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Schroeder, Paul Edward, Ph.D.

The Ohio State University, 1987

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REGIONAL POWER IN CHINA:
TIAO-TIAO KUAI-KUAI AUTHORITY
IN THE CHINESE POLITICAL SYSTEM

DISSERTATION

Presented in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy in the Graduate School of The Ohio State University

By

Paul Edward Schroeder, B.S., M.A., M.A.

* * * * *

The Ohio State University

1987

Dissertation Committee:

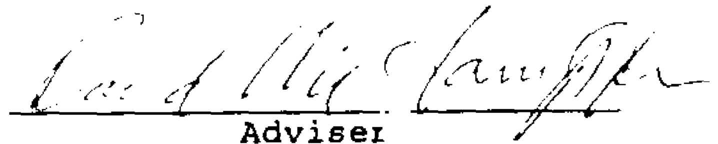
D. M. Lampton

G. Shabad

R. W. Liddle

W. L. Li

Approved by



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Department of Political Science

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To My Family

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VITA

April 10, 1949..................Born--Cleveland, Ohio

1971............................B.S., The Ohio State University, Columbus, Ohio

1972............................M.A., The Ohio State University, Columbus, Ohio

1981............................M.A., The Ohio State University, Columbus, Ohio

1984-1985.......................Research Fellow, Ohio State University--Wuhan University Exchange Program

1986-1987.......................State of Ohio, Department of Development, Ohio Liaison in China

PUBLICATIONS

"The Ohio-Hubei Agreement: Clues to Chinese Negotiating Tactics." China Quarterly, No. 92, September 1982, 486-491.

"Policy Implementation in Post-Mao China." Mershon Report, The Ohio State University, 8, No. 3, (Winter 1983).

FIELDS OF STUDY

Major Field: Comparative Politics

Studies in:
- Chinese Politics, Dr. David M. Lampton
- Economic Development, Dr. R. William Liddle
- Comparative Political Institutions, Dr. Goldie Shabad
- International Relations, Dr. Charles F. Hermann

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CHAPTER I

INTRODUCTION

This study is about power in China. It is also about attempts to reform China's urban administrative organization, especially at the provincial level. Since 1978 Deng Xiaoping and his allies have increasingly consolidated their hold on the Chinese Communist Party and government and have promoted a variety of rural and urban reforms designed to make China a strong, modern, socialist state by the year 2000.[1] There are three critical actors at the heart of urban reforms, the central government and Party (C), provincial government and Party (P), and production units, or enterprises (E). We can say that the ultimate goal of urban economic reform is to decentralize[2] the relationships between Center and province (CP), between Center and enterprise (CE) and between province and enterprise (PE).

Despite all the policy changes since 1978, the question remains: have things really changed? Have all three sets of relationships changed, none of them, or some and not others? Why? Has economic reform, as a general policy, produced the kind of sea change some Chinese

expect (and foreigners hope for)? Or is the system largely unchanged, simply old bureaus with new names, new faces with old responsibilities? Are the Chinese corporations really business enterprises, or do they remain just a branch of the government? Have the changes been deep enough to survive Deng's passing, or are they superficial, awaiting a new day and new circumstances to be swept from the scene?

Between 1979 and 1987 the Center has given up decision-making authority to provinces and is attempting to do so for enterprises as well. But, thus far, lower-level organs, especially provinces, have refused to relinquish significant authority to enterprises within their jurisdictions (sub-provincial governments have acted similarly toward enterprises within their jurisdictions). In a nutshell, the CP relationship has been decentralized, with provinces gaining much freedom of action in the process. The PE relationship has not been decentralized.[3] The Center, hoping to decentralize governmental (central and provincial) relations with enterprises, has taken steps to "free-up" enterprises. Not surprisingly, resistance comes from two sources, its own bureaucracy and the provinces, the key actors charged with implementing this reform.

My research on Hubei Province shows that, at least for the 1979 to 1987 period, the relationship between the Center and Hubei has been decentralized. The success of that initiative has so strengthened Hubei that it can block the implementation of the rest of the reform package, that is, decentralization of the CE and PE links. The Center--enterprise relationship has been decentralized to some extent,[4] but the PE relationship remains heavily weighted in favor of the provincial level. Greater resistance to decentralizing the CE and PE relationships comes from provinces than from the central bureaucracy, making reform of the PE link a more difficult task than that of the CE link. In this situation, provincial government and Party committees become extremely important actors. Without some change in the PE relationship, China's reforms, especially separation of government administration from enterprise management, stand little chance of success.

Why is all this so? The Center is hoping that decentralized relationships will enliven an economy that has been plagued by problems inherent in highly centralized, command economies. But decentralizing the CP relationship is easier than decentralizing the other two sets of relations (CE and PE). There are several reasons for this, including increased provincial power as

a result of decentralization between Center and province, regional peculiarities, which I consider in Chapter 3, and the quality of local cadres in terms of education, age, and era of advancement within the Party, items considered in Chapter 5. As we shall see, China's history is replete with examples of crucial shifts in the balance of power between the Center and provinces.

But decentralizing central or provincial governmental relations with enterprises is more problematic. At issue here is the ownership of the means of production: to free-up enterprises too much is to challenge a basic tenet of China's Communist regime. Likewise, to free-up enterprises too much is to undermine the power of government and Party cadres.

Consequently, provinces are reluctant to decentralize the PE relationship for fear of losing decision-making authority newly granted them by the Center and for fear of losing their revenue base. While central leaders hold some leverage over their own bureaucracy, the Center's control over the provinces seems to diminish the further you move from Beijing. In fact, provinces hold quite a different relationship with enterprises than do central ministries, one with a greater amount of direct control over most aspects of an enterprise's daily activities. As an old Chinese saying

has it, it is more difficult to deal with lesser devils than with Satan in hell (Xian Wang yijian xiaogui nandang). Ironically, the power of the lesser devils in the PE relationship has been enhanced by decentralization of the CP link in our triad.

An example from my research[5] serves to highlight my contention that provinces are reluctant to grant enterprises much more authority than they had prior to reforms. As of late 1984, Wuhan Cotton Mill No. 4 was not permitted to deal directly with potential foreign buyers. Its export production has fallen off in recent years and the plant manager blames that on the fact that trade negotiations had been handled solely by the China National Textile Import and Export Corporation, Hubei Branch, part of the Hubei Province Foreign Economic Relations and Trade Office. Reform of this arrangement was to begin in 1985. Ye Hengfu, the factory manager, said in late 1984 that he expected to deal directly himself with potential foreign buyers and to base his export production on the success he had in trade negotiations. Officials of the local textile FTC, however, said they will handle such trade negotiations for the cotton mill, not Mr. Ye. So, in late 1984, on the eve of efforts to implement reform of the PE relationship in foreign trade, a branch of the provincial government had no intention of giving an enterprise the

rights that were to accrue to the enterprise under the reforms being promoted by the Center.

The purpose of this dissertation is to document the existence of these relationships, elaborate the mechanisms characteristic of these relationships, and describe and explain their effects. How can we probe the dynamics of this domestic strategic triangle, if you will? To gain an understanding of this triadic relationship, this study posits an organizational framework that focuses on the issue of authority in any functional setting (e.g. education, commerce, banking, foreign trade, etc.), any level of government (e.g. *xiang*, *xian*, municipality, province or Center) and at any point in time. The utility of this organizational framework is evident from the stated goals of China's urban reform package, which is to change the urban administrative structure, or organization. It is to this framework, which both I and the Chinese term *tiao-tiao kuai-kuai*, that we now turn.

TIAO-TIAO KUAI-KUAI

At the heart of reforming the relationship between the Center, province and enterprises is the age-old dichotomy of control and autonomy in Chinese political culture. Kuhn examined the interaction between these two

elements in the late Qing.[6] He found that both were required for China to be stable. To implement policies meant to regulate society, the Center has to rely on natural elements, fitting mechanisms of control to local conditions.

> Bureaucratic units might spring from natural ones (village, intervillage association, lineage, and market community) or might realign themselves to conform to natural ones. The realities of the local scene dictated that administrators often had to rely on indigenous forms of coordination as the basis of their control systems if those systems were to stand any chance of performing their functions.[7]

The result was a patchwork of control systems throughout China, each area implementing central policies within the limits set by local conditions. In the Qing Dynasty, for example, the Center utilized local lineage groups to oversee control mechanism,

> generalizing the principles of kinship obligations and generational obedience into a vigorous ideological campaign. The lineage ...would thereby become a bastion of conservative social doctrine and a major element in the system of local control.[8]

In short, local autonomy and control were inseparable. The two had to be in balance in order to maintain stability. Success depended, Kuhn said, "on how well the local elite could be made amenable to state purposes."[9]

This, I think, is a key element of Chinese political culture, one that has considerable influence in creating the patchwork-quilt quality of administrative systems and policy implementation in any Chinese dynasty or regime, including the People's Republic. A critical actor in this balancing act is the local elite, either gentry in traditional China or the cadres of the People's Republic. Kuhn's description of the role of the gentry can be applied to Communist Party cadres as well:

> ...he was both an object and an agent of control. As agent, he was counted on to perform services that were essential to the economic and political stability of local society: ...As object, he...could use his considerable local influence in opposition to the state, either in his own or in his community's interest. In no other area...was the success of local government as dependent on a fruitful relationship between control and autonomy.[10]

But when the legitimacy of this local elite, either gentry or cadre, begins to wane, the balance between control and autonomy is skewed. Political problems are

inevitable, their degree dependent on the degree to which the balance is upset.

When China's leaders decided in 1957 to decentralize authority to provinces, they addressed the issue of control and autonomy by instituting a system termed dual leadership, or, as others call it, dual control; in Chinese, _shuang shuang lingdao_. This new system envisioned cooperative authority between central and local governments. The relationship between local units and the Center is termed vertical leadership, or _tiao-tiao_ in Chinese. The relationship between local units and local government is horizontal leadership, or _kuai-kuai_ in Chinese. Under this system, each and every unit, or _danwei_, in society has a _tiao-tiao_ and a _kuai-kuai_ leadership relationship (_lingdao guanxi_). At various times, under certain circumstances, or involving certain issues, _tiao-tiao_ leadership or _kuai-kuai_ leadership takes precedence.

For example, since 1957 the _tiao-tiao_ leadership of the Hubei Province Foreign Economic Relations and Trade Office (before 1983, the Hubei Province Foreign Trade Bureau) has rested with the Ministry of Foreign Economic Relations and Trade in Beijing. The _kuai-kuai_ leadership of this Hubei office rests with the Hubei Economic Commission and government and, of course, the Hubei

Provincial Party Committee. Note there are more _kuai-kuai_ than _tiao-tiao_ relationships here, which is typical throughout China. There has been an uneasy tension between the two types of leadership over the years as the Center and provinces have vied for either authority over policy implementation or control of economic and political activity.

Based on interviews conducted with many Chinese from a variety of units during more than two years of living in Wuhan, I found that Chinese today characterize their life around their _tiao-tiao_ and _kuai-kuai_ relationships. As one middle-level bureaucrat from Wuhan University said, "to get by in China you need to know well your _tiao-tiao kuai-kuai_ leadership. To be free of that, all you need do is cut the strings and lose your job."[11]

The tension between _tiao-tiao_ and _kuai-kuai_ leadership is seen as one of many "contradictions" in China.[12] Indeed, the Chinese recognize this contradiction as the major stumbling block to economic reforms as evidenced by an academic conference held on the subject at the Central China Teachers College in Wuhan in November 1985 and by a variety of articles in the Chinese media.[13] But that tension has within it the necessary elements for political analysis. A _tiao-tiao kuai-kuai_ framework is useful for examining a wide range

of political behavior in China. It can:

---pinpoint decision-making authority at any point in time, at any level of government and in any functional setting. It can, therefore, be used to map changes in administrative decision-making authority over time in any particular governmental unit or functional system. This allows us, then, to determine whether and how changes in China's policy line or top leadership are reflected at lower government levels or in specific functional bureaus affected by policy changes.

---be integrated with policy process models to predict likely outcomes of policy implementation because it reveals which units have authority over the policy in question and which units might be impinged upon by implementation of the policy. This is important for gauging just how China has or will change as a result of current reform of its urban administrative structure.

---serve as locator of cross-system (xitong) communication and conflict, thereby identifying the institutional, or structural alliances that exist. With that capacity, it becomes possible to integrate this organizational framework with factional and network models in an effort to localize personal factions or networks that undergird, or are built around, China's organizational system.

---aid in determining whether the "factional fighting groups" of the Cultural Revolution have been transformed into networks, as John Lewis claims,[14] redirecting their energies from conflict to use of political and economic influence, or whether such networks have arisen of their own accord and whether they can be mobilized into "factional fighting groups" at a later date as circumstances might warrant.

---make comparisons between units at the same level in different geographical areas as to how political authority is used and the activity it produces. The structural continuity of _tiao-tiao- kuai-kuai_ allows for making generalizations about political influence in China, something Edward Banfield was unable to do with American cities which lack a similar degree of structural continuity.[15] _Tiao-tiao kuai-kuai_ provides the necessary structure with which to compare political activity, policy implementation or factional or network politics between provinces (e.g. Hubei and Henan), provincial capitals, (e.g. Wuhan and Zhengzhou), sub-provincial cities (e.g. Huangshi and Yichang) or counties (e.g. Huangpi or Huashan).

With this utility, a _tiao-tiao kuai-kuai_ framework allows us, as Banfield states, to study Chinese government "as patterns of influence," to get us "beyond

the legal-formal arrangements by which things are 'supposed' to be done to the much more complicated ones by which they 'really' are done.[16] Tiao-tiao kuai-kuai therefore, is an organizational frameworkwith a utility beyond mere description of structure.

Mapping tiao-tiao kuai-kuai leadership reveals a society that looks much like a fishnet. The knots represent single units, and the strings represent lines of authcrity that control other units, or lines of authority controlled by other units. The size of the knots, or the amount of power each unit has, is not equal. Some units exercise more authroity than others. But no unit, or knot, can move without affecting other units, even those with greater power.

The lines of authority connecting the units are either within the same system (xitong) or come from units in a different functional system. By mapping authority in several functional systems, tiao-tiao kuai-kuai reveals the strings that serve to unite the various xitong with one another in a much larger fishnet that is Chinese society. Such maps provide us direction to those units--and, therefore, people--who ultimately hold power in any given locality, within any functional system, or between those functional systems.

Mapping _tiao-tiao_ _kuai-kuai_ involves two questions: What (who) is your _tiao-tiao_ leadership and what (who) is your _kuai-kuai_ leadership (_Nide_ _tiao-tiao/kuai-kuai_ _lingdao_ _guanxi_ _shi_ _shei_)? Invariably, each of the Chinese whom I asked these questions had the same reaction. After a moment's hesitation, they would smile broadly before discussing, apparently willingly and in some detail, their _tiao-tiao_ _kuai-kuai_ relationships. One respondent told me that few foreigners adequately understand this facet of the Chinese system, that it was so pervasive and so much a part of life that Chinese, taking it for granted, do not see much need to discuss it. Not a single respondent refused to discuss the structure of their _tiao-kuai_ relationships, although some offered more detail than did others. As we shall see, _tiao-tiao_ _kuai-kuai_ is very much connected with the personal networks (_guanxihu_) that _Renmin_ _Ribao_ complained about in 1982: "They have become a part of our social climate and a force of habit."[17]

An open response about _tiao-kuai_ relationships should reveal the unit or units that have authority over the unit being questioned and the nature and extent of that authority. For example, enterprise A's _kuai-kuai_ may be the industrial bureau of Wuhan City, which has ultimate authority not only over its planning, but also its budget, personnel, salaries and promotions. To gauge

any changes in the administrative system, one would need to know whether this kuai-kuai relationship has changed over time in each of these areas. Thus, if reform were fully implemented, we might see Wuhan's industrial bureau exercising authority over enterprise A only in terms of a guidance plan and not necessarily in terms of budget, personnel, salaries or promotions. Presumably, a partial change in these relationships in the direction of the reform's ultimate goals might be construed as a partial implementation of the reforms as originally stated.

I used a tiao-kuai map to gauge the changes in the foreign trade administrative system in Hubei Province during the 1979 to 1987 period. The specific goals of foreign trade reform include: permitting more units to engage in direct negotiations with foreigners; creating an agency system, with foreign trade corporations (FTCs) relinquishing their monopoly over enterprise foreign trade production and acting solely as a foreign trade agent; and increasing the amount of foreign exchange enterprises may retain.

A provincial foreign trade system was chosen for several reasons. First, I believe provincial government (and Party) to be a key factor in the success or failure of the Deng regime's reform efforts. Second, the foreign trade system has already undergone several reforms which

make the period in question one marked by change. These initial changes have resulted in at least two periods when the Center attempted to re-centralize foreign trade decision-making from provincial governments, thereby allowing us to highlight the CP relationship. Third, the general goal of foreign trade reform mirrors that of overall urban economic reform, i.e. the decentralization of economic activity from governmental administration. Fourth, enterprises in the foreign trade system were to be the initial targets of overall urban enterprise reform as announced by the Third Plenum of the 12th Party Central Committee in October 1984. Major reforms of the foreign trade system were to be tested and implemented in 1985 and 1986, providing an excellent opportunity at a later date to further test the utility of the tiao-kuai framework beyond the initial period.

This tiao-kuai framework by no means excludes the importance of other models of the Chinese political system. For that matter, it is a useful framework for the utilization of other models of Chinese politics. As already mentioned, this dissertation will integrate the tiao-kuai organizational perspective with policy process and factional/network models of the Chinese political system. Before doing so, however, we must briefly review the history of models of Chinese politics to understand

how the _tiao-kuai_ framework is helpful in this endeavor. Where appropriate, I will discuss general political science literature that helps us understand the political dynamics at work in the three relationships of the C--P--E triad. It is to this review that I now turn.

MODELS OF THE CHINESE POLITICAL SYSTEM

Scholars have used a variety of models to study the People's Republic of China, but no single perspective has captured the entire rich tapestry that is Chinese politics. The various models, in more or less the chronological order of their development and use, include consensus and ideological/organizational (two-line struggle) models, bureaucratic politics models, Maoist-revolutionary models, generational models, conflict models, factional and network models and policy process models. Because I seek a synthesis of only some of these, I will look at organizational, factional/network, and policy process models.

The leading example of ideological/organizational models is Franz Schurmann's _Ideology and Organization in Communist China_. It portrays a complex society being melded into a unified whole, in part by succeeding in Lenin's dream of unifying theory and practice. Schurmann saw the Chinese Communists' success at winning the civil

war and establishing a new regime as the triumph of ideology _and_ organization over an eroding social system that lacked organizational capacity to complete the 1911 revolution.

> The Communists saw the trends of history and fought to complete the revolution. In the course of their long struggle, they looked to the future, and began to prepare for it with ideology and organization. When they triumphed, they replaced system [with] organization, and ethos [with] ideology.[18]

Schurmann's model provides a view of how the Communists have organized their administrative system, including the dynamics of vertical (_tiao-tiao_) rule and dual (_shuang shuang_) rule. To Schurmann:

> Vertical rule means that an agency has full policy and operational control over all units of organization within its jurisdiction. Commands flow directly down; information comes directly up. Dual rule...means multiple rather than single channels of command and information....Dual rule may be seen as a combination of vertical and horizontal control, that is, one channel of command and information going up, and the other going sideways. This characteristic of dual rule makes it important in the problem of allocation of authority between central and regional government.[19]

My research shows that Schurmann's definitions no longer hold, if they ever did. The Chinese see their leadership relations quite differently. To them, vertical rule is the control over any unit, at any level, in any functional setting exercised by the Center. Commands may or may not flow directly down; information may or may not go directly up. Horizontal rule (kuai-kuai) to the Chinese means control over any unit, at any level, in any functional setting, exercised by the local government, typically the province, even if that government has full policy and operational control over all units of organization within its jurisdiction, thereby fitting Schurmann's definition of vertical rule.

Schurmann's definition of vertical and dual rule leaves the notion that horizontal rule, which he does not define, acts only in conjunction with vertical rule and not by itself. In 1984 and beyond this was clearly not the case. Horizontal (kuai-kuai) authorities could and did act on their own initiative, often creating tension between them and their tiao-tiao counterparts.

