

Loci and Scope of State Power:

Central-Provincial Tensions in China

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Introduction

The onset of economic reform and its twists and turns over the past two decades has coincided with an increasing concern over the escalating tension between the central and provincial governments in China. Attention focused on the nature of relationship between the central government and the provinces: to what extent it is a principal-agent relationship, or whether the relationship is more akin to a specific kind of partnership. Whilst these questions are not dissimilar to those asked to countries in quite different political systems, the answers given in the case of China have varied with changes in circumstances.¹ In the 1950s and 1960s provincial governments were seen as mere agents of the central government. This image was then replaced by that of the assertive ‘partners’ after economic reform took off in the late 1970s. Politics in reform China have been described as resembling a ‘bargaining treadmill’ with bureaucracies at various levels bargaining fiercely with one another, and the central government not necessarily calling the tune (Lampton, 1987a).

One major difficulty in the literature has been to explain change in the central-provincial relationship. Towards resolving this problem, a number of theoretical attempts have been made to recast critical concepts and suggest new analytical approaches (Li, 1997a, 1998b; Chung, 1995b). This essay seeks to continue this effort. Building on a non-zero-sum conception of power, it argues that, to deepen understanding, analysts need to move beyond questions on the loci, or distribution, of state power *per se*, but relate the loci questions to those on the scope of state power in society as well.²

This linkage is particularly important in understanding the ferocity and frequency of central-local conflicts in contemporary China. Unlike in the imperial period the cycles of adjustment between the two poles of centralization and decentralization have now taken a much shorter span to complete. Tensions at the central-local (and especially provincial) interface have accumulated much more quickly. Within merely four decades of the establishment of the People's Republic, the alarm bell was rung regarding possible disintegration threats from the peripheries, whilst the average dynastic cycle during the imperial time was 155 years.³ The central question addressed here is thus: why have tensions ridden so high in the recent decades within so short a time, as compared with past history? Is it because the distribution of central-local power since 1949 has been substantially different from what was the case in the long imperial history, or is it because of some other reasons?

This essay argues that an answer lies beyond a narrow focus on the locale of power. There is a need to examine a separate but related dimension, the scope of state power, which has seen very substantial change since the turn of the Twentieth Century, and especially since 1949. The contention is that it is the interaction of the two dimensions, the loci and scope of state power, that has resulted in the high level of tension in the former arena.

Loci of State Power

There are two dimensions to the internal distribution of state power within the state structure, functional and spatial, each posing its own issues and problems. Historically, tensions between functional departments were often ‘papered over’ through the presiding role of the authoritarian ruler, be it the imperial emperor or the modernizing Party.⁴ Tensions at the spatial faults had been less amenable to such exercises. Central-local relations often led to explicit conflicts, to the extent that local authorities had sometimes been accused of threatening the integrity of the country. The recurrence and ferocity of tension gave rise to the old popular folklore: ‘the country will become united after being divided for a long time; but it will in time divide and fall apart again’. Apparently the political system faced a major challenge in the vast expanse of China, and in the country’s wide disparity in human and physical conditions.⁵ The sheer size of the country resulted in the proliferation of local authorities at various levels, and there was a paradoxical co-existence of interdependence and threat between the central and local authorities. The former has led to intermittent, and recurrent, unity; the latter, it was perceived, contributed to division and disintegration (Li, 1998a, Ge, 1994).

The prominence of the spatial dimension has been validated by developments since 1949. Guided by development strategies that favoured local initiatives, waves of decentralization in the late 1950s, the 1970s and 1980s have nurtured local power, laying the ground for explicit central-local conflicts in the 1960s and especially since the late 1980s. The level of conflict was revealed by the repeated references to the warlord period of the 1920s, and by the use of the description of ‘kingship economies’ to refer to local

economies under the management of local governments. Such use of language suggested a country under the threat of disintegration.

The shadow of historical incidences of disintegration has resulted in a notion of zero-sum power in the conduct and perception of spatial politics.⁶ The Centre and the provinces are often seen as being locked in a situation of perpetual conflicts, each scrambling for gains at the expense of the other. Another problem of the contemporary disintegration thesis lies in its suggestion that China could possibly disintegrate as a result of the economic initiatives of the local governments to implement reform. This suggestion dramatizes the political implication of central-provincial (and sub-provincial) conflicts, which are, to start with, mostly related to the management of the economy.⁷

There is no doubt that conflicts abounded at the central-provincial interface and their intensity has been increasing since reform. Tensions over economic issues could also, and do, have political spill-over effects. The problem with a zero-sum concept of power was, however, that conflicts were being emphasized to the exclusion of other important developments, and in particular, the occurrence and opportunities of co-operation. Also the political spill-overs of economic conflicts were excessively inflated to the scale of possible national dismemberment. The sole focus on conflicts reinforced the historical obsession with integration concerns and led one to look for mechanical centralization as a remedy to the tension, neglecting other possible alternatives. In this process the endless cycles of unity-division-unity, and centralization and decentralization in Chinese political history were being continuously reproduced.

