The history of the People's Republic of China itself testifies the empirical impossibility of reducing local government officials to *solely* the tools of the Centre. Local discretion was prevalent even during the peak years of central power in the mid-1950s. The nature of power relations presupposes that the parties involved are *free*, Foucault argues, without which we have mere physical constraints, as in the case of slavery, not power relations. See Michel Foucault, 'Afterword: The Subject and Power', in Hubert L. Dreyfus and Paul Rabinow eds., *Michel Foucault: Beyond Structuralism and Hermeneutics* (Brighton: Harvester Press, 1982).

<sup>29</sup> Author's interviews, Shanghai, 1994.

<sup>30</sup> Li, *Centre and Provinces*, Ch. 6.

<sup>31</sup> The share of extrabudgetary revenue in state enterprises in the total extrabudgetary revenue in Shanghai fell from a high of 83.9% in 1986 to only 52.9% in 1992; whilst the shares of local finance bureau and administrative units rose from 4.4% and 11.8% to 9.9% and 37.2% respectively. Ministry of Finance,

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*China Finance Statistics 1950-1991* (Beijing: Science Press, 1992), pp. 191, 199, 204); and author's interviews, Shanghai, 1994.

<sup>32</sup> Michel Foucault, 'Afterword: The Subject and Power', p. 221.

<sup>33</sup> *Zhonggong Zhongyang Guanyu Jianli Shehuizhuyi Shichang Jingji Tizhi Ruogan Wenti de Jueding* (Decision of the CPC Central Committee on issues concerning the establishment of a socialist market economic structure), Beijing: Renmin chubanshe, 1993. See also *China Daily*, 17 November 1993 (supplement).

<sup>34</sup> Other reforms which have a similar interface with the new thinking of central-local relations include investment reform, financial reform, and enterprise reform. Reforms in these areas have made less inroads than fiscal reform, however, and shall not be the subject of discussion here.

<sup>35</sup> See Jae Ho Chung, 'Beijing confronting the provinces: the 1994 tax-sharing reform and its implications for central-provincial relations in China', *China Information*, Vol. IX Nos 2/3 (Winter 1994-95), pp. 1-23, and Barry Naughton, 'Fiscal and banking reform: the 1994 fiscal reform revisited', in Maurice Brosseau, Kuan Hsin-chi, Y Y Kueh, eds., *China Review 1997* (Hong Kong: Chinese University Press, 1997), ch. 11.

<sup>36</sup> See Naughton, 'Fiscal and banking reform', and Pak K. Lee, 'Tax-sharing system and state capacity in adjusting regional disparities' (in Chinese), paper presented at the Conference on 'China at the edge of a new millennium', at Open University of Hong Kong, 17 January 1998, Hong Kong.

<sup>37</sup> Lee, 'Tax-sharing system and state capacity', Table 5, p. 12.

<sup>38</sup> For a detailed description of the revenue scrambling behaviour in Guangdong and Shanghai, see Li., *Centre and Provinces*, chs. 5-6.

<sup>39</sup> *China Statistical Yearbook*, various years.

<sup>40</sup> Lee, 'Tax-sharing system and state capacity', p. 4; and personal communication with the author. Another cause of the bias in favour of richer provinces is the formula by which the annual rebate will be adjusted subsequent to 1994. The original formula as decided in late 1993 is that central tax rebates to a province will be increased by 0.3% for every 1% increase in the total national revenue collected from value-added tax and consumption tax on a national basis. In August 1994, this was changed to 0.3% increase for every

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1% increase in the revenue collected from the two taxes *in the province*. This means that faster growing provinces will be able to have higher increase in rebates.

<sup>41</sup> See Li, *Centre and Provinces*, for a detailed study of the central-provincial dynamics in the cases of Guangdong and Shanghai.

<sup>42</sup> This concern is explicitly shown in an article by a central finance official drawing 'lessons' for China from the disintegration of the Soviet Union. See Fu Jihua, 'Zhongyang Zhengfu de Zhengshi Quanwei Yu Hongguan Tiaokong' (Political legitimacy and Macro-management capacity: a comparison of the status of government in the transitional economies in Russia and China), *Caizheng Yanjiu* 2 (1996), pp. 48-52.