Local government, which the Chinese define to include all levels up to the province, is seen as horizontal, or kuai-kuai leadership, even if it has elements of vertical rule as defined by Schurmann. To the Chinese then, their lives are characterized by two types of leadership, that

of the Center and that of the locality, very much like traditional China and not at all the unified whole Schurmann portrayed. The Chinese see that they must operate within the bounds of these relationships, daily judging the relative importance of each in their own decision-making process.

Organization being what it is in China, the Chinese are clearly touched by more _kuai-kuai_ than _tiao-tiao_ lines of authority. As we have seen, the Hubei Province Foreign Economic Relations and Trade Office answers only to the Ministry of Foreign Economic Relations and Trade as its _tiao-tiao_ authority, but its _kuai-kuai_ lines of authority include the Hubei Province Economic Commission, Planning Commission, a variety of provincial offices such as the industrial and commercial bureaus as well as leading government figures and the provincial Party Committee. Indeed, it is difficult to speak of only one horizontal rule. The difficulty in pinning down _kuai-kuai_ authority and power and consequently the difficulty in removing _kuai-kuai_ influence is that there are simply too many _kuai-kuai_ authorities which have some type of power over Chinese units. It is these numerous _kuai-kuai_ authorities that give Chinese administration its fishnet quality of criss-crossing lines of authority that are unable to act independently. In an era when Center-Province relations

have been decentralized then, these _kuai-kuai_ lines become much more important than the remaining _tiao-tiao_ lines of authority.

Factional models, which grew out of studies of the Cultural Revolution and the failure of earlier consensus and organizational models to predict that event, give us a glimpse of the political competition and conflict that goes on between elites. Andrew Nathan nicely detailed the characteristics of factions and factional politics as being based on personal, or clientelistic ties, which he describes as "a non-ascriptive two-person relationship founded on exchange, in which well-understood rights and obligations are established between the two parties."[20] Nathan argues that

> Chinese politics at the central government level has been structured largely by factions...that political conflict at the intermediate [regional and provincial] levels has been non-factional or, at most, intermittently factional; and that the local-level mass movements of the Cultural Revolution were essentially non-factional.[21]

Lucian Pye's factional model of Chinese politics[22] is an attempt to synthesize factional models such as Nathan's with consensus, organizational and other models as well. His interest is to locate political factions and to identify their activities. To do so, he relies on a

composite model that juxtaposes the "Chinese cultural need for consensus, conformity and agreement" against the ever-present "tension, feuding and factional conflict." These

> ...two tendencies have always been present and the most significant characteristic of Chinese politics has been the ceaseless tension between them.[23]

Looking at personal ties in a different light, John Lewis talks of networks, or "personal forms of social organization that lie between interacting individuals and formal organizations, that permeate bureaucracies, and that form the basis for political influence and communication." [24]

These networks are no longer "factional fighting groups," as Lewis states, but groups or sets of people engaged in political and economic influence, corruption or crime. Such networks are termed guanxihu in Chinese. The art of manipulating these relationships is termed guanxixue.

Nathan's view that political conflict at the provincial level was non-factional may have been true for the Cultural Revolution, the period to which he applied his factional model. But there is substantial evidence that the networks which Lewis describes, and the manipulation of those networks, is prevalent at all levels

of Chinese government and society. For example, the Party's Central Discipline Inspection Committee said those engaging in <u>guanxixue</u>

> ...turned the practices of establishing contacts and 'under-the-table relationships' into a means of getting things done. This decadent and philistine work style...is not only common among office workers in general but is also prevalent between enterprises, government offices and mass organizations. These actions have an impact on certain party organizations and even on certain leading cadres. Some party organizations have taken no action ...instead they have assumed an attitude of tacit consent and support toward them, thus aggravating the problems to a more serious degree.[25]

But how does one go about identifying personal political factions and the issues that might prompt them to action? Nathan, Pye and Lewis give us few tools with which to probe this very secretive corner of Chinese political life. <u>Tiao-tiao</u> <u>kuai-kuai</u> can provide "a realistic research strategy to investigate leadership networks," as Lewis claims is needed.[26] The difficulty is integrating an ideological/organizational model with factional and network models that focus on interpersonal as opposed to institutional relationships. Nathan, Pye and Lewis suggest organizations and institutions as a possible starting point. For Nathan,

> ...Complex factions are most likely to develop...within bureaucratic formal organization. In formal organizations first, the personal loyalty of faction leaders at lower levels to leaders at higher levels is reinforced by hierarchical authority patterns. Second, the faction has the benefit of the intra-organizational communications network to aid in co-ordinating its activities. Third, the effort to gain control of the organization or to influence its policies requires the co-operation of the sub-leaders at the various levels and tends to bring their interests into harmony. In short, the hierarchy and established communications and authority flow of the existing organization provides a kind of trellis upon which the complex faction is able to extend its own informal, personal loyalties and relations.[27]

For Pye,

> ...factions tend to be based in part upon organizational identification. Indeed, a first step in distinguishing factions is the investigation of both the internal conflicts of particular institutions and the clashes between organizations. [Thus]...we can greatly increase our understanding of factional politics by carefully noting the precise points at which stress might appear according to the insights of organizational theories.[28]

For Lewis,

> ...bureaucratism and guanxixue tend to coexist, reinforce one another, and spread....Informal networks are almost inevitable in large-scale organizations and serve to lessen pressures, insecurities, and bureaucratic bottlenecks.[29]

The key element in the model is kuai-kuai relationships, which are both structural and personal. Such relationships are intimately tied up with the networks Lewis describes. A former banker in Wuhan told me the following:

> We have a saying in China: feishui buluo wairen tian. Manure water cannot enter other people's fields. To people, this is personalism. To family, this is familialism, and to the nation, this is nationalism.
>
> Guanxixue can break through this and make for a good relationship between wairen. This allows for cooperation, implementation and accomplishing tasks. Maybe this is a mistake, but it's the way things get done.
>
> This is the kuai in tiao-tiao kuai-kuai. Kuai is both structural and personal. The structural kuai-kuai allows personal kuai-kuai to be used. But foreigners must remember this key point about China: the government can manage everything.[30]

This respondent said the goal of China's urban reforms is to change this situation by bringing economic interests into play between kuai-kuai relationships. This, he said, will be a difficult task. "Kuai has strong relations with benefits going to everybody. But it also limits everyone's hands and feet. It makes each party have no energy, no rights."[31]

The application of an organizational model to enhance personal factional/network models brings to mind Norton Long's discussion of games.[32] The behavior of an individual becomes predictable when we know what game he is playing and what position he holds in that game. Long used the metaphor of a third baseman playing baseball, saying that the baseman's behavior

> ...is not some disembodied rationality, but, rather, behavior within an organized group activity that has goals, norms, strategies, and roles....Baseball structures the situation....Looked at in this way, in the territorial system there is a political game, a banking game, a contracting fame,...and many others. Within each fame there is a ..set of goals,...a set of socialized roles making participant behavior highly predictable, a set of strategies and tactics handed down through experience...an elite public whose approbation is appreciated, and ...a general public which has some appreciation for the standing of the players. Within the game the players can be rational in the varying degrees that the structure permits. At the

> very least, they know how to behave, and they know the score.[33]

The tiao-tiao kuai-kuai framework gives us the necessary structure to examine any territorial system and reveals the rules and regulations of each game within that system, be it construction, banking or foreign trade. Further, it provides a structure to enable us to examine participants' past strategies and tactics and enables us to predict with some degree of certainty a player's behavior. Tiao-tiao kuai-kuai "structures the situation." With this capacity, we can begin to examine the role organizations and personal factions or networks play in the policy implementation process.

Research on how policy is implemented[34] has offered the most insightful look into the politics of China and the dynamics of change by focusing on the winners and losers of policy and the strategies and resources they bring to bear on either implementing or blocking implementation of policy. For example, Tyrene White[35] has found that implementation of the one-child-per-couple population program in China has been bedeviled by problems of compliance among segments of the rural population and a reluctance on the part of local implementors to do their jobs. These problems have included lack of remuneration for cadres charged with implementation, verbal and

sometimes phsyical abuse of those cadres, weaknesses in the reporting system and manipulation of registration records, the low quality of medical services, and the limited supply and distribution capacity of contraceptives. But the policy-specific nature of that research limits our ability to generalize about the depth of change to only those units (*danwei*) with an interest in the success or failure of the particular policy under study.

David Lampton was able to overcome that limitation somewhat by focusing on water policy, a commodity that "blithely cuts across territorial and functional lines of administration (thereby energizing) a broad range of units." By doing so, Lampton opened wider the "window on Chinese politics," as the implementation model is often called.

> In formulating and implementing water policy, one is dealing with an open-ended process in which both territorial and functional units at great distance from the immediate project site will perceive great stakes and seek to shape the outcome in a way favorable to them. In any political system, when there is a profusion of political participants, with different views and intense commitment, the going will be slow, at best.[36]

A *tiao-tiao kuai-kuai* map of any functional system details those territorial and functional units both near and far which have a stake in implementation of any specific policy. One can then assess the activity of those units over time concerning a variety of policies that might have an impact on them.

FIELD RESEARCH

The findings presented in this dissertation were compiled from a variety of sources in China, especially Wuhan.

From September 1986 to August 1987 I was Ohio Liaison in China. As such, I acted as trade representative for the International Trade Division, Department of Development, State of Ohio. Based in Wuhan, this position gave me great access to government foreign trade officials at the central, provincial and municipal levels, plus a variety of enterprise managers.

Also, I spent 11 months (February 14, 1984 through January 15, 1985) in Hubei affiliated with Wuhan University where I did archival research and had more than 50 hours of interviews with officials of the Hubei Province Foreign Economic Relations and Trade Department, the China National Textile Import and Export Corporation,

Hubei branch, the Wuhan Cotton Mill Number 4, the Bank of China, Central office and Hankow branch, plus numerous other sources connected with foreign trade corporations, the Bank of China, Wuhan Municipality and Wuhan University.

In addition, some information used in this dissertation comes from interviews I conducted with a variety of Hubei provincial government and enterprise officials during a two-month stay in Wuhan in May and June 1980, and for three weeks in July 1979.

In 1984, considerable information came from a key respondent familiar with the foreign trade system in China and Hubei Province. Armed with this information, I was able to enhance official interviews with trade bureau officials and many others who substantiated what this respondent told me. By 1986 and 1987, my access to government and party officials in Wuhan and Hubei was sufficiently extensive that casual questions about *tiao-kuai* relationships, *guanxixue*, and decision-making authority could be broached without much difficulty.

Where appropriate I name those whom I interviewed, but there are several interview sources whom I cannot name or be more specific as to date and place of interview.

Using provincial-level foreign trade as a functional system for a case study using the tiao-kuai framework, we get a clear picture of the dynamics of change, not only within China's foreign trade system at the central, provincial and local levels, but also of the dynamics of change within the "domestic strategic triangle" of Center, province and enterprise, the key actors in guiding China into the 21st century.

In Chapter II, I examine the problems of governmental organization and bureaucratic politics, specifically disaggregating the issue of decentralization and centralization.

In Chapter III, I examine a variety of destabilizing phenomena in Chinese history prompted by gradual decentralization of power in each dynasty, or regime, through 1911. These destabilizing phenomena, as we shall see, are evident in the People's Republic of China under Deng Xiaoping.

Chapter IV continues this historical survey for the Republican era and the People's Republic up to 1979, taking a close look at the persistence of traditional Chinese political culture.

Chapter V focuses on overall economic reform in China with emphasis on the efforts to decentralize the relationships between Center, province and enterprises.

In Chapter VI I use the _tiao-tiao kuai-kuai_ framework to map decision-making power in Hubei's foreign trade system between 1979 and 1987.

By way of conclusion, Chapter VII examines the _tiao-kuai_ phenomena as a natural condition of Chinese political culture as it gives body to the traditional dichotomy between central and local political control and autonomy, thereby negating the unified political system so fervently sought by Mao Zedong.

This discussion paints a clearer picture of where the locus of policy implementation power lies in China, where it does not, and the prospects for urban economic reforms in the People's Republic.

ENDNOTES Chapter I

1. Efforts to reform China's economic system can be traced back to the 11th Party Congress in August 1977 when Deng and his supporters began pushing for changes in agricultural administration. By 1984 reform of this sector had largely been accomplished with communes giving way to group and household contracts, the rejuvenation of free markets, and average annual growth rates of 11.7 percent between 1981 and 1984 for agriculture. See "Revolution Run Riot," Far Eastern Economic Review, 11 July 1985, 54. The success of agricultural reform gave the Deng regime the necessary confidence and ammunition (average annual growth rates in industry for 1981 to 1984 of 10.7 percent) to embark on the much more difficult reform of the urban economy. The goals, as announced by the Communist Party's Third Plenum of its 12th Central Committee in October 1984, include changes in wages, price-setting, planning, and decentralized administrative control. As part of this, the Party's goal is to separate government and enterprise activities in an effort to free the latter from excessive administrative control by the former.

2. Decentralization must be disaggregated and specified to be useful, and this dissertation will do so. In general, however, decentralization might mean giving an enterprise control of its own destiny without regard to its relations or impact on other units in the Chinese system. More likely, it means giving enterprises control over its own daily economic affairs but keeping it towing the mark of a macro-economic plan. In another vein, the central government may give provincial government broad authority to implement policy or to plan for and control its own economic well-being. From the Center's point of view, this is decentralization. From an enterprise manager's point of view, however, life is still highly centralized. Only the locus of control has changed. For purposes of the present discussion, decentralization is used to mean the Center giving provinces and enterprises decision-making authority and expecting provincial governments to do the same in their relationship with enterprises.

3. Audrey Donnithorne outlined new-found provincial decision-making authority in fiscal affairs, banking and price policies, economic planning, distribution, foreign trade and investment, education and research, and information services. See Audrey Donnithorne, Centre-Provincial Economic Relations (Canberra: Contemporary

China Centre, Research School of Pacific Studies, Australian National University, 1981). Barry Naughton found that "the single most striking, consistent change in the Chinese economy since 1978 has been the decline in the proportion of total fixed investment which is controled by the central government." For example, Naughton compared total central and local fixed investment (capital construction plus replacement and reconstruction) between 1977 and 1982. Total local fixed investment rose in this period from 21.8 billion Yuan in 1977 to 56.6 billion Yuan in 1982 while central fixed investment declined from 33 billion to 31 billion in this same period. During this time, however, total fixed investment rose from 54.8 billion to 84.6 billion Yuan, meaning the percentage of total fixed investment under local control rose from 40 percent in 1977 to 63 percent in 1982. See Barry Naughton; "The Decline of Central Control Over Investment in Post-Mao China" in Policy Implementation in Post-Mao China, ed. David M. Lampton (Berkeley: University of California Press, 1987).

4. Based on experiments with enterprise autonomy, the State Council in 1984 issued temporary regulations on enlarging enterprise autonomy. Enterprise powers were to be expanded in production planning, marketing, price-setting, purchase of production inputs, use of funds, disposal of assets, institutional structure, labor and personnel management, setting wages and bonuses, and merging. See Beijing Review, 28, No. 20, (May 20, 1985): 17.

5. Interviews with Yu Hengfu, manager, Wuhan Cotton Mill No. 4, December 10, 1984, Wuhan, and with Liu Shuyi, secretary, China National Textile Import and Export Corporation, Hubei Branch, November 25, 1984, Wuhan.

6. Kuhn defines control as "the efforts of the state bureaucracy to secure its share of society's resources and to insure that its conception of social order is maintained. He defines autonomy as "not independence from the larger polity in any sovereign sense, but rather the ability of a social unit to govern certain spheres of its internal affairs according to its own procedures and using its own people. Philip Kuhn: "Local Self-Government Under the Republic" in Conflict and Control in Late Imperial China, ed. Frederic Wakeman, Jr. and Carolyn Grant, (Berkeley: University of California Press, 1975), 258. Kuhn's definition of autonomy, while vague, providesa foundation for examining the relative power between Center and region, an exercise made more difficult under

definitions of autonomy that mean "independence from the larger polity in . . . a sovereign sense."

7. Ibid., 259.

8. Ibid., 260.

9. Ibid., 261.

10. Ibid.

11. Interview File C, November 1, 1984, Wuhan.

12. Lowell Dittmer, "Ideology and Organization in Post-Mao China" in Asian Survey, 24, No. 3 (March 1984): 349.

13. Private conversation and correspondance with the conference organizer and "Dapo tiao kuai fenge, fazhan hengxiang jingji guanxi" [Smash tiao-kuai separation, develop cross-wise economic relations] in Jingji Yanjiu, [Economic Research] II (Nov. 20, 1984).

14. John W. Lewis, Political Networks and The Chinese Policy Process, An Occasional Paper of the Northeast Asia-United States Forum on International Policy, (Stanford: Stanford University, March 1986).

15. Edward C. Banfield, Political Influence, (New York: The Free Press, 1961).

16. Ibid., 7.

17. Renmin Ribao [People's Daily] (Beijing), February 1, 1982.

18. Franz Schurmann, Ideology and Organization in Communist China, (Berkeley: University of California Press, 1968), xlii.

19. Ibid., 189.

20. Andrew J. Nathan, "A Factional Model of CCP Politics," China Quarterly, No. 53 (January/March 1973): 34-66.

21. Ibid., 52.

22. Lucian Pye, The Dynamics of Chinese Politics (Cambridge: Oelgeschlager, Gunn & Hain, 1982).

23. Ibid., 57.

24. Lewis, Political Networks, 2.

25. Foreign Broadcast Information Service Daily Report, China (hereafter FBIS), 7 August 1981, K3.

26. Lewis, Political Networks, 56.

27. Nathan, A Factional Model, 17.

28. Pye, Dynamics, 54.

29. Lewis, Political Networks, 49.

30. Interview File A, Interview Number 20, December 23, 1984, Wuhan.

31. Ibid.

32. Norton Long, "The Local Community as an Ecology of Games," chap. in The Polity, (Chicago: Rand McNally & Co., 1962), 139-155.

33. Ibid., 141-142.

34. Lampton, Policy Implementation.

35. Tyrene White, "Implementing the 'One-Child-Per-Couple' Population Program in Rural China: National Goals and Local Politics" in Lampton, ibid., 284-317.

36. David M. Lampton, "Water: Challenge to a Fragmented Political System" in Lampton, ibid, 157-189.

CHAPTER II

PROBLEMS OF ORGANIZATION

To know who has power in the People's Republic requires understanding how China is organized and how that organization operates. This requires coming to grips with an inescapable fact of Chinese political life, the contradictions between Center and region, or, more specifically, the issue of centralization and decentralization. It also requires understanding the game of bureaucratic politics as played in a China ruled by a Party with an anti-bureaucratic tradition--in a profoundly bureaucratic society. The dilemmas both aspects create color much of China's political history, traditional, modern and contemporary.

To examine these aspects of Chinese politics, this chapter is divided into three parts. Part I, labeled comparative decentralization, provides a framework for previous discussions of this issue by putting them into four broad categories based on their content. The first approaches decentralization in the aggregate, providing background for discussions of Chinese politics on a national, macro-level. The second category approaches the issue on a functional basis, discussing more or less

specifically how policy areas have been decentralized or centralized. The third looks closely at provincial administration as the prime beneficiary of decentralization, while the fourth discusses the concept of dual leadership, the key element that has given rise to the tiao-kuai system and hence to the tiao-kuai framework.[1] While each category is different in its own way, the overall framework is one which examines the decentralization issue in either functional terms (e.g. agriculture, economics, or trade) or at various levels of government (e.g. Center, provincial, or local) within the Chinese political system.

In part two of this chapter, I expand this framework by disaggregating decentralization, looking at the issue in micro-analysis fashion in an effort to better explain the macro-qualities of the Chinese political system.

Once this is done, the role that bureaucratic politics plays in China, the topic of part three, becomes crucial for understanding how power is exercised in the web of Chinese administrative organization. The game of bureaucratic politics is played much differently in China than in the West. Despite its complexity, however, we will see that bureaucratic politics models can be applied to the Chinese administrative system.