Scope of state power

The scope of state power refers to that which constitutes the state power in society that is to be distributed between the Centre and the provinces. On the question of state and society an observation of an historian is illuminating:

“One could say that in China, the state is all. History explains this. The state was not an organism which developed little by little and was obliged to make a place for itself among other powers, as was the case in the West, where the state had to impose itself on the independent powers of the Church, of feudalism and of the nobility, come to terms with the merchants and seek the support of the financiers. In China, the state was an established reality from the beginning, or in any case from the time when the formula was worked out in the state of Qin... *It was the great organizer of society and of territory.* The administrative division into districts responsible to the central authorities came into existence in China in the third century B.C., whereas in Europe no equivalent appears prior to the French Revolution.... The only problem for the Chinese state, in the course of its long history, was to *prevent* the development of powers other than its own, such as that of the merchants, the armies, the religious communities, and to prevent dangerous splits at the top.” (emphasis added) (Gernet, 1985: xxxii)

Notwithstanding the dominance of the Chinese state, traditionally the intensity of state power in practice was much more circumscribed and limited (Schwartz, 1987). Underneath the political and social ideal for ‘total consensus’ and ‘harmony’, there was in fact considerable room for substantive disagreement, as the subject of what required consensus had often, during most years of the imperial period, remained vague and loosely defined. For example, the ‘orthodoxy’ of Confucianism during imperial history had not precluded the ‘alien’ influences of Buddhism and other intellectual streams such

as Daoism (Schwartz, 1987, p. 4). In a similar vein, the supreme authority of the political order *vis-a-vis* the social and moral orders was characterized by the eclectic nature of the authority itself. On the one hand, the state had unlimited authority in social and economic activities. On the other hand, state intervention in society and in the economy in practice was intermittent and *ad hoc*. Most activities in society took place with minimal participation by the state.

It is worth noting that such an eclectic relationship was also found within the structure of the state, between the emperor as the source of state authority and the functional organs of state power. The early existence of the Chinese state had resulted in its early maturation in terms of structure, so that a sophisticated structure of government with specialized organs of power and a merit-based bureaucracy was already in place in China by the Eleventh Century, at the time of Sung Dynasty (Gernet, 1987: xviii). The emperor theoretically possessed supreme authority within a highly centralized state structure. In practice his authority was more of a moral and religious nature, and organisational means of control remained weak and underdeveloped. As in the case of state-society relations, there was a clear gap between theory and practice in the case of power distribution within the state structure. The scope of state power was supposedly all encompassing but in practice the state exercised only limited, if also arbitrary, intervention in the society. On the loci question, power was supposedly concentrated at the top of state structure but in practice it was more dispersed and the situation much more ambiguous and indeterminate.

One possible explanation for the gap is that the major intellectual influences in traditional China all prescribed for a limited government (Schwartz, 1987: 6). The Confucians talked about government by virtue. Good governance was to be achieved not by active substantive policies and measures by the government, but by the exemplary influences on the behaviour of the common people by the good conduct and moral integrity of the emperor and, to a less extent, of his officials. The Daoists, meanwhile, promoted the philosophy of naturalism, whereby the best governance was, simply, no government. These exerted an impact on the state power holders through long years of education so that authoritarian leaders were taught to exercise their power with restraint. Another explanation stressed institutional and technological factors, so that the gap arose out of a lack of the capacity of control in a pre-modern time. The paradox was, according to this line of thinking, more a result of technical and institutional capability rather than intention.

This is not the place to engage in a full discussion of these possibilities. For the current purpose the important point is that the eclectic nature of the Chinese state structure has, to a large extent, survived to the contemporary period, although the scope and actual exercise of state power over other domains has changed considerably. The delineation of jurisdiction between agencies and levels of government has remained vague, leaving plenty of room for conflicts and mutual shrugging of duties. This has led to recurrent complaints of ambiguity and arbitrariness in the assignment of duties among various levels of government and state agencies, a problem partly attributable to the lack of the rule of law in the political system. On the other hand, the external political

environment since mid-Nineteenth Century has, over time, transformed the governing ethos from one of maintenance to one of fostering change. Change was perceived as needed, as a matter of urgency, to save the 'Middle Kingdom' from the humiliation it suffered from unwelcome foreign guests. Gradually, the scale of change perceived as necessary moved beyond the more peripheral aspects to encompass the core of the traditional order. The crisis was 'total', and thus the remedy had to be a total one. In fact, the overthrow of the dynastical system in favour of a republic was itself part and parcel of the 'total remedy'. The reconstituted Chinese state had the unprecedented task of bringing the society to modernity, and recapturing the fame and glory that China had enjoyed for so long a time in the past.