<sup>43</sup> See Xu Riqing et al., 'Wanshan Shanghai Difang Caizheng de Yanjiu' (A Study on How to Perfect the Local Fiscal System in Shanghai), in Chen Minzhi ed., *ShanghaiJingji Fazhan Zhanlue Yanjiu* (A Study of Shanghai's Economic Development Strategy), Shanghai: Shanghai renmin chubanshe, 1985, pp. 243-58.

<sup>44</sup> Author's interviews in Guangzhou with Guangdong officials, 1994. This feeling was largely shared by officials in Shanghai, author's interview in Shanghai, 1994.

<sup>45</sup> Guangdong's leading role in this respect is also a result of expectation from other eastern provinces. Vice Premier Zhu Rongji, in his telephone conferences with coastal provinces in autumn 1993, was told by a number of the richer provinces that they would oblige to the tax-sharing system reform if Guangdong did. Author's interview, Guangzhou, 1996.

<sup>46</sup> This is why central tax rebates to provinces are designed to increase by 30% for a 100% increase in the growth in the two major taxes (value-added tax and consumption tax), rather than a full 1:1 proportion.

<sup>47</sup> Author's interviews in Guangzhou, 1996.

<sup>48</sup> *Ibid.* See Article 26 of the Budget Law, 1994. Of course the law was only the legal reflection of the policy determination within the central leadership that a change in fiscal management in this direction was imperative.

<sup>49</sup> New government debts incurred in 1994 increased by 59% over the level in 1993. On top of this increase, new debts (including domestic and foreign debts) increased by a further 32% in 1995 and 27% in 1996. The value of new debts incurred in the three years between 1994 and 1996 was 2.5 times that of the value incurred in the three years during 1991--1993. See *Statistical Yearbook of China*, 1997, p. 256.

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<sup>50</sup> See for instance Yu Xiaoping, Wu Xue, and Zhang Wenhong, 'Diqu Fazhan Chaiyi Ji Caizheng Tuanyi Zhifu Zhengce Quxiang' (Regional disparities and policy trends in fiscal transfer payments), *Caizheng Yanjiu* 3 (1997), pp. 14-20; and Xiang Zhongxin, 'Wanshan Fenshuiji: Nandian Fenxi Yu Jinqi Xuanze' (Perfecting the tax-sharing system: An analysis of problems and current options), *Caizheng Yanjiu* 5 (1996), pp. 26-31.

<sup>51</sup> This dissatisfaction was shared by officials in Shanghai as well as Guangdong, for instance. See Gu Xingquan, 'Perform well in the strategic battle of the comprehensive reform: a preliminary discussion on the tax and fiscal reform', *Shanghai Reform* 3 (1994), pp. 7-9. Author's interviews in Guangzhou, 1996.

<sup>52</sup> Shanghai has been the most ardent advocate of this demand. See Dong Dingrong and Zhou Xiaoyun, 'Gaige Zhongyang Yu Difang Shuishou Guanli Quanxian de Jidian Sikao' (Several Thoughts on Reforming the Tax Management Jurisdiction of the Central and Local Governments), *Shanghai Caishui* 11 (1992), pp. 14-17. Shanghai officials were thus greatly dissatisfied with the absence of local fiscal legislative power in the reform of 1994, and indicated the intention to continue the lobbying for this authority. Author's interviews, Shanghai, 1994.

<sup>53</sup> Analytically the locus of the unidimensional focus could be conflict as well as co-operation. In practice conflict becomes almost the sole locus of focus, since empirically the phenomenon of conflict is more manifest than that of co-operation.

<sup>54</sup> Compromise, as a form of settlement, rather than 'solution', is said to be the best possible outcome for a political problem. See Bertrand de Jouvenel, *The Pure Theory of Politics* (Cambridge: At the University Press, 1963), pp. 206-8.