COMPARATIVE DECENTRALIZATION

It is a commonly held view that dynastic weakness prompts decentralization of political power, thereby giving rise to regionalist tendencies that only serve to further weaken the central government. Historical evidence, especially of the 19th century, supports that, but I contend a larger cycle is at work. There is evidence to suggest that relatively strong central governments chose to decentralize authority for a variety of purposes, especially for commercial and economic development.

Subsequently, when the costs of decentralization become clear, the Center attempts to recentralize, but is never able to recoup all its lost authority. There is, therefore, in the life of each regime, a long-term trend toward decentralization. Within this long term trend, there are perterbations.

This presents China's leaders with a continuing need to balance power relationships between Center and region. To allow authority to devolve without checks is to court continued challenges to central power. To put a stop to this gradual devolution of authority is to change administrative procedures to a degree that can pose bureaucratic challenges (typically from lower levels) to the Center's authority, and, in times of crisis, perhaps

to its legitimacy. Only a change of regime (dynasty), brought about only by force of arms, can recentralize power and authority. This developing central weakness puts in motion events which necessitate more decentralization to handle growing political, economic and social problems. A cycle of devolving power and central weakness ensues.

This trend knows no dynastic bounds. The dilemma of balancing Center and region, of finding the right mix of decentralization and centralization, continues to plague China, even after the transformation of society by the Communists. As we shall see in Chapter 3 and 4, authority in the People's Republic has continued to devolve to lower levels and the Center is unable to fully recoup it all.

This discussion is not meant to give short shrift to other variables which had an impact on the failure of Chinese dynasties. Clearly, many factors have prompted China's civil wars and revolutions. Social and economic variables such as the slow development of a middle class, the exploitation of China's predominantly rural population or the impact of foreigners are among them.[2]

What interests us here, more than these, however, are the dynamics of administration that either pull China together or pull it apart. Liu says "the centrifugal

forces in Chinese society and politics are at least as strong as the centripetal ones.[3] This involves the ebb and flow of decentralization and centralization, of Center versus region. In short, who holds power.

Finding the appropriate balance between Center and region is a common problem in state building, although it can take different forms. The early history of the United States is marked by contradictions between Center and region, between centralization and decentralization, between unity and disunity. The writers of the American Constitution, tired of an ineffective confederation of bickering states, opted for a strong, federal government. James Madison could have been speaking about China's perennial problem when he wrote:

> Among the numerous advantages promised by a well-constructed Union, none deserves to be more accurately developed than its tendency to break and control the violence of faction. The friend of popular governments never finds himself so much alarmed for their character and fate as when he contemplates their propensity to this dangerous vice.[4]

The issue in the United States of 1787 boiled down to the contradiction between a strong central government and states' rights, which went unsolved until 1865 and the end of a bitter civil war.

In France, repeatedly in the 19th and 20th centuries, the issue took shape around the necessity to decentralize a unitary system for the purposes of spurring economic development. In 1972, for example, this involved a choice between decentralization and what Henry Ehrmann calls deconcentrations of decision-making.

> Decentralization would have implied that ...regional bodies, legitimized by elections and [having]...adequate financial means and administrative structure, would have been put in charge of their region's development. The French chose deconcentration, a ...hierarchical arrangement by which ...organs of the central government ...in the regions are...enabled to take the initiative for...development projects without referring the final decision on every detail to Paris.[5]

The point was to avoid creating a new administrative level above the various French departmental councils and below the National Assembly while at the same time bringing into being "a union of the existing departments"[6] for the purpose of coordinating development plans. Thus, instead of 22 separate, directly elected regional assemblies, France opted to create regional councils and advisory economic and social committees comprised of officials elected to other posts in their respective departments. The Socialist government of

Francois Mitterand changed this in the 1980s, opting for the directly elected regional assemblies.

India as well has wrestled with the problem of Center versus region in more than one fashion. To a greater degree than China, India is comprised of regions which are culturally, religiously, linguistically or ethnically distinct. Regionalism and communalism, therefore, are ever-present forces that threaten to undermine India's national union. The Punjab is a prime example. That state is dominated by Sikhs, some of whom favor secession from India and creation of an independent Sikh nation of Khalistan. Sikh demands on the central government in the early 1980s forced communal rioting with Hindis, armed intervention by the Indian army in the Punjab, the death of key Sikh religious and political leaders and the assassination of Indian Prime Minister Indira Ghandi. All this was followed by the central government's accommodation of the Sikhs' original demands by Prime Minister Rajiv Ghandi, fitting well Robert Hardgrave's description of regional conflict in India:

> From the time of independence, cultural politics--whether in the demands for linguistic states; in the controversy over Hindi as the national language; or in the nativism of the 'sons of the soil'--has deepened regional identities. Episodic movements have been both the vehicle of politicization and its inevitable

> result. The government has typically met cultural demands with vacillation and indecision--sometimes by calculated neglect--only to be followed, in the face of prolonged agitation, by a combined response of force and accommodation.[7]

This facet of Indian political life compounds a second form of India's central-regional debate. The Indian Constitution set up a federal system of states, incorporating into it a division of powers between Center and states as enumerated by a Union List, a State List and a Concurrent List of governmental activities. Despite this, the high degree of centralization and control in decision-making has prompted some to call India a unitary state or, at best, quasi-federal.[8]

It is difficult to imagine the federal government in the United States doing what the Indian government often does under the constitutionally provided President's Rule: abolishing state assemblies, assuming state administrative powers, or calling for new state elections. This issue still goes unresolved as states, ever-sensitive to regional favors granted other states, continue to press for more autonomy from central control.

Reinhard Bendix summarized this essential feature of state-building for any country:

> If it was true of kings that they delegated authority but wished to control its exercise, it was true of aristocrats that they accepted such authority but sought to make it autonomous. This tension between central authority and local government must be continually managed but it is never resolved.[9]

And so it is in China. The Chinese have long sought the correct formula for balancing the various interests of Center and region. Put simply, what is the degree and nature of power to be given local governments? Throughout the centuries, numerous methods for administering a far-flung governmental apparatus have been tried, among them rotation of top-level regional officials, two or more officials with the same duties, and the _pao chia_ and _li chia_ systems of supervision and taxation.[10] For a time, chosen formulae appear to work, but Chinese history tells us long-term solutions to these contradictions have eluded and continue to elude China's leaders. As we shall see, the Center, when it did delegate authority, has often put strings on its exercise. Local governments, typically provinces, have sought ways to circumvent those strings and enhance their authority and freedom to act.

To fully understand the difficulties succeeding dynasties, either imperial, republican or communist, have had in finding a solution to this puzzle, it is essential to disaggregate decentralization and determine just what

it means in China. Before doing so, we need to put earlier views of decentralization into a framework upon which we can build.

MACRO-LEVEL DISCUSSIONS. Rozman, et. al. discuss decentralization and centralization in terms of striking the appropriate "balance" between Center and region for the purpose of modernization.

> As the tasks faced by government mounted in the late nineteenth century,...disequilibrium became more marked. We...referred to this process as devolution, degeneration, decentralization, or disintegration. Controlling influences from above diminished. The twentieth century is marked by repeated attempts to restore equilibrium and to establish a viable balance of interests conducive to modernization.[11]

For Rozman, centralization at the top and bottom of society (typically through family, or clan associations) was necessary to enable the Center to extract resources from localities, without undue coercion, to be used for modernization. At the same time, an appropriate level of provincial, or middle-tier power is required for integration of society into a workable whole. Dynasties fell when this mid-level authority was constituted with

an inappropriate amount of power.

The exercise of power brings with it a variety of pathologies, including bureaucratism and corruption. In a Communist system, where the regime's survival depends on a highly disciplined faith in, or, at least, adherence to, an comprehensive ideology, these results pose real danger for the Party's continued control. Thus it becomes extremely important that power be granted to the appropriate lower-level units and in the appropriate degree.

Just what the appropriate amount of power is continues to elude China's leadership. In attempts to find the appropriate amount of power, Barry Richman pointed to problems that are sure to arise which present the regime with challenges to its authority and, perhaps ultimately, its legitimacy.

He discussed decentralization/centralization in Communist China as it pertains to the "macromanagerial bureaucracy that bears significantly on enterprise management."[12] Like Rozman, he identified the need in China for "a very big intermediate state bureaucracy" whose role is to

> collect, process, and analyze information for the purposes of decision making, planning and control; to allocate resources; to distribute commodities; to provide for a workable degree of consistency and balance in the myriad interconnected sections of the overall state plan and the plans of individual enterprises; to provide for timely corrective action arising from imperfections and errors in the plans; and for numerous other critical administrative reasons.[13]

With such a role, this "intermediate state bureaucracy" has ample opportunity to exercise power and exert influence, over both the enterprises they control and the high-level planners they ultimately must answer to, respectively. As Richman guessed, based on interviews in China over two months in 1966,

> Within the macromanagerial apparatus there is probably ...a fair amount of undesireable behavior such as biasing, distortion and witholding of critical information, 'passing the buck,' collusion, and favoritism resulting in inefficient decision...[14]

Such behavior leads to the variety of bureaucratic pathologies that Chinese so ofetn criticize.[15]

Thus Harry Harding speaks of decentralization or centralization as a policy choice, a remedy, to solve problems of organization inherent in a bureaucracy. For him, this is at the heart of bureaucratic politics.

> ...different diagnoses [for bureaucratic pathologies] are an important reason why organizations become controversial political issues. ...Differences in remedy often reflect different assumptions about the causes of the problem or different views of the workability of alternative remedies.[16]

He tells us that decentralization has both good and bad points, that the benefits of greater speed and flexibility in handling local problems are offset by reduced ability of an agency "to attain uniformity and coherence in its organizational performance."[17]

Harding's description of the 1956-1957 decentralization debate and the efforts to re-centralize in the 1962-1965 period aptly describes differing central-level views about the issue, but he focuses on the macro-level debate of whether to decentralize and not on specifically which organ is to have what power in which policy arenas.

We now know, from the Chinese themselves, that the "undesirable behavior" is far more serious a problem than Richman guessed in the 1960s. Politburo member Chen Yun, chairman of the Party's Central Commission for Discipline Inspection, complained in a September 1985 speech that China's open door policy, while "entirely correct," has been "accompanied by capitalist ideology." He cited

surveys which showed that

> ...some 20,000...companies have sprung up, a considerable number of which collaborate with lawbreakers and unscrupulous foreign businessmen. Taking advantage of reforms, there...companies have been involved in all sorts of criminal activities, including speculating on the rise and fall of prices, engaging in illegal trade, offering or taking bribes and trafficking in smuggled goods. They also have resorted to deception, extortion, evading customs duties and selling counterfeit medicine and liquor, which are lethal..., just for ill-gotten gains. The sale of obscene video tapes and seducing women into prostitution are also some of their vices.[18]

In another example, Tang Gengyao, director of China's Exchange Control Administration, cited a foreign exchange black market as one problem in controlling foreign exchange. The market involves units which

> in disregard of the state's interests, banked their export earnings and foreign exchange in other countries and still others, in the name of invigorating the economy, engaged in illegal trade in foreign exchange or sold foreign exchange at high prices.[19]

And Hubei Ribao, in a 1982 article, outlined the provincial foreign trade bureau's efforts to counter the tendency of some youthful trade officials with the opportunity to go abroad to pursue western goods and

lifestyles. The bureau's Party organ was conducting a discipline education program for those going abroad who will "have wide exposure to capitalist decadence" to "enhance their national self-esteem." The program called on the Party organ to inspect "certain violators of foreign affairs discipline" and turn over foreign goods presented as gifts.

The article complained, however, that only comrades in the provincial Cereal, Oils and Food Products Import and Export Corporation had turned over to the Party goods collected abroad, including handbags, wallets, pens, electric clocks, watches and calculators. But only 12 such items had been turned in.[20]

Foreigners in China frequently tell stories of finding goods to their liking in a variety of under-the-table markets. In late 1984, for example, the going rate for a pound of fresh Norwegian butter, brought in by Chinese with opportunities for travel abroad, was eight yuan.

In 1985, Chen Yun warned that such "decadent capitalist ideology ...is exerting a serious corrosive influence on our Party's work habits and social mores."[21] By 1986, many Chinese abroad scoffed at this kind of rhetoric as they openly purchased video recorders and tapes, stereo equipment, short-wave radios and other

"decadent" goods of capitalist ideology.[22]

Thus, China's leaders believe it is extremely important, and, perhaps, quite possible, to determine the proper balance of power between governmental levels, with the optimum degree of authority placed in the hands of the appropriate governmental unit or personnel. Richman suggested the difficulties Chinese leaders face in making these determinations:

> There is actually a wide range of choices open to the regime with regard to the structure of the state bureaucracy, the specific types, functions, locations, and relationships among the numerous macromanagerial organizations which make up this bureaucracy, degrees of centralization and decentralization of authority, and so forth.[23]

As we shall see, these choices are often taken simultaneously, making it difficult to confidently say just what in China is and is not decentralized.

In our search for power in China, such macro-level discussions serve only to point us toward the decentralization phenomenon. They do not probe the political interplay between organizations at the governmental or Party levels lower than the Center.

FUNCTIONAL DISCUSSIONS. Although Parris Chang uses the 1957 decentralization in a macro-level analysis of the policy-making process in China,[24] he begins to disaggregate the phenomenon by specifying the devolution of authority to provinces in such functional areas as industrial, commercial and financial administration and planning.

In industrial administration, for example, Chang states that two decentralization changes in 1957 boosted provincial power. These were the transfer of centrally managed industries to provincial control and the increase of enterprise authority by reducing the number of mandatory targets.[25] Although he did not pursue it, Chang made a key observation that has a bearing on the tiao-kuai framework. The latter decision helped provinces, he says, because "the control and influence of the Party Committee over government agencies was very substantial. To transfer control of an enterprise from a ministry to a local authority was to transfer immediate control of the enterprise to the party committee of that local authority."[26]

Other scholars, notably economists, have also approached the issue by discussing those functional areas where administrative change has taken place. For example, Dwight Perkins found that "the advantages of

centralization had proved illusory" in China's agriculture in 1956 and 1957.[27] Nevertheless, by 1958, facing poor agricultural performance with the less-than-adequate weapon of agricultural cooperatives, the Chinese "attempted to solve the problem by an even bolder and more radical (centralizing) reorganization of agriculture, the communes."[28]

He concludes by noting that the costs of agricultural centralization outweighed the "modest advantages" of utilizing underemployed labor and completing more and bigger rural construction projects. The costs were a decline in peasant incentives and in subsidiary production and marketing.

> The difficulties...the Chinese Communists have run into...cast doubt on whether there are any realizeable advantages from centralization in agriculture even in overpopulated and labor-intensive countries such as China. Political and ideological considerations aside, there appears to be little that centralization accomplishes which cannot be done better ...in the context of a free peasant economy. In Communist China, however, political and ideological considerations cannot be put aside.[29]

Likewise, Nicholas Lardy examined centralization and decentralization in China's fiscal management in the late 1950s.[30] He took issue with the view that the decentralization measures of 1958 transferred economic

power from the Center to the provinces, enabling wealthier provinces to develop faster than the poorer ones who "could no longer depend on subsidies from Peking to finance their local programmes."[31] Lardy claims the decentralization measures "did not impair" the Center's ability to "control the allocation of economic resources" and that "when the decentralization measures are analysed in an evolutionary setting, they appear to have affected the mechanisms of the central government's fiscal control only marginally."[32]

Lardy looked at health, education and welfare (HEW) and investment expenditures to test the hypothesis that decentralization resulted in increased provincial economic power. He found that HEW expenditures in 1958 and 1959, after decentralization, were not much larger than the pre-decentralizational period of 1955 to 1957, and that more developed provinces were unable to increase "their per capita expenditures relative to less developed areas.[33] He also found that more developed provinces were unable "to increase their investment shares as they would have been if decentralization had given them greater control over the resources they collected."[34]

Lardy then details the evolution of central-provincial fiscal relations during the 1950s, when "provinces advocated reforms that would give them a more independent fiscal base and free them from centrally imposed annual expenditure ceilings."[35] But in the various reforms of the fiscal administrative system in that period, Lardy says

> the central government built in features that assured that a lonk between total provincial revenues and provincial expenditures would not be established....Even in 1958...the Centre still set sharing rates so that provinces depended on subsidies. By controlling sharing rates the Centre continually allowed provinces to retain only enough revenue to finance approved expenditures, thus assuring that no lonk would be established between total revenues and expenditures.[36]

These discussions answer many questions about how decentralization measures are implemented in various sectors, but in our search for power they ignore the dynamics of administration at the provincial or regional level. To probe the dynamics of this facet of Chinese bureaucratic life requires a greater disaggregation of what we mean by decentralization.

PROVINCIAL ADMINISTRATION DISCUSSION. Falkenheim breaks away from the macro-level mode of analysis by looking closely at provincial administrative structures in

an attempt to locate decision-making authority.[38] He mentions three kinds of "provincial organs" that have an impact on policy. These are administrative organs, which include provincial departments, bureaus and commissions of both government and Party; business organs; and enterprises. The latter two are the operational organs of implementation. Thus he states:

> It is the administrative organs which bear the prime responsibility for any failure to reach assigned targets. As a result, they are actively involved at every stage of the implementation process....The consistent pattern of intervention, though making it difficult in practice to distinguish between the two, also justifies a primary focus on the administrative organs....[39]

Falkenheim sees provincial leaders as "agents of the central government in the localities" and therefore "responsible for overseeing the execution of central policies." This role, he claims, requires that provincial leadership be involved in supervision and coordination.

This it does, Falkenheim states, by: assigning and communicating objectives or targets; monitoring the speed and effectiveness of implementation; assimilating feedback from lower-level units to modify assigned targets, and "deviation control," dealing with problems in implementation. These duties, once assumed by the central

government, now become the responsibility of provincial government officials who naturally begin to assume more authority.

But our goal is to determine which administrative organ is "actively involved at every stage of the implementation process" and in what capacity they are so involved. Finding this out requires the close scrutiny--and use--of an administrative phenomenon in China known as dual rule.

DUAL RULE. In the mid-1950s, with problems of a highly centralized system becoming increasingly obvious, the issue to be settled by Chinese leaders was not so much whether to decentralize the administrative system, but how to do it. That debate, to be discussed more fully in Chapter IV, settled on a concept of shared power between Center and province, or dual rule (shuangfang lingdao). Falkenheim[40] outlined the new authority and responsibilities provincial governments would assume, including control over provincial planning, management of enterprises once under the Center's purview, control over the allocation of resources within their jurisdictions, expanded financial resources plus increased control over personnel, labor supply and transport. The Center was to retain control, and, thereby, the upper hand, over allocation of raw material resources and economic

equipment, planning, and inter-provincial transfers of goods.

On paper, the system appears logical. As Falkenheim states,

> Emphasis was to be given to the universal implementation of the 'dual leadership' principle, with the understanding that, in general, regional authority was to supersede vertical authority where necessary (t'iao-t'iao fu-tsung k'uai-k'uai).[41]

To be successful, dual control would require the wholehearted cooperation of central and provincial decision-makers working for the national good. Local interests, economic and political competition between provinces, and hidden, personal agendas would turn dual control into something other than intended.

In reality, some enterprises once under central control found themselves at the beck and call of provincial planners. Those enterprises which remained under central jurisdiction as well had to obtain needed resources and raw materials from provincial planning agencies and suppliers. Dual control spawned an administrative system characterized by confusion, conflict and inefficiency, a system that is the single most important obstacle blocking reform of China's economic system in the 1980s. The cooperative notion of shuangfang

lingdao inevitably gave way to Chinese making distinctions as to who has ultimate authority, the Center's vertical leadership (*tiao-tiao lingdao*) or local, horizontal leadership (*kuai-kuai lingdao*).

Richman[42] blamed dual control for a variety of problems that stem from enterprise managers not having the authority to act on their own and not knowing which government agency or official has decision-making authority. These problems include lack of "adequate knowledge of, or concern for, local operating conditions or problems" on the part of governmental units; control and balancing between governmental units and enterprises, and inadequate information and statistics.

> Because of the state bureaucracy, enterprise managers are often likely to find themselves in a precarious position. They may be held responsible for not fulfilling their plan, while macromanagers who, through their powers, have made inefficient decisions contributing to the underfulfillment of the plan are not held responsible because they or their errors cannot be pinpointed or traced through the bureaucratic maze.[43]

The confusion, conflict and inefficiency caused by dual control, Richman said, leads to the "various kinds of undesireable, illicit, and semilegal managerial behavior at the enterprise level[44] discussed above.