As the state sought to achieve a wide range of specific substantive objectives, it required new institutions through which to implement the new objectives. With more to do, the question of how to distribute power and get the job done became more problematic than before when the agenda of the state was far more modest. It was thus in this context that the long-existing dilemma of centralization and decentralization had caused so much more tension within the relatively brief history of the People's Republic. The following section will outline some recent empirical trends in the dimensions of loci and scope of state power that resulted in the increased tension, and emergent trends that subsequently sought to ameliorate the tension.

From negative-sum to positive sum: The transition to the tax-sharing fiscal system

The heightened tension was partly a result of the historical perception of the loci question by the concerned parties: that power distribution between the Centre and provinces always constituted a zero-sum game. It has been said that Chinese politics was historically characterized by a ‘total victory-total failure’ situation, whereby the contending parties engaged in a zero-sum struggle until one side fully won and the other side was brought to total destruction (Tsou, 1994). The problem with a zero-sum conception of power is that it is static and cannot foresee change from within the system. Under this framework the Centre is bound to gain as much as the provinces lose, and vice versa. Whilst a ‘total victory/total failure’ situation might apply to palace politics, where contenders for the top leadership position often sought the ‘elimination’ of competitors to safeguard their hold on power, it was quite insufficient in the context of central-provincial relations. There a situation of mutual dependence replaces, as a rule, one of mutual elimination. All central governments require intermediaries to govern the country, and intermediaries by definition need a central government to complement their very existence. Individual provincial leaders may be dismissed by their central superiors, and individual central leaders may be ousted as a result of provincial pressure, but the structural interdependence of the Centre and the provinces, as two constitutive components of the state structure, is there to stay.

Moreover, the zero-sum conception often leads one to equate the central government with the state itself, and see the adjustment of power distribution between the Centre and its intermediaries in a mechanical, ‘one loses, one gains’, schema. To the extent that one party gains as much as the other party loses, this vision of power relations

cannot envisage any possibility of qualitative change to the system. The winning party would have little incentive to seek change, other than furthering its own gain, whilst the losing party would have no ability to achieve change.

Even though this perception of power does have an impact on the consciousness and behaviour of the relevant parties, it does not reflect in full the conduct of politics in practice. The actual working of the central-provincial relationship, it has been argued, can be better understood in a non-zero-sum schema of power (Li, 1998a). Conflicts arising from inadequate distribution and institutionalization of power have contributed to a situation of negative-sum power, wherein both parties perceive themselves as the loser *vis-a-vis* the other party. Despite the fact that substantial resources have been decentralized to the provincial level during reform, the provinces are still complaining about the mismatch between their resources and authority on the one hand, and their obligations and duties on the other. Provincial governments thus obviously would not agree to their being the ‘winner’ in their relations with the Centre. On the other hand the Centre sees itself being threatened by the increasing gap between central policy and provincial implementation, and by the shrinking resources at its immediate disposal. Both sides have come to see themselves as the loser in their relationship.

Mutual dependence implies that any conflict arising between the parties will be protracted. As total victory for any one party is out of question, any resolution of conflicts will involve compromise from both sides. At the same time, power from either direction is not necessarily balanced. The asymmetry of power relations, however, does not

preclude the ability of the weaker party to extract concessions from the stronger. The crux is that each side to the conflict will only agree to a move when it sees benefit in so doing. In other words, a compromise will only be struck, and change ensues, when both the Centre and the provinces see gain in the change. With the move the situation changes from one of negative-sum to positive-sum.

The institution of the tax-sharing fiscal system between the central and provincial governments in 1994 serves as a good example of the shift from a negative-sum situation to one of positive sum.⁸ Prior to the change both the Centre and provinces have been complaining of the dwindling resources at their disposal, and the mismatch of such resources with their increasing obligations. Under the contractual system implemented since 1980, the share of central fiscal revenue out of the total national revenue has been declining from a high at 40 per cent in 1984 to 22 per cent in 1993. As a result the central government felt increasingly impotent in face of the rising demand for macro-regulation of the economy and fulfilment of other social needs. On the other hand, provinces also complained of the inadequacy and inconsistencies of many central policies. Whilst they had been delegated more resources during the course of economic reform, they had also been made to shoulder more responsibilities, sometimes to a scale larger than what their resources could support. Both the Centre and provinces were thus dissatisfied with their situation, and sought to outmanoeuvre the other party in order to protect better their interests (Li, 1998a).

When conflicts became increasingly intense and both parties found the situation increasingly intolerable, there grew gradually the momentum and incentive for compromise, and change. In this instance the driving force of change has come more from the central government. Whilst both parties complained about their financial difficulty, comparatively speaking the Centre has had larger problems, since the provinces had by and large succeeded to bypass much of the financial control from the Centre. The budget deficits at local levels, in the final analysis, also formed the burden of the central administration. The central government thus was motivated to take the initiative and change the rules of the game to improve its own position.⁹

Despite the interest in change in the central government, the actual course of events reflected the substantial influence of the provinces. Whilst the Centre pushed through the new system, the provinces had been able to extract significant concessions and to shape the content of the system in their favour. The Guangdong government, for instance, succeeded in persuading Vice-premier Zhu Rongji to change the base year for the calculation of the new revenue sharing formula under the new system from 1992 to 1993, and as a result substantially increased the revenue that the province could retain in subsequent years.¹⁰ The tax-sharing system implemented in 1994 was, in any event, a far cry from the original conception of a uniform system in which all provinces would share fiscal revenues with the central government by means of standardized sharing ratios of taxes.¹¹ The revised version required the central government to refund the difference between locally retained revenue as of the base year of 1993 and local revenue of subsequent years calculated in accordance with the new tax-sharing formula, thus

protecting the vested interest of provinces as of 1993. The tax-sharing system implemented in 1994 was thus a mixture of the substance of the previous contractual system and the basic framework of the new tax-sharing system.¹²

Despite the obvious provincial influence on the new fiscal system, which once caused some central officials to announce the failure of the reform,¹³ subsequent developments suggest that the central government did improve its position substantially. Central revenue collections tripled and the central share of non-debt income more than doubled in one year, jumping from 22 per cent in 1993 to 56 per cent in 1994. With the share of expenditure between central and provincial governments largely unchanged (the Centre accounting for around 30 per cent), the large increase in the central share of revenue collection resulted in a substantial dependence of the provinces on central remittances. Since 1994 the percentage share of central revenue dropped slightly, but was still much higher than the average in the 1980s.¹⁴ Despite the substantial watering down of the new system as a result of concessions to provincial demands, therefore, the original aim of the Centre in launching the fiscal reform was still by and large fulfilled.¹⁵

To a lesser extent, provinces have also gained under the new system. Despite their lukewarm attitude initially, provincial governments also found benefits in the new system.¹⁶ Despite its failure in imposing a clearer division of expenditure responsibilities, the new system did establish a clearer definition of central and local *revenue* responsibilities. It also prescribed a norm in the direction of a more uniform system based on factor needs. One immediate benefit for the provinces was that they were since under

fewer demands from the Centre for additional ‘contributions’ apart from those expected under the fiscal system.¹⁷ This reduction of central intervention allowed a stable institutional framework to cultivate new sources of local revenue.¹⁸

Through the institution and implementation of the new tax-sharing fiscal system we therefore see a shift from a negative-sum relationship between the Centre and provinces to a positive-sum situation. Before the change, both parties had bitter complaints and each saw herself as the loser. Afterwards, both saw *some* gains under the new system. Undoubtedly the respective gains were not equal. They were also fraught with mixed feelings. Given the structural interdependence between the Centre and provinces, it is not possible for either party to gain in all dimensions. Gains are thus bound to be ‘incomplete’. Upon the initial implementation of the new fiscal system, the Centre had gained by significantly increasing its control over the flow of fiscal funds. Previously most provinces could balance their books with their own local revenue. Under the new system a substantial portion of provincial expenditure was paid by central remittances, giving the Centre potentially a larger leverage on the conduct of provincial affairs. The Centre accorded priority to this potential leverage from the perspective of national control and integration. This gain by the Centre did not inflict harm, or loss, upon the provinces, or at least not to the same degree of the Centre’s gain, since in practice the provinces were guaranteed a level of retained revenue as of 1993 through a system of rebates. On the other hand, the normative emphasis on institutionalization in the new system has enabled the provinces to limit better the arbitrary action of the Centre, which otherwise stood to inflict greater harm due to its organisationally superior position.