The Center anticipated these problems, and those who debated how to decentralize the administrative system argued for two quite different paths to prevent them. The first--to decentralize only to provincial governments--was implemented and failed, the other--to decentralize to both provincial governments and enterprises--was not attempted until the 1980s, when it may have been too late for full implementation as the tiao-kuai system spawned by dual control had become entrenched.[45]

Chang points out that central leaders "initially seemed confident" that problems could be overcome through strengthening Communist Party leadership at the provincial level.[46] Problems of localism and departmentalism could be nipped in the bud by putting reliable Party officials in charge of provinces. While government operations might be decentralized, the Party was under supposed unified, central leadership. Thus in 1957 and 1958, those provincial Party secretaries accused of localism were purged and replaced by others more loyal to central leadership.[47]

An anomaly arose here, however. While provincial Party committees, under direction of central Party leadership, were to oversee the coordinative functions of dual rule, implementation of the new system actually increased their authority and influence. By relying on

provincial Party committees, China's leaders ultimately saw that both provincial government agencies as well as national ministerial agencies at the local level came under the control of those Party committees.

This is seen in the case of the Bank of China, Hankou branch. While nominally a local agent for the Bank of China, in reality the branch's management personnel are assigned by the Hubei Provincial government and, consequently, Party committee. They answer directly to their *kuai-kuai*, or horizontal leadership.[48] Thus, as Schurmann states,

> no matter how explicit vertical rule, regional Party interests were able to make themselves felt even in organizations under central-government jurisdiction. The more powerful the Party became, the greater the intrusion of *horizontal* power. [emphasis added].[49]

In short, central leaders pursued the concept of dual rule, confident that a unified, local-level Party organization, loyal to the leadership of the central Party apparatus, could keep traditional tendencies of localism in check. The Party would be the controlling unit because it alone was not subject to the cross-pressures of *tiao-tiao* and *kuai-kuai* control.

In reality, however, the power accumulated in the hands of provincial Party secretaries and committees brought on by decentralization through dual control gave rise to an increase in kuai-kuai control that bedevils China today.

> The central Party leadership ...failed to foresee that the provincial Party secretaries ...would become identified with the administration of their provinces; they often displayed 'departmentalist' tendencies, defended the particular policies and interests of their own areas, and found themselves impelled to advance their provinces' interests in negotiation with the central government or other provinces.[50]

Inevitably, this development led to centralization at the provincial level.

Efforts to check this were part of the other proposed method of decentralization debated in the 1950s. This entailed decentralization of decision-making power to individual enterprises as well as to provincial governments, or Schurmann's Decentralization I. In the 1950s, with its victory over the Nationalists still fresh and the repeated failures of Marxism still ahead, the Chinese Communist Party was not prepared to go this far. Thus, in the end, only Decentralization II was carried out. This allowed provincial government to emerge, as Schurmann says, "as a powerful level of administration

with great control over the economic system."[51] Had Decentralization I been implemented, the structure of China's administrative system today might be quite different.

> If both had been carried out ...a kind of checks-and-balances condition would have been created, marked by the juxtaposed authorities of provincial cadres and enterprise managers. This would have impeded centralization of power at the regional [provincial] level.[52]

Decentralization II, giving more power to provincial governments and, ultimately, Party committees, was implemented via dual rule. There was no concept comparable to dual rule under which provincial-level cadres and enterprise managers could share power, thereby implementing Decentralization I. The irony is that Decentralization II was implemented not by an orderly sharing of power under dual rule but by provinces grabbing as much power as they were permitted and using it to its fullest, giving rise to the growth of horizontal, or kuai-kuai influence.

DISAGGREGATING DECENTRALIZATION

Thus, we may speak of decentralizing or centralizing eras, but upon closer inspection of how China's organization works, these terms leave us little to go on. Though useful for macro-level analysis, they are too superficial. They do not probe the dynamics of administrative organization in terms of who has ultimate authority over policy choices. In Harding's words, "decentralization involves shifting power and status from higher-ranking to lower-ranking officials."[53] Only by disaggregating decentralization can we determine what power and status, and how much power and status, has been shifted to which officials. These are policy choices whose implementation is often determined by conditions beyond the control of policy makers.

Our focus, then, should get at the choice of who will have what power in which policy arena; who will have new competitors in the decision-making process; and who might be asked to give up power. These choices no doubt are made by considering where resistance to proposed changes lie, what resources opponents can muster to block implementation of the proposed changes, and, ultimately, whether the envisioned reforms can be implemented.

There are many reasons why China's leaders opted to decentralize authority. It might be to thwart the power of central bureaucrats or, more typically, to encourage commerce, to spur economic development or to maintain capital projects.

Wishing to decentralize, China's leaders face a number of choices. First, in what policy arena, or sector, should decentralization be undertaken? Second, to what level should decision-making authority be decentralized: the multi-province region, provinces, cities, counties or villages, or peasant households? Choices here may vary from place to place depending, for example, on the sector involved, available resources for implementation, geographic justifications, the loyalty and/or reliability of local-level leaders, political IOUs, or experiments with new policy directions.

Third, depending on the choice made here, what units within the chosen level should be permitted greater authority, leading government administrative bodies or production units? And fourth, depending on that choice, to what degree are the newly unleashed units free to act? What are the limits of their newly won authority? How far can they go within these limits? Then comes the problem of those units _not_ given new authority to act on their own taking the initiative and acting on their own anyway.

Clearly, the number of policy choices here are astronomical and the actual outcomes more numerous still: decentralization is much less precise without specifying just what it entails.

The experiments in granting enterprises greater decision-making powers in 1979 and 1980 provide a good example of this. In this case, decentralization and centralization measures were implemented simultaneously in the same sector. In the midst of the 1979 campaign to "increase production and practice economy,"[54] the Center called for tests of decentralized enterprise administration while at the same time consolidating enterprises under new, unified management as part of the policy of readjusting, restructuring, rectifying and reforming the economy.

These policies, which were often implemented as part of the same package,[55] were clearly aimed at restructuring enterprise management so as to boost production, not to free enterprises from governmental control. Within each part of this overall policy we can see the variety of choices available for decentralization of enterprise management as well as the continued government control that pushed some enterprises out of business, the ultimate in centralization.

To test new, decentralized administrative measures for enterprises, the State Council in July 1979 issued five documents detailing the reforms of state-run enterprise administration.[56] These reforms envisioned expanding enterprise authority in production, marketing and financial matters to "give [them] greater freedom ...so that they can accomplish more things."[57] Thus the enterprises chosen for the experiment could retain a percentage of profits, could use raw materials to produce "for the market" once production targets were met, could develop their own plans and have some control over personnel decisions. The results were obvious to most Chinese, as the number of experimental units was gradually increased from six in Sichuan in October 1978[58] to 2,600 "sizeable" enterprises at the end of 1979[59] to 3,300 by April 1980[60] and finally to 6,600 by June 1980.[61]

According to Xinhua, this was 16 percent of the total number of Chinese enterprises producing 60 percent of total industrial output value and 70 percent of China's profits,[66] results that prompted the state Council to permit all state-owned enterprises to practice some sort of profit retention beginning in 1981.[63]

While expanding this program, the Center began new experiments that decentralized some enterprises even further. Thus, in January 1980 Sichuan expanded the

rights granted to five industrial enterprises to permit them to act as their own accounting unit and to pay taxes rather than turn profits over to the Center.[64] In September, Xinhua reported that 99 commercial enterprises in Sichuan had been involved in a similar experiment since the previous February.[65]

Thus, decentralization took different forms and was clearly handled in a piece-meal fashion, something Zweig called "salami-type" tactics when he examined decentralization of the rural sector between 1977 and 1983.[66] This tactic is part of an overall strategy for implementing reforms in several sectors and for overcoming resistance to change, typically found at the provincial level of government and Party. We will examine this at length in Chapter V.

Despite "outstanding" economic results, some unintended problems arose, especially the fact that, despite these enterprises increasing both industrial output value and profits, the level of profits turned over to the state did not increase.

> This is not in line with the principle of increasing revenues turned over to the state, funds reserved by the enterprise and income distributed among workers and staff members with emphasis on revenue turned over to the state.[67]

To handle this and other problems, decentralization would go only so far. A national work conference on increasing production and practicing economy in April 1980 put control of enterprises squarely with Party committees and governmental units. The conference called on

> departments in charge of industry at all levels to carry out this work well under the unified leadership of the party committee and in coordination with the departments concerned, including planning, financial, banking, commercial, foreign trade, supply, commodity-price, labor and capital departments.[68]

Further, decentralization would be checked by combining the enterprise reform experiments with the reorganization of enterprises "in accordance with the principle of specialization and coordination in order to promote the development and improvement of both enterprise and industrial management in our country."[69]

This latter program runs counter to the decentralizing steps just described. It resulted in either the closing or merger of many enterprises which were not economically viable under Chinese administrative and economic conditions. In Guangdong Province, for example, 269 enterprises were either "closed up, suspended, merged and changed."[70] By the end of 1980, Xinhua reported, more than five percent of China's

enterprises underwent "restructuring and merging."[71] Such restructuring or merging may not have resulted in the loss of any jobs, but that in itself is indicative of the limits of enterprise autonomy: they did not enjoy the right to hire and fire as they saw fit. There is little "independence in management" here.

The enterprise reorganization program not only reduced the number of enterprises in some localities. In some places, the number increased, but at the cost of limiting the scope of production, replacing the notion of self-sufficiency with specialization. Thus instead of manufacturing every component needed for production, enterprises would limit production to one or two specialized components. In Beijing, for example, the result by the end of 1979 was 390 factories reorganized into 406 specialized enterprises.[72] Here too there is little independence in planning or production.

The following chart provides a systematic, visual scheme as to the choices leaders confront in determining how to decentralize. Applying this scheme helps us determine whether decentralization has been implemented as envisioned or whether power has devolved further, or not as far as, intended.

What Issue Areas	What Level	What Units
Planning		
Fiscal Matters	Region	
Foreign Trade	Province	
Industrial Control	Cities	
Enterprises	Counties	Leaders
Agriculture	Townships	Bureaus
Commerce	Villages	Factories
Education/Culture	Collectives	Service units
Health	Private Enterprise	
Political/Legal	Households	

FIGURE 2.1 CHOICES IN DECENTRALIZATION

Thus, agriculture in the 1980s was decentralized to the household level, while foreign trade has been decentralized to the provincial level. The degree of decentralization in agriculture is much greater than it is for enterprise or foreign trade management: peasants have more decision-making authority over the land they farm than managers do over the factories they run.

This example raises another point. When combined with a tiao-kuai map locating points of decision-making authority, the above scheme allows us to determine where

ultimate resistance to changes in the administrative structure lie. Put another way, where is the point in the administrative system where the interests of those who might be given new responsibility and authority clash with others who already have authority in that sector?

Agriculture and foreign trade again provide a comparison. In the long process of decentralizing agriculture from 1978 to 1983,[73] the common point between new responsibility and existing authority is the individual peasant, organized by household or collective, and the land he or she farms. Thus, as agriculture policy was in flux during this period, there was little intrinsic resistance to ultimate decentralization to household contracts. There were few political costs in this because authority need not be shared: the land would respond to the authority of the peasant.

Foreign trade is quite another matter, as are most decentralization measures in the urban sector. Will enterprises be given complete authority to conduct their own foreign trade negotiations and production, as the manager of Wuhan Cotton Mill Number 4 hopes? My answer is no. Without wholesale dismantling of the foreign trade structure, the point of contention between new responsibility and existing authority is the provincial level foreign trade corporations and the provincial

foreign trade departments of which they are a part.

Similarly, in domestic commerce, will enterprises be given complete authority to run their own affairs as they see fit? My answer is no: the point of contention between this responsibility and authority is, again without a wholesale reassembly of the administrative structure, the provincial level commercial and industrial bureaus and the provincial economic and planning commissions to which they answer.

In sum, China may or may not be decentralized depending on whom you talk to. To provincial governors, the 1980s appear an era of decentralization. To enterprise managers, China in the 80s is still centralized, only the locus of power above the enterprise has shifted.

BUREAUCRATIC POLITICS

So far, we have sought to locate power holders by focusing on the organizations in which they derive their status and authority. We are now led to the next obvious question: how is that power used? Downs[74] showed how power is used in western organizations. This prompts a discussion of bureaucratic politics as it is played in China. This too needs to be disaggregated.

A bureaucratic politics model, as described by Allison[75] includes the following seven points:

1. Governmental decisions and actions are political outcomes which result from compromise, coalition, competition and confusion among government officials. National behavior, then, is the outcome of games among various players.

2. The players are individuals, people in their jobs. Positions define what players may and must do. Answers to policy questions "are colored by the position from which the questions are considered," or, put another way, "where you stand (on any issue) depends on where you sit."

3. Games are played for stakes. "Outcomes advance and impede each player's conception of the national interests, specific programs..., the welfare of his friends and his personal interests."

4. Ability to play successfully depends on a player's power. Power is effective influence on policy outcomes. It has three elements:

   a. Bargaining advantages.
   b. Skill and will in using those advantages.
   c. Other players' perceptions of your advantages and how you use them.

5. Players focus on many problems simultaneously and are under pressure of deadlines in several different games.

6. Bargaining games are played within regularized channels of activity.

7. In a context of shared power and separate judgements concerning important choices, politics becomes the "mechanism of choice." Thus players must consider the environment in which the game is played, the pace of the game, the structure of the game, the rule of the game, and the rewards of the game.

Can this model be applied to China? Pye thinks not. He claims that both organizational politics and bureaucratic politics are suppressed in the Chinese polity.[76] To Pye, organizational politics are "power conflicts that can flow from clashes in the institutional interests of different organizations with their separate goals and responsibilities." By bureaucratic politics he "impl[ies] the much more personal games in which individuals strive to advance their own interests by playing off superiors and subordinates not only in their particular chain of command, but also in other hierarchies."[77] Allison put it differently:

> The name of the game is bureaucratic politics: bargaining along regularized channels among players positioned hierarchically within the government. Government behavior can thus be understood...as outcomes of bargaining games....[78]

For Pye, organizational and bureaucratic politics are stiffled for several reasons. These are: the Chinese cultural need to maintain consensus within politics and the consequent relegation of policy issues to second place behind questions of legitimacy and propriety; the lack of specialization and long-term institutional identification or interests of top bureaucrats; the desire to avoid close policy scrutiny because communist regimes, using Marxism-Leninism, base their ideological legitimacy, in part, on control of the present and future; and the structural and procedural point that communications among subordinates in different sectors is forbidden, with inter-departmental coordination being done only at the top.

Any policy initiatives, therefore, are pushed upward along organizational hierarchies. But because the very top leaders do not have their political roots in specific institutions (the number of vice premiers is always less than the number of ministries), Pye says, even at this point policy initiatives are suppressed.

> The result ...is that the vice-premiers seek to suppress excessive enthusiasm for particular bureaucratic policies....their advocacy of particular policies is dampened by their ...desire to prove themselves to be loyal champions of the collective interest of the Center rather than pesky advocates of special interests.[79]

Pye's points that political consensus is important and that power factions can coalesce for reasons other than policy disputes are well taken, but his assertion that these aspects of Chinese political culture suppress organizational and bureaucratic politics does not follow. The fact Chinese deny that institutional, or organizational conflict exists so as to uphold the notion of consensus, as Pye claims, does not mean that these types of behavior do not exist. In fact, both organizational and bureaucratic politics, as defined by Pye and Allison, do exist in China. An example from Hubei Province will show this.

The annual export license planning process in Hubei, as no doubt elsewhere, begins at the county or city level and ends in Beijing. The process involves ample opportunity for such classic examples of bureaucratic politics as institutional lobbying, "pesky" advocacy of organizational interests, and padding plans with the knowledge higher levels will cut the request anyway.[80]

Here is how the planning process works. Each year the foreign trade corporations (FTCs) at the county or city level must formulate an export plan as part of their overall plan. This plan sets the amount of goods each enterprise in that FTC's jurisdiction can manufacture for export. The foreign trade bureau at the county or city

level examines all its FTC plans and includes them in its general export plan for that jurisdiction. In general, FTCs always want to export more and they argue with the county or city about who gets to export how much.

When the county/city bureau makes its general plan, the FTC portions are sent to the appropriate provincial-level FTC. This level examines all the county/city export plans.

> Again, quarreling goes on, only this time it is between counties and cities and provincial level FTC. Often someone goes to this branch and taps the table and asks why aren't you giving me more, or why are you cutting me down. They quarrel over the phone too but actually they go in person or work through the county or city office [located] in Wuhan.[81]

After the provincial FTC examines all its county/city plans, it makes a general plan which then travels two paths. First, the provincial FTC export plan goes to the Hubei Province Foreign Economic Relations and Trade Department (HPFERT), which considers all provincial FTC plans in making its own annual trade plan that is forwarded to the Hubei Province Planning and Economic commissions. On this path, the provincial export plan becomes part of the overall annual provincial plan.

Only after HPFERT approves an FTC's export plan can it travel the second path to FTC headquarters in Beijing, an important point in comparing the relative power of _kuai-kuai_ and _tiao-tiao_ leadership. Often, the provincial FTC manager and the manager of HPFERTs planning division go to Beijing for meetings as all provincial FTCs meet at their central headquarters to present their plans and formulate a national plan. These plans are then included in the annual plan made by the Ministry of Foreign Economic Relations and Trade (MoFERT). Finally, the provincial plan and MoFERT's plan meet in the State Planning Commission, where any differences need to be rectified.

Each step along the way provides opportunities for lobbying, or what my Chinese source referred to as struggle sessions. And at each step along the way, it is expected, he said, that requested resources, whether it be export licenses, raw materials, personnel or funds, will be cut by the next highest level.

> This quarreling [lobbying] is very interesting. The lower levels often ask for more than they know they'll get. Because they need time to quarrel, the planning process goes on for a long time. Sometimes, the Hubei Provincial government leader asks an FTC to give a certain county or city a greater share of exports and the FTC has to listen to this. That adds to the quarreling among the lower levels.

> This is where politics and economics merge in our socialist system. This procedure is political as well as economic.[82]

Clearly, lobbying the next highest planning agency, as well as going around them to some political connection, is common in the foreign trade planning process. The success of one level in getting what it wants in this process depends upon the lobbying strategy and tactics used plus the political connections that might be brought to bear on the planning agency in question. This is repeated each step of the way, from the county or city level through provincial government to the national government in Beijing. It is safe to assume similar activities occur in other sectoral planning processes as well.

With this example, we can now comment on whether Allison's seven-point bureaucratic politics model can be applied to China.

1. In China, decisions pertaining to export licenses are clearly the result of competition and compromise among officials in the foreign trade sector. They are also the result of coalitions between county or city officials and provincial officials who use their political clout to

force provincial FTCs to play favorites. Too, decisions are made sometimes despite what higher authorities might say.

> While general policy is made in Beijing [tiao-tiao], sometimes local leaders' work is policy. We call this tu zhengce or local policy, or xiuxi zhengce, or shirt sleeve policy. This is spoken and never written. For example, Beijing tells a locality to cease certain exports while local leaders tell them [the locality] to continue those exports.[83]

2. The above also pertains to Allison's second point: answers to policy questions "are colored by the position from which the questions are considered." Clearly, a county or city trade official will listen closely to a provincial official because the two deal directly with one another more often than with some distant bureaucrat in Beijing.

3. In China, the stakes of bureaucratic games are quite high. While leaders at the very top of organizations are typically generalists with little inherent institutional identifications other than to the Party, as Pye states, (with the exception of the military), those at the middle and lower levels often spend a lifetime with the same unit. Thus, while the top leaders in China, i.e. Deng, Zhao Ziyang, Hu Yaobang, Hu Qili, Chen Yun, Deng Liqun, etc., are playing political games of their own, those

below, where day-to-day policies are or are not implemented, play bureaucratic games because they identify their own interests with that of their unit. And the unit is very important to Chinese as the source of job, housing, education, welfare, health care and recreation. Why else would a county-level FTC official incur the risks inherent in the Chinese political system by actively lobbying his units' case, by padding requests or by calling in political connections to pressure planners to give in?

Thus, what Robert Presthus had to say about the psychology of complex organizations holds for China as well:

> The group character of organization may be clearer when considered from the perspective of individuals. They usually perform a specific task in a group of specialists, organized in a hierarchy not unlike that of the larger organization. For individuals, this subunit often becomes _the_ organization, since their work and their life chances are bound up with it. They may develop considerable loyalty to it, regarding other groups as competitors. They will probably form close personal ties with some of their fellow workers, and they will certainly evaluate their colleagues in terms of their technical skill and personal attributes [emphasis added].[84]

4. There is no question that in China, as elsewhere, power can affect policy implementation and thus policy outcomes. As Pye correctly points out, status implies power. Thus the unspoken "shirt sleeve policies" of top local leaders cannot be ignored no matter how it might contradict orders from the Center.

5. Simultaneously playing several different bureaucratic games is perhaps more telling in China where the planning and reporting systems and multitude of controlling agencies require constant vigilance. For example, an enterprise manager in a county may be dealing with his/her local FTC in planning export production, but as well must incorporate this into overall production plans with the local industrial bureau. This multi-faceted bureaucracy, in an era of constant change and reform, prompts a picture of Chinese bureaucrats as Alices-in-Wonderland: just when they think they have settled all their problems, the Cheshire Cat smiles and they must go scrambling for solutions again.

6. The planning process alone dictates that Chinese bureaucrats must bargain within regularized channels of activity, the functional systems, or _xitong_, to which they belong. A good point for future research is whether bargaining occurs across _xitong_ at the local level, for example, between FTCs or provincial trade offices and

provincial industrial bureaus over an enterprise's share of export production.

7. In China, where most aspects of life have a political element, bureaucratic players must consider the environment in which they play the game. Pye cited Zhou Peiyuan as ineffective in championing educational interests because he went with the prevailing political winds in the 1950s, 1960s and 1970s. Zhou's actions were done for survival, political and physical, not out of any a priori desire to suppress bureaucratic interests, as Pye suggests. Also, we cannot judge his effectivenmess at championing educational interests because we do not know what might have happened to education had he not been present. His actions during the Cultural Revolution may have kept the damage far less severe than might otherwise have been the case.[85]

Thus, Chinese bureaucratic players know the pace, rules and rewards of the game, which are much different than those of the bureaucratic games played elsewhere. But playing at a different pace, with different rules and rewards does not mean the game of bureaucratic politics is not being played.

We are now ready to take a closer look at the issue of decentralization over the course of Chinese history, especially repeated efforts by the People's Republic to decentralize so as to spur economic development. We will see that these efforts bring into play a variety of destabilizing phenomena that pose a threat to any regime, or dynasty, in China. By examining these destablizing phenomena we get a clearer picture of the dynamics at work in China's efforts to find the appropriate balance between Center and region. Once that is done, we can apply the tiao-kuai model to the foreign trade system in China and Hubei Province to determine how successful China has been in efforts to develop economically through systemic reform, and what the prospects are for full implementation of that reform.

ENDNOTES Chapter II

1. These categories are not mutually exclusive, but provide a structure for discussing previous scholarship on the decentralization/centralization issue.

2. Alan P. L. Liu, How China is Ruled, (Englewood Cliffs, N. J.: Prentice Hall, 1986), 8.

3. Ibid., 9.

4. James Madison, The Federalist Papers, No. 10, (New York: Mentor Books, 1961), 77.

5. Henry Ehrmann, Politics in France, 3d ed., (Boston: Little, Brown & Co., 1976), 292.

6. President Georges Pompidou quoted in Ehrmann, ibid., 294.

7. Robert Hardgrave, Jr., India Under Pressure, (Boulder: Westview Press, 1984), 25.

8. Robert Hardgrave, Jr., India, 3d ed., (New York: Harcourt Brace Jovanovich, Inc., 1980), 87.

9. Reinhard Bendix; Kings Or People, (Berkeley: University of California Press, 1978), 4.

10. Pao chia was an interlocking system of 1,000 households whereby deviant behavior among a group of 10 households (pai) was reported to a chia (10 pai) and then to the pao (10 chia). Similarly, Li chia was a system of tax collection whereby one household in 10 collected taxes and paid it to its chia.

11. Gilbert Rozman, ed., The Modernization of China, (New York: The Free Press, 1981), 501-502.

12. Barry Richman; Industrial Society in Communist China, (New York: Random House, 1969), 445.

13. Ibid.

14. Ibid., 448.

15. For example, most Chinese newspapers on August 29, 1984 reprinted a 1963 article by the late Premier Zhou Enlai opposing bureaucratism. The reprint came as the Communist Party launched a new campaign against bureaucracy as the cause of economic and political losses. See "Fandui guanliao zhuyi," [Conbat Bureaucracy] Renmin Ribao, August 29, 1984, 1.

16. Harry Harding, Organizing China, (Stanford: Stanford University Press, 1981), 8.

17. Ibid., 9.

18. "Combating Corrosive Ideology" in Beijing Review, No. 41, (October 14, 1985): 15-16.

19. "China's Foreign Exchange Control Policies" in Beijing Review, No. 43, (October 28, 1985): 22.

20. "Jiaqiang Shehui Jilu Jiaoyu, Zengqiang Fan Fushi Nengli," [Strengthen socialist discipline and education, heighten capacity to oppose corruption] Hubei Ribao, June 9, 1982, 2.

21. "Combating Corrosive Ideology" in Beijing Review, No. 41, 16.

22. From personal observations and conversations.

23. Barry Richman, Industrial Society, 446.

24. Parris Chang, Power and Policy in China, (University Park: Pennsylvania State University Press, 1975), 47-64.

25. Ibid., 55-56.

26. Ibid., 56.

27. Dwight Perkins; "Centralization and Decentralization in Mainland China's Agriculture, 1949-62," The Quarterly Journal of Economics, LXXVIII, No. 2, (May, 1964): 208-237.

28. Ibid., 226.

29. Ibid., 237.

30. Nicholas Lardy; "Centralization and Decentralization in China's Fiscal Management," The China Quarterly, No. 61 (March 1975), 24-60.

31. Ibid., 26.

32. Ibid.

33. Ibid., 38.

34. Ibid., 39.

35. Ibid., 59.

36. Ibid., 60.

37. Barry Naughton; "The Decline of Central Control Over Investment in Post-Mao China", in David M. Lampton, ed., Policy Implementation in Post-Mao China, (Berkeley: University of California Press, 1987) and Audrey Donnithorne, Centre-Provincial Economic Relations in China, (Canberra: Contemporary China Centre, Australian National University, 1981).

38. Victor Falkenheim, Provincial Administration in Fukien: 1949-1966, unpublished dissertation, Columbia University, New York, 1972.

39. Ibid., 142.

40. Ibid., 162-165.

41. Ibid., 163.

42. Richman, Industrial Society, 448.

43. Ibid.

44. Ibid.

45. Schurmann called the latter Decentralization I and the former Decentralization II. I will continue to use these labels. See Franz Schurmann, Ideology and Organization in Communist China, (Berkeley: University of California Press, 1968), 175-176.

46. Chang, Power and Policy, 63.

47. Among those purged were Zhejiang Governor Sha Wenhan, Shandong Governor Zhao Qianmin, Gansu Vice-governor Sun Tianzai and Guangdong Party secretaries Gu Dazun and Feng Paichu. Frederick C. Teiwes, Politics and Purges in China, (New York: M. E. Sharp, 1979), 366.

48. Interview File A, Interview Number 12, Novermber 4, 1984, Wuhan.

49. Schurmann, Ideology and Organization, 193.

50. Chang, Power and Policy, 63.

51. Schurmann, Ideology and Organization, 210.

52. Ibid., 209.

53. Harding, Organizing China, 10.

54. FBIS 12 March 1979, E8.

55. "Many localities have combined the experiment with the reorganization of industrial enterprises" in FBIS 14 April 1980, L6.

56. They were: "Some regulations to Expand the State-run Industrial Enterprises' Administrative Authority," "Regulations on the Percentage of Profits Allowed to be Retained by the State-run Enterprises," "Tentative Regulations on Raising the Depreciation Rate of the State-run Industrial Enterprises' Fixed Assets and Improving the Methods of Spending the Depreciation Charge," "Tentative Regulations on Levying Taxes on Fixed Assets of the State-run Industrial Enterprises," and "Tentative Regulations on Extending Full Credit to the Circulating Fund of the State-run Industrial Enterprises" in FBIS 30 July 1979, L5.

57. Ibid.

58. Lin Zili; "Initial Reform in Economic Structure" in Beijing Review, No. 22, (June 2, 1980): 16.

59. "Self-Management Enlivens Enterprises" in Beijing Review, No. 12, (February 24, 1980): 25.

60. FBIS 14 April 1980, L6.

61. FBIS 22 July 1980, L9.

62. Ibid.

63. *FBIS* 9 September 1980, L27.

64. *FBIS* 22 August 1980, Q1.

65. *FBIS* 18 September 1980, Q1.

66. David Zweig; "Context and Content in Policy Implementation: Household Contracts and Decollectivization, 1977-1983" in Lampton, *Policy Implementation*.

67. *FBIS* 14 April 1980, L6.

68. Ibid.

69. Ibid.

70. *FBIS* 14 December 1979, P6.

71. *FBIS* 20 March 1981, L18.

72. *FBIS* 18 March 1980, R2.

73. Zweig, "Context and Content" in Lampton, *Policy Implementation*.

74. Anthony Downs, *Inside Bureaucracy*, (Boston: Little, Brown & Co., 1967).

75. Graham T. Allison: "Bureaucratic Politics" in ed. Francis E. Rourke, *Bureaucratic Power in National Politics*, 2d ed., (Boston: Little, Brown & Co., 1972), 223-240.

76. Lucian Pye, *The Dynamics of Chinese Politics*, (Cambridge: Oelgeschlager, Gunn & Hain, 1982), 77-96.

77. Ibid., 83.

78. Allison, "Bureaucratic Politics" in Rourke, *Bureaucratic Power*, 223.

79. Pye, *Dynamics*, 84.

80. This discussion of the foreign trade planning process is based on Interview file A., Interview Number 18, December 11, 1984, Wuhan.

81. Ibid.

82. Ibid.

83. Interview file A, Interview Number 9, October 21, 1984, Wuhan.

84. Robert Presthus, _The Organizational Society_, revised edition, (New York: St. Martin's Press, 1978), 136.

85. Pye, _Dynamics_, 80.

Chapter III

BREAKDOWN OF ORGANIZATION

It is a commonly-held notion in China and the west that decentralized decision-making power is required to spur economic growth. Over-centralized systems, especially socialist systems, tend to stagnate.[1] Thus the decentralizing economic reforms of post-Mao China, and the glasnost reforms of Gorbachev's Soviet Union, are welcomed by the West as signs that the political stridency of these Marxist-Leninist systems is giving way to the logic of the market place.

These efforts at reform are meeting the same resistance posed by the dilemma facing all Communist regimes: granting economic decision-making power to economic actors, e.g. enterprise managers, means a loss of control over this activity by local governments and Party committees. Thus reform policies are not uniformly implemented by those charged with putting them into effect: the local government and Party committees.

As this and the two succeeding chapters show, decentralized decision-making power in China may not be the best avenue toward economic development because resistance to reform on the part of kuai-kuai authorities,

who are afraid of losing power, is quite high.

As well, this dilemma facing Communist China is not unique to this particular Chinese regime. It is a recurring phenomenon, albeit in different structural manifestations, of the same dilemma all Chinese regimes have faced. As this and the next chapter show, each Chinese dynasty has had to grapple with the issue of the appropriate balance of power between Center and region. The inability of Chinese political culture to institutionalize political conflict has played a major role in creating the dynastic cycle that so marks Chinese history: one dynasty gives way to another, typically by force of arms. Despite Mao's efforts to revolutionize Chinese society and political culture, the regime he helped establish only exacerbates this recurring Chinese problem.

A review of the many shifts in the balance of power between Center and region reveals three recurring destabilizing phenomena that help push Chinese dynasties into the pages of history. These interrelated and destabilizing phenomena are the rise of competitors for power, the rise of regionalism and localist ties, and the breakdown of administrative organization. Competitors for power may be local military commanders, wealthy families and merchants, or the bureaucracy, all of whom might

challenge, individually or collectively, the Center's claim to authority. Regionalism is both a cause and result of the rise of these competitors for power. Lampton's work on elite mobility in China shows that one of the most enduring strategies used to attain political power in China is development and use of a regional power base. Of six subjects in his study, three had strong regional power bases.[2]

In each of China's dynasties, the Center has pursued policies that have led to the rise of these competitors. These policies usually involve central efforts to spur economic growth or, ironically, to enhance central control over the many facets of Chinese political, economic or social life. The dynamics of this competition for power prompt a variety of events that ultimately cause a breakdown of administrative organization. These events may be major reform efforts, the uneven application of law, innumerable contradictory regulations leading to confusion or the proliferation of political vices such as waste and corruption, or, as in the 19th Century, a growing foreign presence in China's economic and social milieu.

The historical role of these phenomena merit consideration as the People's Republic of China pushes reform of its administrative system and economy, thereby

stretching the ideological tenets that have held the Communist regime together since 1949.

Central government policies, however well-intentioned, often lead to the rise of any or all of these destablizing phenomena. When this occurs, the regime becomes highly susceptible to the dangers brought on by continued economic changes and dislocations, foreign intervention or threats, or other social changes. The discontent so created prompts challenges to power-holders and, eventually, the collapse of one regime and the creation of another.

The success of the new regime depends entirely on its ability to halt these phenomena and institute stabilizing phenomena that give it time to develop. Such short-lived dynasties as the Wei (220-265), Sui (581-618), Liang (907-923), Zhou (951-960) or the Republic (1911-1949) were unable to do so. Longer-lasting dynasties such as the Han (206 B.C.--220 A. D.), Tang (618-907), Song (960-1126), Ming (1368-1644) and Qing (1644-1911) were.

Stabilizing resources in Chinese history include superior military strength needed to come to power (no regime has come to power in China without the use of force), political cohesion necessary to avoid challenges to central power, and finally, administrative organization involving centralized, autocratic institutions, a strong

unified civil service, and a separation of power and field of competence within the bureaucracy.

Both the destabilizing and stabilizing phenomena found in China's long history are outlined in tables 3.1 and 3.2.

TABLE 3.1

DESTABILIZING PHENOMENA

A. Rise of Competitors

1. Military commanders.
2. Wealthy families and merchants.
3. Bureaucracy as an autonomous actor.

B. Rise of Regionalism

C. Breakdown of Administrative Organization
    1. Major reforms prompting conflict.
    2. Uneven application of the law.
    3. Innumerable contradictory regulations.
    4. Vices such as waste and corruption.

TABLE 3.2

STABILIZING PHENOMENA

A. Military Strength

B. Political Cohesion

C. Administrative Organization and Practices

    1. Centralized, autocratic institutions.
    2. Creation of a strong civil service.
    3. Separation of powers and fields of competence in that civil service.

Destabilizing and stabilizing phenomena arise because of many factors, but the degree to which central governments in China decentralize power to lower levels or centralize power unto themselves appears crucial. The very need to govern an expansive territory requires some degree of decentralization. But, as explained in Chapter II, there has been, in each Chinese dynasty, a gradual trend toward decentralization of power which ultimately has not been overcome by the Center without a change of regime.

This chapter is organized into two parts. Part One examines the issue of regionalism in China. This phenomenon is very much alive in China despite major and protracted efforts by the Communist Party to create an overriding sense of Chinese national cohesion. Part Two examines the destabilizing and stabilizing phenomena throughout Chinese history, beginning with the first unification of Chinese regions by the Qin Dynasty in 221 B.C. through the Qing Dynasty that ended in 1911. Chapter 4 examines these phenomena since 1911, focusing on the role decentralization has played in 20th century Chinese affairs. Important here are efforts by the Communist regime to offset destabilizing phenomena by instituting stabilizing measures through periodic attempts at centralization. In both chapters I draw parallels between

events in the People's Republic and regimes past.

This discussion provides an historical and, I think, a politically-cultural perspective that permits greater understanding of the dynamics of China's economic reforms since 1979, the topic of Chapter 5.

REGIONALISM IN CHINA

China is a vast country and, as such, regional distinctions carry considerable importance. These differences usually involve geographical and cultural aspects of Chinese life such as climate, terrain, diet, language dialect, and social custom. At times, they can involve important political questions of local and national cohesion and stability. There is nothing particularly unusual about this for a nation that is about 3.7 million square miles, slightly larger than the United States.

Many of the regional differences in China are well known: Mandarin versus Cantonese, for example, or Sichuan cooking versus northern cooking. But regionalism runs much deeper. China's long history has allowed development of an entire lexicon of regional stereotypes that serve to underscore the importance of one's home area. These stereotypes were important enough for the early Manchu

emperor Kangxi (1661-1722) to take the time to write:

> Sometimes I have stated that the people of a certain province have certain bad characteristics--thus the men of Fujian are turbulent and love acts of daring--even their scholars use shield and sword; while the people of Shanxi are tough and cruel; they love feuding and killing, their practices are truely repugnant. Shandong men are stubborn in a bad way; they always have to be first, they nurse their hatred, they seem to value life lightly, and a lot of them become robbers...whereas the people of Shanxi are so stingy that they won't even care for the aged in their families; if a stranger comes to them they won't give him a meal, but they'll encourage him to drink and gamble and lead him into wild expenditures. And since the Jiangsu people are both prosperous and immoral ...I was not surprised to learn that the rich merchants I had heard about in Jiangsu were mostly from Shanxi.[3]

There are many other examples, such as the fiery Hunanese, the rats of Sichuan or the deceitful people of Hubei. "In heaven there is the nine-headed dragon. On earth there is the man from Hubei."[4]

Traditional China used administrative means to keep regionalism in check. These included control of provincial budgets by the Center, periodic transfers of regional officials, and a stipulation that governors could not rule in their home provinces. These steps worked well until dynastic authority began to wane, when they were

either ignored by the Center or defied by the region, at which point regional power began to assert itself.

The development of regionalisms into stereotypes takes a long time and the Chinese have had centuries with which to cultivate them. Usually, these regionalist stereotypes pose no threat to the nation, although they can threaten individual politicians, even in the People's Republic. For example, one of the stronger first party secretaries in the post-Mao era was Chen Pixian, the former mayor of Shanghai who ran Hubei Province from 1977 to 1982. After his departure from Hubei to the Party Secretariat in Beijing, several provincial government and Party officials in the foreign affairs office and foreign trade apparatus were criticized for "being too closely identified with an outsider." The severity of this charge is underscored by the fact that one of those so criticized is very close to China's President Li Xiannian, a Hubei native and former Wuhan mayor. This personal association could not prevent, although it may have dampened, the criticism.

> These [criticized] officials kept quiet a long time, even though they are all from Hubei or have been in Hubei for many many years. To Hubei leaders, Chen was not well liked. He tended to take too much credit for himself. Regionalism is very much alive in our country. Once Chen left, Hubei was run by Hubei people and we were happier.[5]

At other times in Chinese history, when central power was weak and crises abounded, regionalism became politicized and plunged the nation into policy disputes or civil war.

Despite this, with the exception of Tibet, some inner Asian areas and perhaps Taiwan in the future, the regions of China have never sought to develop any kind of micro-nationalism. In the absence of strong central authority, regional or provincial leaders have sought to fill the void by grabbing power for themselves. There was never any question that they would remain part of the larger nation, China.

> Absolute regional separation was unknown, secession from China unthinkable....The sense of China as a single entity never lost its potency, even among the holders of regional power.[6]

Regionalism typically means provinces, a fact made easy as they are characterized "by their geographical, political, sociological and economic cohesion." They typically are determined by fluvial basins with a central plain surrounded by mountains or hills that act as a watershed.[7]

While provinces have been the major unit for discussing regionalism in China, historian Diana Lary identifies three other levels that come into play, depending on external circumstances. These are multi-provincial regions, intra-provincial regions and border-zone regions.[8] The loyalties inherent in the four types of regions she defines appear antagonistic but are not.