At the same time, since the gains are mutual *and* incomplete for either party, both parties are bound to discover new causes for complaints. Provincial governments have, since 1994, complained about the need to wait long for central remittances to pay local bills, and that the central government has centralized too much of national revenue in the new system. They were also unhappy about the remaining ambiguity over expenditure responsibility, which allowed the central government to allocate new spending obligations to localities at will.¹⁹ On the other hand, the central officials were weary of the downward trend of the share of central revenue in the national total after the initial surge in 1994, and some complained that the central government had yielded too much ground to provinces at the beginning of the new system, and failed to rein in local power completely.²⁰ As conflicts accentuate in the process of attempts to recapture lost grounds and to achieve ‘complete’ gains, the resultant difficult situation will force the Centre and provinces to compromise yet again. The Centre and the provinces will need to re-examine their priorities and trade off their lesser interests for their greater interests, making possible the mutuality of gain in a new round of a continuing process. Some of these complaints may then gather sufficient force to lay the ground for further change to the existing system. In fact, refinements and changes, and suggestions of changes, have been made continuously since 1994 as a result.²¹

Adjusting the modernising agenda: the state-society boundary

The modernising Chinese state has adopted, since 1949, the socialist programme, mandating a greatly enlarged role of the state in the society. Until economic reform set in during the 1980s the spontaneous initiatives from the society were ruthlessly crushed and the state, as the representative of the working class, monopolized the privilege of effecting change in the society. The central and local governments became co-managers of state property, as well as the engines of social development on all fronts.

Having governments as managers of the economy proved to be problematic, however. One problem was that economic activities could never be neatly compartmentalised to tally with administrative jurisdictions. Under the socialist schema, state ownership became the operational form of public ownership, and the various levels of government, and their state agencies, became the *de facto* custodians of these state-, and public-, owned properties (Granick, 1990). All economic and social organisations in the society were subordinated to state agencies at various administrative levels, which were then charged with the responsibility for their development. Experience since 1949 has revealed multiple problems in this system, the most common and notable of which were issues of externalities and economies of scale. In a market economy a major role of the government would be to regulate and contain externalities. As the Chinese government itself became an active participant in the economy, it was entangled with problems that came with economic development as well. In these circumstances the original regulation function between the state and society turned into a problem of co-ordination and control among different agencies, and often even within a single state agency.

An unreasonable economic decision as viewed at the national level, for instance, often appeared entirely sensible from the viewpoint of local governments. Since the late 1980s the local governments have been increasingly criticised by the central government for being too 'narrow-minded' in their economic development strategy.²² Local governments all concentrated their development effort on a few similar industries, it was said, irrespective their natural and human endowments and the requirements for the efficient operation of the industries. As a result there were over-production of some goods on a national level, whilst other goods were under-produced and imports were required. From the perspective of the local governments these comments were irrelevant if not misplaced. Their role within the established system required them to be entrepreneurial. It was therefore only sensible for local governments, it was maintained, to focus their effort on industries that were likely to produce high return.²³ Rather than considering questions of, for instance, how best to develop a certain industry in the national context, local governments asked specific questions which related directly to the circumstances of the localities. These included, for example, how best to increase the local industrial output value, and how to increase the locally retained revenue to allow for a higher level of local consumption.²⁴ For many local governments, any concerns which transcended their specific circumstances, and the institutional constraints they faced, were of 'academic' interest only, and should be the task of higher-level authorities rather than their own.

In compartmentalising the management of state property to its various local agents the central government had intended to include the tasks of the operation and

development, as well as the regulation, of the property. In practice this was not at all possible. It was difficult for the government, whether central or local, to be simultaneously the manager and the regulator of the economy. Since local governments played a greater role in the daily management of the economy, especially since the time of economic reform, the gap between their performance as manager and regulator had become even more apparent. The local governments were thus obviously not happy when they found themselves being blamed for all kinds of economic problems which, according to their line of thinking, lay outside their domain of responsibilities. To local officials, criticisms against local parochialism were no more than the Centre unfairly attributing its difficulties in regulating the national economy to their success in developing the local economy. Local officials regarded themselves simply doing their assigned job in the system, and considered it gravely unfair that they should be blamed as a result of performing too well.²⁵ In the eyes of the Centre, however, local governments have at best fulfilled only part of their duties, as they had largely overlooked their job as regulator (Lin, 1993: 332).

In summary, conflicts between the central and local governments were inherent in the encapsulation of the society by the state, and the subsequent mismatch between administrative responsibilities and economic requirements. The sheer increase in the range and quantity of state activities had a direct effect on the frequency and intensity of central-local conflict.

To a large extent the move towards the socialist market economy in the 1990s was the response of the Chinese leadership to find a way out of the increasing conflicts between the central and local governments. Administrative decentralization had been tried out in the late 1950s and in the 1980s to reduce tension and motivate better performance within the established socialist planning system. In the end it only aggravated central-local conflicts. As local governments were motivated to become a more entrepreneurial manager, the inherent potential of conflict between its roles as a manager and regulator was triggered off. A paradox then emerged: the more a local government sought to achieve as a manager and developer of the economy, the more likely it was to fail in the regulating aspect of its job. A mediocre and conservative local government avoided being blamed for creating imbalances within the national economy, but it also failed in the task of fostering development and improving productivity. Given the design of the washing basin, the baby was thrown out together with the dirty water.