> Each comes into operation in a specific context, usually externally defined. They are part of a ladder of loyalties, starting with the family and working up to the nation; any one can be called into play, as political regionalism, when a larger situation demands it; when the state is losing authority, large regionalism becomes important; when the state has collapsed, provincial regionalism is important; when two provinces are fighting, border-zone regionalism emerges; when a province itself is disturbed, intra-provincial regionalism exerts itself. In all these extreme situations, existing loyalties are brought into play, for self-protection, as a retreat from confusion to the security of the known group. Regionalism responds to situations; the external situation decided which form is called for, not

the regionalism itself.[9]

There are two reasons why a brief history of regionalism is important for understanding today's China. First, the many periods of regional conflict have caused "a paradox of exaggeration" in Chinese culture regarding regionalism and politics. According to Pye:

> The Chinese have long recognized the instinct of men to identify with their own territory, and they therefore deny any moral virtues to geographical interests to such an extreme degree that they cannot admit the legitimacy of the self-interest of one place over another.[10]

The second reason for understanding the importance of regionalism flows from the first. From 1949 through 1978, the People's Republic pursued a policy of equal development for all provinces, ignoring the relevance of the marginal utility or comparative advantage of each province's economic base, something which no doubt has had a large hand in China's haphazard economic development since the PRC's founding.

Since 1979, however, China has pursued economic development policies which take advantage of the differences between provincial economies. While this has spurred economic growth, it also has prompted development of regional inequality. Again Pye:

> The current program of the Four Modernizations involves a complete reversal of the previous emphasis upon equality, and therefore legitimacy will be increasingly given to regional differences; and, to the degree that the modernization policies are successful, the need to acknowledge the significance of geographical differences in national policies will become more intense.[11]

This calls into question the legitimacy of Communist ideology, which promoted a less successful economic model for 30 years.[12]

Strains of renewed regionalism, in the form of provincial economic blockades,[13] competition for revenue and foreign trade,[14] jealousy of coastal provinces on the part of inland provinces,[15] or dislike of "outside" cadres, have already occurred. How the Communist central government handles such strains becomes a key issue in whether it can hold power at the Center or whether it permits power to slip into China's various regions and provinces, thereby, perhaps, pushing the regime toward a new period of "dynastic weakness."

To better understand the role decentralization and the destabilizing phenomena that come with it can play in the People's Republic, it is useful to look at the role such phenomena have played in Chinese history.

DECENTRALIZATION IN HISTORY

This discussion is by no means a thorough review of the many factors which have shaped Chinese history. The reasons why one dynasty has fallen and another risens have been many and complex. These factors all interact to produce the events that push history onward. My aim here is to focus on the destablizing phenomena, prompted in part by specific decentralization policies of the central government, that pull China apart, and the stabilizing phenomena that serve to unite China, again prompted by specific centralization policies of the central government.

Much of this discussion, then, focuses on the transition from one dynasty, or regime, to another. There is an historical pattern in this. Long periods of political disunity (the Warring States period, the six dynasties, the late Qing) are followed by short-lived dynasties (the Qin, Sui, the Five Dynasties, and Republican China) which attempt to govern China but which lack the administrative capabilities to ensure the regime's continuity. They are typically followed by long-lasting dynasties (the Han, Tang and Song) which build on the administrative organization of their immediate predecessors. The question for the late 20th century is

whether this historical pattern will continue as the People's Republic attempts major administrative reforms designed to carry China into the next century.

I begin this historical discussion with the transition from the Warring States Period to the Qin Dynasty.

QIN

For about 230 years prior to unification into a centralized state, China was beset by a series of wars between rival states, giving the 453-221 B.C. era the name Warring States Period. This era was characterized by the existence of wealthy, aristocratic landlords and gentry in the various states, all strong enough to keep any central government from attaining full operational authority. They were, in brief, competitors for power who had to be dealt with if a strong central power was to be created.

The apparent downfall of these competitors for power came about because of natural developments in the economy and central policy that gradually removed them from the scene. This did not happen quickly. Gernet identifies a key administrative change, the xian, that first appeared in 688 B.C. Ultimately it would remove territories from the hands of the aristocracy, putting them under the

Center's control.

> ...what distinguishes the (*xian*) ...from the villages of the older type, namely the fact that it was conquered territory, was later to provide the key to a radical transformation of territorial powers: when the head of the kingdom broke free from ...the great families by relying on the minor nobility, the newly conquered territories were preserved from the traditional appropriation by the upper ranks of the nobility and kept directly dependent on the central power.[16]

When later Qin princes were able to remove the leading aristocrats from competition for power, the *xian* system became the model for administration of all of China by representatives of the Center. The number of this type of administrative district increased as more land was cleared and settled. Finally, the "great families" were removed from contention for power by a combination of commercial developments that ruined their monopoly over economic power, by their inability to cooperate, and by central policies of forced migration, removal from office, or slaughter by Qin princes.[17]

Qin Shihuangdi, the first Qin emperor, could then come to power by defeating rival princes in battle with superior military strength, the ultimate stabilizing phenomena that permitted unification.

Under his rule, a series of administrative reforms that enhanced centralized, autocratic administrative institutions and procedures were instituted. These included creation of a single copper coin throughout the land, unified measures of length and capacity, a standardized writing system, standardized gauge of cart wheels, removal of walls earlier kingdoms had erected, and development of a communications and transportation network with the construction of roads, canals, and other big public works such as the Great Wall.[18]

His success in unifying China under a central power was long lasting. His success in making that central power the Qin Dynasty far less so. Within the new dynasty were the seeds of its imminent demise. First, the country was divided into 36, then 48 commanderies, many of which were quite far from the Center's capital at Xianyang. When Qin Shihuangdi died in 209 B.C., a series of popular rebellions, prompted by his harsh rule, allowed the more distant commanderies to break away from the empire. The regionalist tendencies of the Warring States Period had not been entirely eliminated.[19]

Second, Qin Shihuangdi abused his new power, giving rise to popular discontent that could be harnessed by his old and new competitors, the nobility and regional military commanders, in the insurrections of 209-206 B.C.

Thus began a process that would be repeated in the 1950s and into the post-Mao period: administration had to be entrusted to competitors within the Communist Party, such as Gao Gang and Rao Shushi, and former nationalist government officials who were not always as politically cohesive as they were in the founding of a new dynasty or in establishing new leadership. Also, discontent with policies may lead to the resurgence of enemies thought vanquished or the emergence of new enemies from within the political elite.[20]

HAN

The new dynasty, founded in 206 B.C. by Liu Peng, inherited a centralized, legalist state upon which it would build. The new dynasty's laws, administrative divisions and the functional divisions at Center and province remained the same despite the change.[21]

Two stabilizing phenomena, military power and political cohesion, allowed the administrative organization of the Qin to carry over into the Han and actually to work. To make it work necessitated removing those who continued to pose a threat to the Center. Thus the Han struck a bargain with those who helped bring the Dynasty to power. The "direct control of peoples and individuals by the state" was most seriously threatened

where the aristocracy, which had helped to overthrown the Qin, still held power. Here the Center had to come to terms with this source of regionalism.

> This sheds light on one of the main reasons for transfers of population: it was in the state's interest to move influential families ...in order to rob them of all power. Similarly, it was also in the state's interest to extend the areas of land clearance and colonization, for it is easier to keep in hand a population consisting of displaced persons....[22]

To accomplish this, the Center was forced to grant to its allies relative freedom in administering the areas under their control, something Qin Shihuangdi did not wish to do. Gernet states that, at the beginning of the Dynasty, almost two-thirds of the commanderies were under the control of the emperor's allies.[23] Following a series of military victories over rebellious fiefs, emperor Wu Di (140-87 B.C.) demanded that the title and possessions of the nobility no longer be passed on to a single heir but that it be divided equally among all sons. This led to the ultimate breakdown of regional power in the fiefs and the internal centralization of the dynasty.[24] Where the Qin failed in eliminating this threat to its power, the Han rulers were able, in the course of the second century B.C., to do so, thereby allowing the dynasty to last much longer.

Centralization by elimination of competitors for power no doubt had much to do with Han success in expanding across China and Asia. The expansion of China's economy also had much to do with Han success, but, ironically, it is the upsurge in China's economy throughout most of the Han that unleashed the factors which would eventually topple the regime.

Two destabilizing phenomena are at work here, the rise of new competitors for power and the persistence of regionalism. In an effort to accommodate economic expansion, the Center, despite worries to the contrary, began gradually to decentralize its tight control over the growing private sector during and after the first century B.C. This aided the rise of new wealthy provincial families who would ultimately usurp power from the Center.[25] It was this class of rich provincial families that supplied the Center with its administrative personnel. Their growing political power stemmed from their growing economic power, which was based on agriculture plus growing industrial and commercial activity.

The rise of this mercantile class had not gone unnoticed. Reaction against them varies, including a view that their activities led to a maladjusted society,[26] a complaint not dissimilar to charges that economic reform

of the 1980s, designed to free-up enterprises and economic activity from the contraints of governmental administration, leads to "capitalist decadence and corrosive social mores" and to "spiritual pollution."

> Mercantile activities, by inciting people to useless expenditure, distracted them from the activities fundamental and indispensable to the survival of the state,...the damage caused by the merchants and craftsmen was simultaneously social, political and economic. The vigour and vitality of Han China were ...based on ...technical progress ...and on ...expansion in production of cereals, iron, salt and cloth. To abandon these sources of wealth to the merchants, or to leave them in exclusive control of them, seemed like accepting the decline and disintegration of the empire. Peace and unity were only possible if the political power could control and share out the principal resources.[27]

Throughout the Former Han (206B.C.--9 A.D.) there were efforts to control this new class. In 199 B.C. merchants were forced to conceal their wealth by being forbidden to wear silk, ride horses or carry arms. In 119 B.C., the state turned to the merchants to solve a growing fiscal crisis by taxing boats and carts and monopolizing salt and iron. In 98 B.C. a monopoly on alcohol was added.[28]

These efforts were, perhaps, more form than substance. Yu states that many of the legal restrictions on merchants were either ignored by the government or defied by society, problems of implementation similar to those in the People's Republic in the 1980s.

> Not only were the general economic conditions conducive to the growth of trade, but the law itself was no sooner established than it was relaxed. Evidence ...shows that in spite of such a policy, trade, both domestic and foreign, never ceased to grow. ...Legal restrictions on the merchant class were ...loosened after the death of Emperor Kao-tsu and ...were actually defied by the early Han society.[29]

The 400-year rule of the Han is interrupted by the 14-year reign of Wang Ming (9-23 A.D.), whose rise through a series of palace plots and founding of the Xin Dynasty was aided by the continual concentration of land in the hands of fewer and fewer rich men, a factor promoting social tension in the countryside. In a "mania for reform," as Gernet calls it, Wang Ming attempted several radical changes, such as confiscation of land and new currencies. But he neglected to redistribute the land and the changes in the currency caused considerable havoc. The former left Wang Ming's potential detractors in control of their wealth while the latter provided the popular discontent needed to stage a rebellion. In 23

A.D. Wang Ming was killed, allowing the restoration of the Han Dynasty.

The Later Han (23-220 A.D.) was unable to centralize power as effectively as the former Han emperors had done. To come to power and remain in power, the new emperors had to rely on the political elements which sacked Wang Ming, rich and powerful merchant families as well as the landed gentry.[30] Indeed, Emperor Guang Wu Di (25-57) was a big provincial land owner himself. He and his successors were forced by political expediency to grant these groups considerable autonomy.

At the same time the provincial landed gentry were amassing political influence at Court, two other elements occurred over time that would spell doom for the Han. First, the labor force on the big estates, and thus at the disposal of the Center's competitors for power, was enlarged by an influx of uprooted peasants and former soldiers in search of land. Second, the state's control over small farmers, the basis of the Former Han's power, began to slip.[31] Power at the top and bottom, therefore, was slipping, and was being accumulated by the middle tier of the polity, the landed gentry in the provinces.

At the same time that land owners accumulated power, the merchant class also began to shake off the fetters of state control over commerce. Here, the Later Han adopted

clearly decentralized policies designed to aid domestic and foreign commerce. Whereas salt and iron officials had been agents of the central government in the Former Han, after restoration they were made officials of local governments, in effect giving the salt and iron monopolies to provinces. In China then, as today, control over fiscal resources is critical.

Yu states that no sooner had this been done, in 81 A.D., than it was regretted. Emperor He ordered this system abolished in 88 A.D., not because it enhanced private competition, but because the advantages of monopoly (tax revenue) were accruing to the provinces, not the Center.[32] The result of this finds parallels in later dynasties, including Deng Xiaoping's China.

> ...the general relaxation of controls inside the country and at the frontiers under the Second Han, and the decentralization of the monopoly system at the time [of] Kuang Wu Ti ...increased the importance of private business and smuggling. Never do foreign merchants seem to have been so numerous...and [their] presence ...probably explains why outside influences were so active under the Second Han rulers.[33]

The Later Han fell, finally, because of the breakdown of administrative organization caused by agrarian and urban economic decline, both the result of numerous

insurrections and civil wars by the dynasty's new competitors for power in the provinces. Repeated efforts by Cao Cao, leader of the kingdom of Wei, to establish a new dynasty, plunged China further into a series of civil wars that divided the nation into the three kingdoms of Wei, Shu-Han and Wu.

Cao Cao succeeded in centralizing economic activity in Wei, allowing that kingdom to achieve a measure of economic stability and growth compared to other regions of China. He did so in part with administrative reorganization of agriculture into colonies and political cohesion through elimination of potential competitors in Wei. But his inability to unify all of China under a new dynasty shows that superior military strength, which he lacked vis-a-vis Shu-Han and Wu, is the ultimate stabilizing phenomenon.[34]

The 400-year period after the fall of the Han is characterized by a succession of six ineffective "dynasties" which amounted to the repeated efforts by provincial competitors for power to assume complete authority. This they were unable to do.

SUI

The task of recentralizing authority over these warring states was made comparatively easy for the Tang by its immediate predecessor, the short-lived Sui Dynasty (581-617). Resembling the Qin Dynasty in this regard, the Sui accomplished two critical deeds. First, it ended the non-Chinese empires in north China, thereby reunifying China, a process actually begun by the Western Wei Dynasty in 553 and now carried to its logical conclusion through consolidation of the Western Wei, Northern Zhou and Chen empires in 557, 581 and 589, respectively.[35]

Second, and again resembling the Qin, the two Sui emperors began a series of big public works, the fruits of which the Tang would enjoy. These included construction of two capitals, Changan and Luoyang, additional canals, graneries, and walls and construction of a navy.[36]

But, again resembling the Qin, the Sui was short-lived because of its cruelty, excessive public works and costly military adventures beyond China's borders. These conditions prompted rebellion by General Li Yuan, who founded the Tang Dynasty in 617.[37]

TANG

The Tang Dynasty is often referred to as China's golden age, lasting from 617 to 907. The Tang was long-lived because it succeeded in instituting the stabilizing phenomena of military strength, internal political cohesion and administrative organization.

The big public works begun by the Sui were continued, enabling greater communications and economic interaction between the regions around Luoyang, Beijing and Yangtze (central) China. The canals especially would aid the Tang's economic surge of the 8th and 9th centuries and would prove instrumental in permitting the dynasty to withstand An Lushan's rebellion of 755-763.[38]

But the dynasty's longevity owes as much to its admnistrative system as to these other factors. During the Tang, the imperial bureaucracy reached greater maturity, becoming an autonomous actor in Chinese politics to vie with aristocrats, the lesser gentry and the court.[39]

This extensive civil service involved a separation of powers and fields of competence which permitted the Center to exercise greater control over those in its employ. The administration bears a striking resemblance to that of Communist China _at the central level_. A Department of

State Affairs included six ministries, public administration, finance, rites, army, justice and public works. While not so functionally differentiated as today's Chinese government, the basic organization is similar. A Council of State included the emperor, other high court officials and top civil servants, usually the heads of the above-mentioned ministries.

Two other Tang-era offices, the Chancellory and the Grand Secretariate, resemble, in function, the Communist Party _at the central level_. The former acted as a center for transmitting imperial decrees while the latter produced official texts, roles that, in reality, permitted them to exercise considerable control over policy.[40]

This organization permitted considerable centralization of power within the Central government, but the Tang emperors were unable to carry this organization too deeply into lower-levels, something the Communist Party has been able to do down to the grassroots level. While the Tang appointed its own civil servants to govern provinces, these officials had to rely on locals to implement imperial policy. There was no political organization at the local level which would ensure discipline in implementing central directives, the critical role heretofore performed by the Communist Party and the state bureaucracy down to the _xiang_ (township)

level. This inherent weakness in the traditional Chinese administrative system often allowed the growth of uneven policy implementation and the growth of regionalism.[41]

The growth of regionalism in Communist China is supposed to be checked by Party discipline throughout the hierarchy, the linchpin of the PRC's concept of dual rule. But, as we shall see in Chapter 5, this Party discipline has deteriorated, leaving no strong central administrative organization to implement policies in the various localities except provincial and local governments. When Party discipline wanes, the Center is once again put in the position of having to balance its own interests with regional interests, an ultimately destabilizing exercise. The Tang, like so many regimes before and after, had within it the seeds of destabilization: the potential for regionalism and, therefore, the rise of competitors for power.

The lack of grassroots control was evident by the considerable independence given to imperial commissioners (jie du shi) who ruled regional military districts. One of them was An Lushan, whose devastating rebellion of 755-763 pre-dated that of the Taipings by exactly 1100 years. While the causes of the rebellion are many (fiscal and commercial, especially) the immediate organizational cause is to be found in the growth of professional armies under

the command of relatively autonomous regional commanders.

> The central government appears to have forgotten that in circumstances like these a kind of natural tendency leads to the formation of professional armies inspired by their own interests and ruled by a state of mind which becomes further and further removed from that of civilians. To increase the autonomy of the armies ...may be the way to secure the means of a victorious offensive poilicy, but it is also the way to weaken the state.[42]

An Lushan's rebellion was ultimately crushed by the Tang, but the changes it brought set in motion destabilizing phenomena that would bring the regime to an end over the course of the next 100 years. Of interest here are fiscal and organizational changes. The former affected the economy and allowed governmental organizations with new power, the provinces, to achieve financial resources independent of the Center.

First, the dynasty's mainstay in tax revenue and grain were the number of small farmers granted "life" plots.[43] In the course of the 8th century, the decline in the number of these families was crucial. This system depended upon accurate censuses and land surveys. But central efforts to control this required different regulations in different areas, prompting uneven application of the law as well as abuses.

> ...the numerous derogations provided for in the regulations furnished opportunities to get around the law. ...the class of small farmers endowed with 'life' plots was beginning to break up and the falsification of census registers was becoming general.[44]

The breakup of this system was caused by two phenomena that worked together: the need of these small farmers to emigrate, either in search of new lands along the Yangtze River then opening up to rice growing and trade, or because of incursions by nomads, and the exploitation of poor farmers by wealthy landowners who began to accumulate more and more land. Both caused a major drop in the number of taxable farm families by the end of the 8th century.

This problem prompted reform of the tax system in 780, putting levies on lands and harvests rather than on families. But efforts at agricultural tax reform did not provide enough money, in part because the Center was unable to collect these as well as other taxes.[45] These taxes included reinstituted government monopolies on salt (759), alcohol (764) and tea (793), which had disappeared during the Later Han Dynasty.

These commercial levies proved beneficial to the growing merchant class who acted as government agents by collecting the taxes, a telltale sign that government control was inadequate. This new role for merchants gave them "the chance to handle large sums of capital and to increase their economic power.[46] Thus, more and more tax revenue remained in the provinces where it was collected, giving provincial governments greater freedom to resist central policies. This economic change, then, prompted organizational changes in the late Tang that saw the rise of provincial governments as independent actors.

Despite the restoration of Tang power after An Lushan's rebellion, the dynasty was never able to recapture all its authority. In fact, the rebellion, caused in large part by autonomous regional governors (jie du shi), could be put down only by granting even more authority to loyal regional governors, a phenomenon not unlike that experienced by the Qing Dynasty during the Taiping Rebellion of the 19th Century.[47]

Thus ensued more than a century of struggle between the Tang court and its loyal governors and those governors who became increasingly independent. The court used four basic strategies to defeat rebellious provinces: force, compromise and diplomacy, playing off rebellious governors against one another, and reducing the size of provinces to

weaken the governors.[48] Ultimately, each would fail.