Difficulties in administrative decentralization have forced the Chinese leaders to rethink the state-society boundaries. Pressures for economic decentralization, meaning returning decisions on enterprise management and investment to enterprises, gradually built up towards the late 1980s. In October 1992 the Fourteenth Party Congress proclaimed the direction of future reform as building the socialist market economy. The boundary between the state and society was to be redrawn, with the state gradually retreating from its previous role of production manager, and enterprises taking up the full role as a producer. There was to be a gradual 'delinking' between the state and the enterprises, which would no longer be 'administered' in the traditional sense by a state

agency. By enhancing the autonomy of enterprises and thus the society as a whole, the new schema sought to avoid the previous contradiction of roles *within* the state structure, thus allowing the state to then focus on its retained role as regulator.

Along with this new definition of state-society relations the configurations of central and local relations could then be redrawn. The design of the tax-sharing system in fact reflected this new definition. One major feature of the system, if implemented in its full form, was that fiscal revenues of the central and local governments would no longer be divided according to the administrative subordination relations of enterprises as in the past. There was also a plan to reduce the role of the government in investment. The government would limit its role to infrastructure development and to the non-profit-making sector.²⁶ This trend of distancing the government from the competitive sector led to the adoption of the theory of ‘public finance’ in the design of the state budget.²⁷ Public money was to withdraw from the competitive sector, with government expenditure concentrating on the provision of public goods. Implementation has been slow, undoubtedly, given the weight of inertia and the resistance of vested interests. When the tax-sharing system was first implemented in 1994, for example, subordination relations remained as a principle by which the profit taxes of enterprises were divided between the Centre and provinces.²⁸ The embracement of public finance theory has yet to stamp out the numerous government investment activities in the competitive sector. Local officials were sceptical of the practicability of a complete government withdrawal from competitive investment, given the immaturity of market forces, at least in the immediate future.²⁹ Nevertheless, a new norm was being established, and complaints and

reservations from both sides often served to stimulate refinements to the system that would meet better the disparate interests of the parties, and to achieve mutual gain.

Conclusion

This essay argues that in order to understand the tension between the central and local governments in China since economic reform we need to look at two dimensions of state power. Central-local relations are, by nature, a question about the locus of power distribution within the state. Discussion in the literature has thus focused on the logic, principle, or evaluation of a certain mode of power distribution. This essay maintains that there is another set of questions requiring our attention. These are questions about the scope of state power within society. During this century the Chinese state has seen drastic change in this latter set of questions. With a modernising state agenda, and a socialist programme since 1949 in particular, the Chinese state has tremendously expanded its scope of activities in the society. The distribution of power within the state remained, however, highly indeterminate and unstable. As in the imperial past, the authority and formal power of the lower-level governments and agencies was delegated from the Centre. In practice, however, there has always been a lot of room for manoeuvre within the political order beneath the top. Provincial governments had abundant *de facto* autonomy within, and sometimes despite, the letters of central rules and policies. There was also a great deal of ambiguity regarding the precise jurisdiction and responsibility of each level of government and the constituent state agencies. The emperor and the Party relied primarily on moral and ideological influence to ensure compliance and co-ordination, not

on organisational means of control and clear demarcation of duties. When these influences failed and conflicts occurred, there was a lack of institutional means, apart from sheer coercion, with which to resolve conflicts and re-establish order.

Given the historical continuity in the eclectic situation of power distribution within the state, the immersion of China since 1949 in a wide range of economic management activities posed a tremendous challenge. The constituent parts of the Chinese state were called upon to perform a much more demanding task, one that involved many specific and complex decisions, and accordingly more co-ordination among various agencies. The system simply was not equipped to deal with these issues, and conflicts between levels of government and among state agencies quickly snowballed. Given the structural interdependence of the Centre and its intermediaries, protracted tension resulted in change. This essay notes that, over the last few years, signs of change have emerged in both dimensions of the loci and the scope of state power in China.

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¹ A sample of major works on central-local relations in post-1949 China include Donnithorne (1969, 1976), Lampton (1987a, b), Lardy (1975, 1976), Goodman (1986, 1997), Segal (1994), Goodman and Segal (1994), Chung (1995b), Huang (1996), Jia and Lin (1994), Yang (1997), Li (1997, 1998), Lyons (1987), Oksenberg and Tong (1991), Tong (1989), Lieberthal and Oksenberg (1988), Lieberthal and Lampton (1992), Shirk (1990), Shue (1988), Solinger (1977, 1996), Teiwes (1966, 1971, 1974), Vogel (1989), Wang (1995), White III (1976), Whitney (1969), Wong (1991), Wu and Cheng (1995), Breslin (1996), Hendrichske and Feng (1999), and Zhao (1990).