It is important to look at the administrative relationship between the provincial governors and the court, on the one hand, and between the governors and the prefects they controlled on the other. These relationships resemble the administrative patterns that exist in the People's Republic. The gradual development of these relationships provide an analogous picture of the struggle between _tiao-tiao_ and _kuai-kuai_ forces for power and influence, both in the 9th and 20th centuries. In short, _tiao-tiao_ lines of authority, between Center and province, are reduced in number while _kuai-kuai_ lines of authority, especially the power to appoint officials, multiply. It thus becomes more difficult to resist _kuai-kuai_ authority while easier to resist _tiao-tiao_ authority.

At the end of An Lushan's rebellion, two types of provinces prevailed: those loyal to the Tang whose governors were appointed by the court, and those whose loyalty was questionable and whose governors were self-appointed.[49] The former were kept under control by the prefects and military garrison commanders being court-appointed and having a share of power, thereby forming a sort of check-and-balance between provincial governors and their nominal subordinates. The independent provinces could resist the court because prefects were appointed by

the governors and were, therefore, ineffectual in preventing greater exercise of provincial authority.

By 820, Tang emperor Xian Zong had increased the number of provinces under his control by reducing their size. By 845 the court could appoint governors to all but three provinces.

But discontented provincial army leaders, chaffing at central authority, led to the Huang Chao rebellion of 880, the final act that would bring the Tang Dynasty to an end. In an effort to gauge how the military winds might blow in the struggle between the Tang Court and Huang Chao, many governors would defect, often more than once, to ensure their survival. The Tang counterattack against Huang Chao

> was greatly aided by the defection of the 'governors' Huang Chao had appointed. His control over them had been nominal, and the governors did to him what they had earlier done to the Tang court.[50]

By 883, when the Tang court recaptured its capital at Changan, 13 governors were court-chosen, six were court-appointed and nine were self-appointed. In 880, 29 governors were court-chosen.[51]

The rebellion put speed to a process that saw power shifting from the Center to provincial governors, who increasingly came from the ranks of the military. This happened in three important ways that get at the heart of

China's present _tiao-kuai_ system.

First, court-appointed provincial government staff-members developed loyalty to their governors as the latter kept them content. While the court still appointed them, these officials

> were inclined to develop loyalty for their respective governors. Each governor depended on them for efficient administration and was careful to keep them contented. Once they were appointed, the governor would keep those officials who were efficient and recommend their reappointment. ...After some time, each governor acquired a team of administrators on whom he could depend without fear of interference from the court. The court's administrative control over the provinces was thus steadily weakened until it merely provided the governors, from time to time, with administrators chosen from some of its ablest officials.[52]

This resembles the situation in China today, where provincial government officials not only have loyalty to their provincial leaders but are actually nominated for their post by the provincial power-elite, with central appointment often a formality. For example, the top management staff of the Bank of China, Hankou branch, is not chosen by the Bank of China's central office in Beijing but by the Hubei Provincial government.[53]

Second, the Tang court lost control over the prefectures. Their powers were increasingly limited as governors appointed their own representative in the prefects and counties. These provincial appointees were backed by the local military garrisons and often were the local garrison commanders.[54]

This situation is similar to that of the dual foreign trade structure in provinces between 1979 and 1983. For example, in Hubei during this period there was the Foreign Trade Bureau, an arm of the Ministry of Foreign Trade whose staff was appointed by the Center, plus the Hubei Province Import and Export Management Committee, whose staff, all key members of the provincial government, were appointed by the Provincial Party Committee. There was little cooperation between these two organizations and the chief of the Foreign Trade Bureau complained about being closed out of the provincial management committee's activities.[55] In 1983, China's foreign trade structure was reorganized, with the Ministry of Foreign Trade becoming the Ministry of Foreign Economic Relations and Trade and the local import and export committees becoming provincial Foreign Economic Relations and Trade departments. The provincial Foreign Trade Bureau, as an independent arm of the Center, ceased to exist: its staff and duties were assumed by the new

provincial foreign economic relations and trade departments. As the director of Hubei's new foreign trade department said,

> Provincial government is playing a more important role ...in developing foreign trade corporations. These were previously in the hands of the central government but now they are controlled by locals.[56]

Third, the Tang court lost control of the provincial military. It could not support with force the suggestions of its own supervisors sent to oversee the military in the provinces. Often, these supervisors also came under the influence of the provincial governors.

Deng Xiaoping has taken steps to ensure central control over the military in various regions by depoliticizing the People's Liberation Army, cutting troop levels by 25 percent (about 1 million), reducing the number of military regions from 11 to seven, retiring various commanders whose political reliability was doubtful, and by putting into key regional posts political allies who can be counted on to support the regime.[57]

The Tang developments increased the ability of provincial governors to lobby the court for their own purposes.[58] By 907, this growing power of the governor, the waning power of the Center, and the inability of the

governors to cooperate, would end the Tang Dynasty. Its fall is seen, then, as a long-term decentralization of power prompted by the existence of destabilizing phenomena. In this case, these phenomena were the rise of competitors for power, i.e. the bureaucracy, wealthy landlords and merchants, and, especially, the military, plus the breakdown of administration and the uneven application of the law. These phenomena resulted in the rise of regionalism that ultimately tore the dynasty apart.

The inability of provincial governors to cooperate, and of any one of them to assert full control, ushered in 53 years of short-lived dynasties before the Song would reaffirm central control over all China in 960.

THE FIVE DYNASTIES

The myriad details of this short period are beyond the scope of this study, but I wish to focus on two features essential for understanding the effects economic and administrative reforms might have on the People's Republic of China. First, the various emperors had a difficult time regaining power from provinces because they had been provincial governors themselves and were dealing with former colleagues. This fact left them with two alternatives: compromise, which slowed the process of

centralization, or force, which was costly and dangerous.[59]

Second, in order to overcome this problem, there gradually developed a new ruling formula, one which redefined the jie du shi system which had undermined the Tang, and incorporated it as a mainstay of a reunified, centralized Song Dynasty. Wang's study shows that the changes wrought in the Five Dynasties period

> led to a central government which succeeded not because it rejected the chieh-tu-shih system and returned to Tang institutions but because it had incorporated the basic features of the chieh-tu-shih system itself.[60]

The rapid succession of the "dynasties" in this period, the Liang (907-923), the Later Tang (923-937), the Qin (937-946), the Han (947-950), and the Zhou (951-960) is evidence of the difficulty "emperors" had in commanding much loyalty.

From the Huang Chao rebellion (880-883) to the Song in 960, provincial governments were able to resist the Center because each had the resources--financial and military, especially military--to remain independent. They also had the support of fellow governors who had an interest in maintaining a balance of power between the provinces and in their collective relations with the

Center. The power of these competitors was finally broken by a combination of administrative reform, political guile, and the creation of new competitors to vie with the provinces but which ultimately would compete with the Center as well.

The power of the provinces to thwart centralizing efforts was broken in part by the fortuitous situation in which Tang emperor Li Ssuyuan found himself. In 926, 15 provincial governorships were vacant, allowing him to appoint relatives or loyal army officers to these posts. Another seven provinces were taken by force and new governors were appointed. In 928 four more provinces were taken by force and by 933, only four provinces were independent enough to defy central authority.[61]

Li's success prompted the decline of provincial power, gradually changing the locus of administrative power upon which the Song could build. Initially, Li granted provinces some autonomy by limiting central interference in provincial finance and abolishing the system of army supervisors, irritants that had troubled him as a provincial governor.[62] Soon, however, Li felt strong enough to issue three edicts that would pave the way for centralized government.

The first dictated that a provincial governor's staff should move with the governor when he was transferred and

should retire when he retired. This permitted the Center not only to name a new governor but his staff as well.[63]

The second was more thorough in centralizing provincial power. This edict scaled down the position of governors vis-a-vis junior governors and superior prefects, required governors to submit career details of staff nominees, allowed ordinary prefects to nominate their own staff, and called for an end to abuses of privileges.[64]

Third, the Center forbade provinces from levying additional taxes "in various forms and under many pretexts," a system, Wang says, that was the major source of provincial government revenue.[65] Thus the Center ordered counties and towns to refuse provincial, or prefectural requests for these taxes, simultaneously undercutting both local and provincial revenue sources and their authority.

Li was able to accomplish this because he had the force to back it up. He had reorganized the imperial armies and, copying the tactics of the provincial governors, created his own personal army.[66] In this way, Li Ssuyuan began the process of transferring the _jie du shi_ system to the central government level, borrowing the system that had given the provinces considerable power for his own use.[67]

The new centralized military power of emperors' personal armies thus proved essential in eliminating one enemy of the Center, the provinces, but in time it proved to be a new competitor for power itself. By 950, the imperial army became a new source of instability.[68] Efforts to check this competitor were not based on administrative reform alone, but included creation of yet another organization, the palace guards, to check the army's power. Ironically, this new competitor permitted Chao Kuangyin, commander of the palace guards, to seize power and found the Song Dynasty in 960.

SONG

Chao knew well the difficulties in checking the power of the palace guards. His reign (960-976) and that of his successor, Tai Zong (976-997) centralized China to a degree not known before. This centralization involved the elimination of competition for power (but not the competitors) through an administrative reorganization that cut the influence of the military in politics and reduced the number of functions any single government official might have.

Chao, as emperor Tai Zhu, undertook as his first task gaining control of the military, which during the Five Dynasties had superceded provinces as the major competitor

of the central government. First, only civilians were appointed to civilian posts, local military commanders were kept out of local government administration, and military officers' power was reduced by regularly rotating commands.

In the midst of China's campaign to curtail the political influence of the People's Liberation Army, Guangming Ribao cited the Song's efforts to "stress civilian affairs" as not "belittling military force." The Song

> saw the reemergence of the tragedy of 'local military commanders becoming too powerful, more powerful than the central government. ...Therefore, they adopted measures to constrain the growth of the influence of military officials.[69]

Second, great efforts were made to reorganize the administrative system to enhance central control. This reorganization involved the separation of powers and fields of competence among bureaucrats and local imperial commissioners, the multiplication of services dealing with economic questions and greater efficiency in recruitment and promotion of civil servants.

> A whole new system of information, control, and command was installed; it extended to the most remote parts of the empire and ensured that the central government had a more complete hold than ever before on the whole land.[70]

This permitted, over the course of the 11th to 13th centuries, the growth of the Chinese civil service into a major autonomous political actor.

The gradual decline of the Song began in the latter part of the 11th Century, with the reforms of Wang Anshi. This period merits consideration because it parallels that of the reform-minded regime of Deng Xiaoping. In many ways, Gernet's description of Wang Anshi could be applied to Deng.

Like Deng, Wang had been purged and had come back. Like Deng, Wang did not seek to change the nature of his regime: he remained loyal to the Song court, as Deng remains loyal to the Communist Party. Like Deng, Wang sought to reduce a bloated military that was both inefficient and a drain on state revenue. Like Deng, despite whatever problems might arise, Wang saw his reforms as stimulating the economy, thereby raising production, the peoples' livelihood and state revenues. And finally, as in Deng's reforms, Wang's reforms had economic and social consequences that challenged the privileges of the elite.

In this latter case too Deng is a reflection of Wang: Deng's efforts to deal with problems, to weed out corruption at the highest levels, to cast aside privileges acquired by means other than talent, were all goals of Wang Anshi as he grappled with the results of his reforms.

The questions Liu asked about Wang that prompted his study of the 11th Century reforms are often asked about Deng.

> Was Wang [Deng] really an exceptional and radical reformer in the generally conservative development of Chinese history or did he ...remain well within the rich heritage of the Confucian [Marxist] tradition? Was he a great statesman with practical foresight, ...or was he a misguided scholar, insistent upon his utopian ideas...[71]

Wang's reforms, called the New Policies (<u>Xin fa</u>), focused on many aspects of economic, military and political life, largely involving administrative changes along with basic shifts in policy content. Liu outlines 15 basic reforms implemented between 1069 and 1073.[72] I put the most important into four categories. First, Wang sought rural reform in an effort to help small farmers burdened by heavy taxes, usury and an unpredictable economy. He introduced price controls on grains to prevent the creation of artificial shortages and price

increases. He changed corvees into taxes and provided state loans at low interest to prevent usury. Efforts were made to increase production by improving irrigation and technical agricultural knowledge.

Second, Wang reformed the trade system by having the government purchase commodities from small merchants to stabilize prices and keep them from having to work through guilds. Wang also imposed a tax on the guilds.

Third, Wang's reforms sought to develop civil servants into a highly technical corps loyal to the state. This was done by improving public education so as to increase the field of possible recruits, by including technical subjects such as law and economics in the competitive examinations, and by offering civil servants substantial pay increases. All but this last item has been attempted by Deng's regime.

Fourth, Wang also reduced the ranks of the army by discharges and creation of peasant militias and special frontier units.

The reforms split China's bureaucracy and leading politicians into separate factions, a split which would plunge the dynasty into political feuding that would ultimately bring it to an end.[73]

Wang Anshi's era of reform ended when he was forced out of power in 1085 by the leading conservative, Ssa-ma Kuang. Liu identifies two periods that followed. The first was the anti-reform period of 1085-1093 followed by the post-reform period of 1093-1125. During the first period, Wang's reforms were rescinded or revised. Reformers and even conservatives were denounced by more extreme conservatives.

The tables were turned after 1093, when the extremists were purged and many of Wang's reforms were revived. During this period, Liu states, the Northern Song dynasty deteriorated because of political persecution and corruption. In 1127 the Northern Song, as this first half of the dynasty is called, was forced to flee its capital at Kaifeng before the invading Chin army and set up court at Hangzhou for a final 150 years.

The fall of the Southern Song, brought about by the invasion of Mongols in 1279, can be characterized as a gradual reduction in defense capacity and social and economic deterioration. Loss of defense capacity was prompted by economic and social problems that were brought about by the state's active role in commerce. Thus, to avoid state monopolies on salt, tea and alcohol, smuggling went on across the borders with China's enemies, the Hsia, Liao and Chin. To avoid the increasingly heavy tax burden

prompted by the need for increased defense, Chinese at all levels engaged in fraud and evasion.[74]

The Yuan Dynasty, more an occupation than an indigenous regime, lasted until 1368, although the Mongols had lost much of China by 1355. In addition to the obvious problem of being an occupation force, the Yuan fell because it failed to prevent the rise of destabilizing phenomena in its government. Thus, because of many contradictory regulations, there was a breakdown in administration. Because of inflation, economic chaos ensued. And because of economic chaos, corruption of those in power followed.[75] In time, these conditions prompted the rebellions that would allow establishment of the Ming.

MING

The founding of the Ming in 1368 by the peasant Zhu Yuanzhang resulted in an absolutist state with mechanisms of control, secrecy and spying that centralized power in the emperor's hands. With such power, Zhu, or Emperor Hung Wu, put his stamp on China in three major ways.[76]

First, he returned to China a great degree of prosperity, prestige and power that had been lost during the Mongol interregnum. Second, he created new institutions to rule China, including secret councils and

secret police, which were used not only to supervise the bureaucracy but to spy on high government officials as well.

Third, and most important, Hung Wu set in motion phenomena that, in time, would ultimately help topple the dynasty. These included what would become new competitors for power in the regions, the uneven application of law, and the ultimate breakdown of administration. His dynasty, Gernet states, was marked by a "climate of mistrust," by "misunderstanding and suspicion between the central government and its agents."[77] Because of the god-like reverence in which Hung Wu was held, even long after his death, Chinese looked to his reign for answers even though conditions demanded imaginative new ways of handling problems. The divorce between reality (in economics, fiscal policy and politics) and Hung Wu's administrative theories resulted in the rise of local merchants and gentry who would continue to gain influence as the only actors who might find solutions to problems within their specific areas.

The rise of these regional competitors for power had three basic sources. First, Ming Emperor Yung Le put his capital at Beijing, far removed from the active commercial and intellectual life in central and south China. The Ming, Gernet states, "thus condemned itself to losing

contact more easily with the elites of these areas."[78]

Second, this wealthy elite continued to acquire land from peasants, which would ultimately force the latter to rebel against an ever-increasing burden of taxes and other abuses.

Third, changes in China's economy effectively ruined the Center's ability to rule, leaving control of commercial activity in the hands of regional power holders. Inflation was a primary cause of economic instability caused by the Ming's continued use of paper money in an effort to control the commercial activity that was developing throughout China. Thus the Center redeemed copper coins with notes, the use of gold and silver in business transactions was banned, and civil servants were paid with paper money. All this proved ineffective. Paper money was not convertible and quickly lost value, a phenomena similar to that of the Renminbi, a non-convertible currency, and its declining black-market value against foreign exchange or foreign exchange certificates in Deng Xiaoping's China.

There is a parallel between Deng's efforts to guide China's awakened economy following the reforms of the post-1979 period and the efforts of the Ming to guide its economy. To cite one example, the use of paper money in Ming China

> reveals a fundmental contradiction ...between a state economy and a commercial activity which it could not control and which overflowed it everywhere. The belief in the effectiveness of authoritarian measures for fixing the value of means of payment, a belief imposed by a long tradition of state economic activity, was to be completely contradicted by the general triumph of silver money.[79]

In the post-1979 period, China likewise has had difficulties controlling the use of foreign exchange, a key ingredient in efforts to import technology and technical skills. In late 1985, Tang Gengyao, director of China's State Administration of Exchange Control, listed key regulations for foreign exchange control that attempted to address continuing problems. These included: the incorporation into state plans of all foreign exchange incomes and expenditures; the remittance of all foreign exchange earned by Chinese organizations and individuals to state banks and the retrieval of those earnings in accordance with state plans; the prohibition against freely circulating foreign exchange in China; a prohibition against any organization, enterprise or individual other than state banks dealing in foreign exchange; and a prohibition against any Chinese organization, enterprise or individual procuring, retaining or misappropriating foreign exchange or evading

foreing exchange control regulation in any way.[80]

This clampdown came in 1985 after a precipitous drop in China's foreign exchange reserves in 1984 and the first quarter of 1985. This drop was due, in large measure, to free-wheel spending of foreign exchange for raw materials[81] and consumer goods.[82] Foreign exchange, not the renminbi, is the instrument of real value, a threat to any regime.

As well, China's efforts to permit enterprises to earn and use foreign exchange had built-in incentives to engage in illegal foreign exchange markets. Enterprises earning foreign exchange were to deposit it all in the local Bank of China branch, but they found a ready market in firms unable to earn such currency.

> The foreign exchange was sold to these non-earning firms on the black market at a higher exchange rate, free-floating by supply and demand. This caused trouble. The government couldn't control it, which broke the government's plan. These firms had not sent all the foreign exchange they earned to the Bank of China. They got cash from foreigners and this circumvented the letter of credit system.[83]

Thus the Chinese Communist Party faces fundamental questions similar to those the Ming faced: Can it control the commercial and economic activity it has unleashed? Will the belief in the effectiveness of authoritarian

measures to control, or even just to guide, the economy diminish?

Ultimately, the economic and social changes that occurred during the last 50 years of the Ming Dynasty--the waning control over commercial activity, the decline of the rural economy and the rise of an urban proletariat, middle class and wealthy gentry, the excessive state expenditures and resultant deficit, the variety of policies that exacerbated public ill-will toward the government, and the conflict between the bureaucracy and court eunuchs--all served to hasten its demise.[84] The numerous popular rebellions throughout China proved too inviting for the Manchus to ignore. They invaded and established their own dynasty.

QING

In 1644 the Manchus had the essential stabilizing elements that permitted creation of a new dyansty, even by an alien ethnic, cultural group: military strength, political cohesion and administrative organization.

But the new dyansty had to rely on bureaucrats who had served the Ming in military, political and administrative matters, similar to the situation the Communists found in 1949 after they came to power. Initially, these hold-overs, less than loyal, posed a

serious threat to the new dynasty and were purged. But in distant territory, where Qing control was low and such a purge impossible, the dynasty was forced to give army leaders wide autonomy to put an end to Ming resistance in the south.

> In granting extensive powers to the generals..., the Manchus had embarked on a dangerous course which led to the formation of governments that were almost independent of Peking. They ran the risk of losing control of their empire.[85]

When the Qing finally gained control of "the three feudatories" in 1681, the new dynasty was able to centralize power and usher in an era of stability.