² Some major works on the question of the scope of state power in China are, for instance, Schram (1985, 1987), and Shue (1988).

³ Alarm bells were heard both within and outside China. See for instance Goldstone (1995), Wang and Wu (1993), Chang (1992), Segal (1994), and Friedman (1995). The 155-year figure was arrived by taking the average of the duration of 12 imperial dynasties when China was under unified rule. If five ‘short’ dynasties were discounted (Qin: 15 years, Xi Jin: 51 years, Dong Jin: 104 years, Sui: 37 years, Yuan: 98 years), the average dynastic cycle becomes 223 years. Standard deviations for the two measures are, respectively, 92 years and 51 years. The longest-lasting dynasty is Tang (290 years), followed by Ming (277 years) and Qing (268 years). Author’s calculations based on *Zhonghua Lidai Shixi biao* (A Chronology of Chinese Dynasties), Hong Kong: Zhonghua Bookstore, 1987.

⁴ The state organs in imperial China have highly differentiated duties under an under-differentiated power of the sovereign, the emperor. See Vandermeersch (1985: 5)

⁵ That the topographical conditions, including the size, of a country have great influence on the configurations of, and the dynamics within, the state structure has been well noted. See Bungler (1987: xvii)

⁶ For a full critique of the zero-sum conception of power in the context of spatial politics in China, see Li (1997a).

⁷ For a rebuttal of the disintegration thesis, see Huang (1995).

⁸ For accounts of the fiscal system reform in 1994, see Chung (1995a) and Naughton (1997).

⁹ The Centre started to show serious concern from 1988, when the Ministry of Finance and the State Planning Commission were directed to study the slide in central control over fiscal resources. The resultant study identified the decentralization programme in the 1980s as the watershed in terms of two developments. First, the share of national fiscal revenue as a proportion of national income fell. This revealed the slipping control of the state budget in societal resources. Secondly, the share of central fiscal revenue as a proportion of total national revenue fell drastically. This meant that more of the fiscal revenue had gone into local coffers. (Author's interview, Beijing, August 1994).

¹⁰ Zhu Rongji came to Guangdong in September 1993 as part of a provincial tour to mobilize support for the impending fiscal reform. Given the robust economic performance of 1993, a shift of base year from 1992 to 1993 significantly affected the distribution of fiscal revenue in the favour of provinces.

¹¹ The basic principle whereby fiscal revenues and expenditures were allocated between the Centre and provinces since 1949 was always founded upon the 'base-line method'. Notwithstanding its many advantages (simplicity, and taking consideration of historical developments and past performance, for example), the 'base-line method' has faced increasing criticisms within the Centre and among some provincial governments since the 1980s. One major criticism was its tendency to aggravate the gap between the richer and poorer provinces (Song, 1992: 166-8).

¹² The State Council Document No. 85 (1993), 'The State Council's decision on implementing tax-sharing in the fiscal management system', printed in *Caizheng* 1994, 2: 18-20, explicitly stated that the existing interests of the provinces would not be affected

in 1994. The compromise was intended to be temporary, but no exact timing was given in the State Council Document for the expiry of the transitional arrangements.

¹³ Author's interviews, Beijing, April 1994. See also the views from the Ministry of Finance, in Lu (1994).

¹⁴ The shares over the years are: 29.8% (1991), 28.1% (1992), 22% (1993), 55.7% (1994), 52.2% (1995), 49.4% (1996), 48.9% (1997), 49.5% (1998), 51.1 % (1999). The average for 1981-90 is 34%. See Ministry of Finance ed., *China Finance Yearbook*, 2000, p. 422.

¹⁵ A similar assessment was made in a report by Ministry of Finance officials on the implementation of the tax-sharing system (Jiang, 1998).

¹⁶ See Chung (1995a) for preliminary findings about responses by various provinces. My initial reading suggests that the principle of vested interests was also a major reason for many provinces favouring the change at the time. Most provinces were more interested in ensuring a better deal, namely more resources allocated for their use, under whatever system, than in the long-term rationality of the system *per se*. Those provincial governments that traditionally relied on central fiscal subsidies welcomed the new system because it was seen as being able to increase the share of central revenue, so that the Centre may give them more financial assistance in the future. The director of Shaanxi's Provincial Finance Bureau, for instance, had said that Shaanxi totally supported the new system, and its intended effect of centralizing more fiscal revenue to the Centre, because 'if central revenue could not be guaranteed, then everything else could not be guaranteed'. See "Director of Finance Bureaux on the tax-sharing system reform", *Caizheng* 1994, 2: 11-13, p.12. Other provincial governments, however, for example Heihangjiang, Jiangxi,

Sichuan, Hebei, and Guangdong, were worried about the adverse effect of the reform on their financial position, and adopted a reluctant and lukewarm attitude towards the change. See the same source above, and the report, 'Local party and government leaders on the fiscal and tax reforms', *Caizheng*, 1994, 3: 11-13. During interviews different respondents have either made or confirmed the point that Guangdong was perhaps the strongest dissenting voice, in 1993, against the new system, not because the province felt particularly strongly about the principle of tax-sharing or was against having more uniformity and regularity in the system, but because of its immense vested interests under the previous system (Author's interviews, Shanghai and Beijing, May 1994).

¹⁷ Author's interviews, Guangzhou, June 1996. This observation was also confirmed during author's interviews at Yichang county, Hubei, September 1999 and May 2000.

¹⁸ This has been the major reason behind Shanghai's support for the new system, even before its adoption (Li, 1998a: ch.6). The relatively stable institutional framework also underlines local initiatives at improving fiscal management, particularly the improved local effort to implement the central policy of combating the flow of fiscal resources outside of the budget. This also largely explains the increased shares of local revenue after the initial significant drop in 1994 (Jiang, 1998: 298).

¹⁹ For instance, a central policy to raise the pay of public officials nationwide in late 1993, to be paid largely through local coffers, resulted in increased local fiscal expenditure of some 30 billion yuan in 1994 (Jiang, 1998: 301).

²⁰ One focal point of contention drawing complaints from both sides is the distribution of newly generated fiscal revenue between the local and central coffers. Local officials

complained that the central government has excessively stripped localities of almost all new increments to fiscal revenue, and that the distribution formula on new revenue was consistently under-fulfilled, to the advantage of the central government. On the other hand, central officials claimed that the formula was misinterpreted by local officials, and that local revenue had managed to increase its share still since 1995, and that the intention and objective of the new fiscal system was always to centralize more fiscal revenue at the Centre, an objective which was only half-fulfilled (Jiang, 1998; Wang and Zhang, 1998).

²¹ These include the increase in transfer payments from the central coffers to needy regions and refinements in the calculation formulae, the suggestion of giving more local autonomy in setting local taxes, and improvements to the formulation process and structure of the state budget.

²² For an example of such comments, see a report on investment pattern by research officials in the State Planning Commission Investment Research Institute, Lin (1993: 327, 330).

²³ *Ibid.*, p. 331.

²⁴ Author's interviews, Yichang, Hubei, May 2000.

²⁵ See (Quan & Jiang, 1992: 30-35) for a theoretical justification of the role of local government investment.

²⁶ This is in accordance with the policy recommendations drafted by the State Planning Commission in 1996. See Chen (1997: 305). For a more detailed elaboration of the thoughts underlying the proposed system change, see a report by the Investment Research Institute of the State Planning Commission in State Planning Commission (1995: 159-73).

²⁷ The reference to the theory of ‘public finance’ in state budget and fiscal management was explicit in government publications since 1998/99. See for instance (Xiang, 1999, p. 527), a publication on the historical development of public finance in China edited by the Finance Minister.

²⁸ In a study on the medium-long term fiscal policy of the Ministry of Finance in 1993, it was stated that ‘the *substantive content* of the tax-sharing system resides in *ending* the practice of basing local and central revenue along the division of enterprise subordination relations’. It was envisaged that, by severing the linkage of local revenue with the administrative subordination relations of enterprises, the entrenched tendency of local governments to jealously protect local enterprises and government intervention in enterprise micro-management would be abated (Ministry of Finance, 1993). However, administrative subordination relations have remained a major principle of dividing local and central revenues in the post-1994 fiscal system.

²⁹ One specific measure implemented under the policy of ‘public finance’ is the announced abolition of fiscal credits as from 1999 - investment funds that the fiscal departments of various levels of government operated in the past and which grew especially big in the 1990s. Fiscal departments invested the funds, themselves drawn from a variety of sources from within and outside of the state budget, in projects for a return. The funds were supposed to be circulating and the fiscal departments acted in a quasi- commercial way in the administration of the funds. In practice much of the funds became sunk-funds with little prospect of repayment let alone profits. However, local governments resisted the central policy of abolishing fiscal credits altogether, though

admitting the need to improve the targeting of projects and fund management. Author's interviews, Yichang, Hubei, May 2000.