To centralize control over China, the Manchus, as invaders, had to win over the intelligentsia. Thus, even before that had complete military control, the new dynasty reinstituted in 1646 competitive examinations to provide the new dynasty with young civil servants. The Qing court also took over granting all honors and prestige to the literati. Thus the Qing forced the intelligentsia to identify their own interests with that of the new dynasty.[86]

Through policies of three "enlightened despots," as Gernet calls Emperors Kangxi (1661-1772), Yong Zheng (1723-1736) and Qian Long (1736-1796), the Qing took several other steps to centralize power. These included creating a mild political climate by ending conflict between eunuchs and civil servants and the abuse of peasants; the reduction of corruption by paying bureaucrats livable wages; and the conversion of Qing emperors to Chinese culture to offset the mistrust of the literati.

By the end of Qian Long's reign, however, destabilizing phenomena were evident. There was widespread waste and corruption. Repeated wars and ever-increasing costs of maintaining an elaborate court led to higher taxes. Seven floods ravaged the Yellow River valley between 1798 and 1820 despite large expenditures for dike repairs. The money was found to have been embezzled.

There was a breakdown of administration.

> China suffered from an unhealthy degree of centralization. Peking expected to settle all questions... . But a proliferation of regulations, a tyrannous mass of legislation tied the emperor's representatives in the provinces hand and foot.[87]

Compounding these problems, at the turn of the 19th Century, was declining economic prosperity.

> The advance of corruption and the very noticeable reduction in officials' salaries brought out clearly at the end of the Ch'ien-lung era the faults of a system which was acceptable in a period of prosperity."[88]

Problems of waste, corruption and administrative malaise in the People's Republic are the result of a mirror image of what happened to the Qing's administrative structure. The Communist system works and is acceptable in a period of scarcity. Economic reforms, however, have diminished the comparative worth of cadre salaries and this has led to corruption.[89] While the Chinese Communist Party extols its cadres to be patient, to sacrifice for the national good, the Party is openly making great efforts to curb a growing tide of official corruption that has played havoc with economic administration.

The 19th Century thus began with an economy bound for depression, prompting numerous rebellions and foreign incursions, and obvious reaction from a central government that found itself too weak to control the situation. By the mid-19th Century, these problems were sufficiently acute that the Qing found itself in the same dilemma as that of the Tang during An Lushan's rebellion. The only

way to curb the growing strength of rebellious regions was to strengthen those regional forces which were loyal to the dynasty.

Thus the spin into regionalism, which ultimately toppled the Qing Dynasty, was prompted by two events. First, in order to put down the Taiping Rebellion (1850-1864), the imperial government gave some provincial authorities the power to raise local armies to meet the threat (Zeng Guofan and Li Hongzhang, for example). To pay for these armies, provincial governors began retaining portions of the local taxes they were to remit to the Center. Once the rebellion was put down, the central government wanted to regain its authority. But after more than 10 years of provincial freedom in these areas, the Center was unable to recapture its control.

The Qing Dynasty could not do so in large part because of the lack of integration between the Center and local levels of government. The Center had done little to extend its effective reach to the local level, instead relying on local and provincial officials to act on its behalf.

> The Manchu leadership created a top-heavy government rather than extending its grasp outward via the middle and bottom ranks of the bureaucracy. By obsessive concern for Manchu control it did much to demoralize the Han Chinese components of its centralized leadership. This center orientation was intended to tighten the leadership's grip over active officials, but it impaired the potential for centralizing control over local resources.[90]

The Qing took steps to stifle legitimate growth of provincial and local-level bureaucracy because it would be in the hands of largely Han Chinese rather than Manchus. This not only aggravated the Center's breakdown of administrative control but pushed many provincial leaders into illegal methods of challenging the government's authority.[91]

With this as a backdrop, the continuing major event of the 19th Century--the impact of foreign intrusion into China--probably pushed the old order to its final ruin. As the 19th Century ended and reforms designed to protect the old order were scuttled by the Manchu Dynasty itself, the major question among Chinese elites was no longer whether the Qing would reassert its authority but when it would collapse.

In a last-ditch effort to save itself in the early days of the 20th Century, the Dynasty did institute a series of reforms. Among them was establishment of

provincial assemblies which were designed to act as a funnel for local concerns to the central government. But by then it was too late. Instead of helping to integrate central and local levels of government, these assemblies pushed for more local autonomy and, in the 1911 revolution that toppled the Qing Dynasty, were the formal organizations which declared provincial independence from Manchu rule.

The result was the Republic, a form of government alien to the Chinese, but one that held the promise of peaceful sharing and transfers of power that would end the curse of the dynastic cycle in Chinese politics. As the next chapter shows, that promise was not realized.

ENDNOTES Chapter III

1. Xue Muqiao, China's Socialist Economy, (Beijing: Foreign Languages Press, 1983), 117.

2. Lampton examined the careers of Ji Dengkui, Gu Mu, Yu Qiuli, Peng Chong, Xu Shiyou and Chen Xilian. The latter three gained power from their regional power bases in Nanjing (Peng and Xu) and Shenyang (Chen) and indeed fell from power when they were removed from these territorial bases. See David M. Lampton, Paths to Power: Elite Mobility in Contemporary China, (Ann Arbor: The Center for Chinese Studies, University of Michigan, 1986), 6-7.

3. Jonathan D. Spence; Emperor of China: Self-Portrait of Kangxi, (New York: Random House, Inc. 1974), 49-50.

4. Diana Lary; Region and Nation, The Kwangsi Clique in Chinese Politics, 1925-1937, (London: Cambridge University Press) 4, and J. E. Spencer, "On Regionalism in China" in Journal of Geography, XLVI, I, No. 4 (1974).

5. Interview File B, Interview Number 2, February 1986.

6. Lary, Region and Nation, 10.

7. Jean Chesneaux; "The Federalist Movement in China, 1920-3" in Modern China's Search for a Political Form, ed. Jack Grey, (Oxford: Oxford University Press, 1969), 96.

8. Lary, Region and Nation, 4-7.

9. Ibid., 6-7.

10. Lucian Pye; The Dynamics of Chinese Politics, (Cambridge: Oelgeschlager, Gunn & Hain, 1981), 118.

11. Ibid., 123-124.

12. Since 1977, the Chinese Communists have taken great pains to redefine their ideology, beginning with the end of class struggle (1977), denouncing "whateverism" (whatever Chairman Mao said was correct), and seeking truth from fact (1978) to "it's glorious to be rich" (1983) to the claim that "Marx does not hold all the answers to the problems of the late 20th century," Renmin Ribao, December 7, 1984, 1. In this atmosphere, ideology becomes something much less able to hold people together,

a factor posing a serious challenge to the current regime.

13. Foreign Broadcast Information Service, China (hereafter FBIS) 21 November 1984, K2.

14. The March 1984 recentralization of China's foreign trade system was to bring inter-provincial competition for international sales to an end. This competition was creating price wars that only served to hurt China and help foreign buyers. For example, different provinces were selling the same plastic cup for five, three and two Yuan to foreign buyers. Interview with Xu Haoran, deputy director, HUbei Foreign Economic Relations and Trade Department, November 3, 1984, Wuhan.

15. Susan Shirk outlined three levels of conflict in China over foreign trade issues and the Open Door Policy. These cross-cutting conflicts are bureaucratic, with trade and other ministries competing for control of imports and exports; sectoral, with heavy and light industry in competition for resources to develop export products; and regional, between inland and coastal provinces. Susan Shirk; "The Domestic Political Dimensions of China's Foreign Economic Relations" in China and the World, ed. Samuel S. Kim (Boulder: Westview Press, 1984), 57-81. As well, I was told that, at an early 1984 meeting between provincial governor and central Party leaders in Beijing, governors from several inland provinces banded together to push for many of the benefits coastal provinces were getting in the Open Door Policy, i.e. open ports, special economic zones, and greater investment capital among them. The governors were told in no uncertain terms "to mind their own business." I have been unable to verify this exchange or this meeting except in Interview File D, Interview Number 1, June 13, 1984, Wuhan.

16. Jacques Gernet; A History of Chinese Civilization, trans. J. R. Foster (New York: Cambridge University Press, 1982), 64-65.

17. Ibid., 58-61, 73-77, and 109.

18. Ibid., 106.

19. Ibid., 108 and 115.

20. When the Communists came to power in late 1949, they found the tasks of economic reconstruction, transformation and consolidation a daunting one for the meager staff resources at their disposal. Thus, in the short-term, they had to rely on former Nationalist government bureaucrats to administer the new government, a group whose political reliability and cohesion with Communist Party cadres of the Yanan era was nil. One result, Harding says, was divisions within the Party along generational, political orientation and class lines. As well, the Great Leap Forward of 1958 brought about a split within the Party that forced Mao Zedong to resign as chairman of the People's Republic and ultimately plunged China into the chaos of the Cultural Revolution. Harry Harding, Organizing China,)Stanford: Standford University Press, 1981), 32-64, and pp. 153-194. And, in the post-Mao period, once strong allies Deng Xiaoping and Chen Yun find themselves antagonists over issues involving the scope and pace of economic reforms in the 1980s. At issue are divergent views on how to answer key questions that boil down to how China can accomplish the goals of urban economic reform and still remain socialist. Deng appears willing to proceed with reforms, tinkering here and there as problems arise. Chen, however, prefers to slow reforms and to be more vigilent against the "corrosive influence" of capitalism. See "Socialist Balancing Act" in Far Eastern Economic Review, 10 October 1985, 36-41.

21. Gernet, A History, 111.

22. Ibid., 114.

23. Ibid., 115.

24. Ibid., 116.

25. Ibid., 143.

26. Ibid., 144.

27. Ibid., 144-145.

28. Ibid., 145.

29. Ying-shih Yu, Trade and Expansion in Han China, (Berkeley: University of California Press, 1967), 17-18.

30. Ibid., 18, and Gernet, A History, 151.

31. Gernet, A History, 152.

32. Yu, Trade and Expansion, 20-21.

33. Gernet, A History, 153.

34. Ibid., 177-178.

35. Ibid., 235-236.

36. Ibid., 236-237.

37. Ibid., 237-238.

38. Ibid., 240.

39. Ibid., 242.

40. Ibid., 243.

41. Rozman stated in 1981 that the Communist Party's role in this regard was unique in Chinese history and that "the achievement of coordination and control was real and has so far (1980) survived Mao's death." Gilbert Rozman, ed., The Modernization of China, (New York: The Free Press, 1981), 484.

42. Ibid., 259.

43. Ibid., 262-263.

44. Ibid., 263.

45. Ibid., 264.

46. Ibid.

47. Ibid., 266.

48. Wang Hungwu, The Structure of Power in North China During the Five Dynasties, (Stanford: Stanford University Press, 1963), 9.

49. Ibid. Much of the following discussion is based on Wang, 9-46.

50. Ibid., 19.

51. Ibid., 22.

52. Ibid., 31-32.

53. Interview File A, Interview Number 20, December 23, 1984, Wuhan.

54. Wang, _The Structure of Power_, 32-33.

55. Interview with Song Yisan, then director of the Hubei Province Foreign Trade Bureau, May 31, 1980, Wuhan.

56. Interview with Sun Yiran, director, Hubei Province Foreign Economic Relations and Trade Department, June 24, 1984, Wuhan.

57. "Deng's military build-down," and "No more the sacred warriors," in _Far Eastern Economic Review_, 22 August 1985, 43-45, and 20 March 1986, 60-61, respectively.

58. Gernet, _A History_, 271.

59. Wang, _The Structure of Power_, 178.

60. Ibid., 3.

61. Ibid., 179-180.

62. Ibid., 180.

63. Ibid., 181.

64. Ibid., 182.

65. Ibid.

66. Ibid., 181.

67. Ibid., 187.

68. Ibid., 206.

69. _FBIS_ 19 September 1985, K21.

70. Gernet, _A History_, 303.

71. James T. C. Liu, _Reform in Sung China_, (Cambridge: Harvard University Press, 1959), xi.

72. Ibid., 4-7.

73. Gernet, _A History_, 306.

74. Ibid., 323.

75. Ibid., 387.

76. Ibid., 396.

77. Ibid., 397.

78. Ibid., 409.

79. Ibid., 415.

80. "China's Forex Control Policies" in Intertrade, December 1985, 29.

81. Ibid., 30.

82. Louise do Rosario, "Time to pay the piper," Far Eastern Economic Review, 22 August 1985, 100-102.

83. Interview File A, Interview Number 11, October 30, 1984, Wuhan.

84. Ibid., 432-434.

85. Ibid., 470.

86. Ibid., 472-474.

87. Ibid., 492.

88. Ibid., 494.

89. This is evident by the continued efforts of the Communist Party to weed out corruption at high levels of the Party. See "Staying in Control" in Far Eastern Economic Review, 30 January 1986, 22-24.

90. Rozman, The Modernization of China, 499.

91. Ibid., 500.

CHAPTER IV

THE PERSISTENCE OF TRADITION

This chapter continues the historical review of shifts in the balance of power in China in terms of the detabilizing and stabilizing phenomena described earlier. The late Qing, early Republican period, roughly 1908 to 1916, involved the rise of numerous competitors for power, none of whom held enough sway to unify China in any meaningful fashion. The result was the chaos of the warlord period of 1916-1927.

With his Northern Expedition of 1926-1928, Chiang Kai-shek was able to unify China under the Kuomintang (Guomindang) by the stabilizing use of military force and, more important, clever use of financial awards and political positions. But he bought unity at a high price. The compromises he had to make with regional militarists, who kept command of their own armies, meant the new national government failed to eradicate its competitors for power in the provinces. Further, Chiang's failure to use the Kuomintang Party (KMT) apparatus to tie the masses at all levels of society to it and his rule kept the nationalists from fully integrating the new regime from Center to locality. The rise of new competitors for power

was inevitable in a society torn apart by revolution and never reintegrated into a stable entity. This made it impossible for the Republic of China to successfully meet the severe challenges of economic depression, foreign invasion and civil war. Collapse, under these political conditions, was inevitable.

What the Chinese Communist Party (CCP) offered China, in this political miasma, was a political consensus that resulted in political and military cohesion and, with the use of force (aided by KMT corruption and ineptitude), elimination of all competitors for power. Since the founding of the People's Republic, however, the CCP has had to deal with a dwindling political consensus that has presented challenges to Party leadership[1]. This colors much of Chinese politics in the late 20th Century.

It is impossible here to examine the many facets that kept China from establishing a stable regime between 1911 and 1949 or those that permitted the CCP to stabilize its rule after 1949. The role of economic change, changing educational and recruitment patterns, and foreign influence and intervention are all important. But in a period when the old imperial political system had disappeared, the role of a new, and vague, ideology and weak political organizations, which were to establish the new order, reveals much about China's inability before

1949 to control the destabilizing phenomena that reappeared. Likewise, the CCP's ideology and organization allowed it to institute stabilizing phenomena that made reintegration of Chinese society after 1949 possible.

This chapter, then, looks at three periods in terms of the effect ideology, political party organization, and bureaucratic organization have had on stabilizing and destabilizing phenomena. The first, 1908-1916, examines the failure of constitutionalism, the rise of provincial assemblies and the extreme regionalism that led to the warlord period following Yuan Shikai's death. This first period can be characterized as being without ideology (except for undefined notions of constitutionalism and traditional authoritarianism), without political party organization to develop the stabilizing element of political cohesion, and a multifarious military and bureaucratic organization searching for political form and uncontrolled by any Center.

The second, 1922-1930, chronicles efforts to reshape the KMT into a revolutionary party and Chiang's unsuccessful efforts to create national unity because of compromises he made with warlords and his failure to use the KMT to reintegrate society. This period, termed military and tutelary rule in Sun Yat-sen's _Fundamentals of National Reconstruction_, can be characterized as having

an ideology a bit more defined than constitutionalism but still quite vague; an unused and therefore ineffective political organization to tie masses and elite together; and uncontrolled, multifarious military and bureaucratic organizations still searching for political form beyond allegiance to Chiang and each member's own well-being.

The third, 1949-1960, examines the PRC's efforts to create a unified nation after a long and bitter civil war. This period can be characterized as having a specific, highly defined ideology, an extensive political organization that served to reintegrate society, and a military and bureaucratic organization controlled by that political organization.

Each of these periods is marked by major efforts to remodel traditional Chinese political culture as leaders attempted to remake it with the use of new ideologies and political organizations. As I show, however, in each period traditional Chinese political culture proved much more resilient than anticipated.

1908-1916

As mentioned in the previous chapter, the Qing Dynasty took steps to reform itself following the deaths of Empress Dowager Zu Xi (Tsu Hsi) and Emperor Guang Xu in 1908. Many of these reforms had been proposed in 1898 and

were based on the western notion of constitutionalism. Involved here is the idea that monarchs no longer ruled under a legitimating formula derived from God, heaven or some other non-temporal source, but, in some fashion, from people, a popular mandate.

The problem was the lack of experience with any constitutional form of government, and, at root, China's political culture thatdiffered quite markedly from the west. In the west, constitutions were designed to limit the power of rulers. To the Chinese, with a Confucian political sulture, the primary goal was to achieve a moral order that would permit rulers to exercise power to the fullest.[2]. The overriding goal of reform-minded Chinese at this time, both in and out of government, was political and economic modernization. To most of them, especially those in the Qing bureaucracy who were in ascendency because of educational and recruitment reforms, modernization was equated with western constitutionalism.

> Their overriding goal was a strong China, their models the Western nations and Japan, where constitutions and national power seemed conspicuously linked.[3]

Constitutionalism became the political wind of the time. It embodied notions of self-government that looked initially to local and provincial assemblies and,

ultimately, to a national parliament and cabinet to guide China's modernization.

Among the more far-reaching reforms, in terms of affecting later events, was the creation of provincial assemblies. These assemblies proved to be, in the short span of two years following their opening sessions in October 1909, serious rivals for power, not only of the central court at Beijing, but of the court-appointed governors who had been running provincial governments.

The court-appointed Constitutional Commission, charged with preparing guidelines for the election of provincial assemblies and, later, a provisional National Assembly, had hoped to "uniformly put into operation[4] the new provincial assemblies. Footdragging by some provincial governors, blamed on political backwardness, was seen as a threat to this hoped-for uniformity deemed so essential for maintenance of national unity. But early on in this experiment, localism became a major threat.

> ...the real danger to uniformity was not political backwardness, but a kind of localism which ...reflected too much political sophistication.[5]

According to Fincher, the role of provincial assemblies was to determine public opinion and advise provincial administrators as to how best that opinion

could be reflected in policies. Among its powers and duties were to: determine policy (left undefined) of the province; decide on changes in provincial administration; supervise local self-government societies; set the provincial budget and determine the taxes and other sources of revenue for that budget; elect delegates to the National Assembly; and refer matters it could not solve to the National Assembly.[6]

Thus, in an effort to save itself from an increasingly dangerous lack of control over local areas and to answer the ever-increasing challenges presented by powerful foreign countries, particularly Russia and Japan, the dynasty turned to constitutionalism as a means of self-strengthening. This unleashed forces that, rather than solving political problems, served to amplify them. The interaction between provincial assemblies, governors and the Center in 1909 to 1911 make this evident.

By mid-1910, the Manchu Court clearly was moving to recentralize two critical functions of government that had slipped into provincial authority decades earlier, defense and finances. This recentralization ran on two tracks. First, the Court moved to capture control of each provincial-level Bureau of Military Administration.[7] These had been established in 1902 in response to foreign incursions following the Boxer Rebellion. By 1908 they

represented a growing threat to what little central authority over the military existed. Thus the Center hoped to recapture control over assignment of military personnel and awarding of ranks, two of these bureaus' duties, as a first step in unifying military leadership in its hands.

Second, the cost of doing this, as well as the cost of modernizing, required economic centralization as well.[8] This involved giving the Ministry of Finance the right to control foreign loans, central receipts and revenues heretofore under control of or collected by provinces; establish national and local accounts within the budget; replace governors' provincial contingency funds with a central reserve fund; and supervise provincial finance commissioners with the power to impeach them.

In 1910 the Finance Ministry set out to establish a comprehensive national budget which would give the Center 90 percent of revenues collected and provincial and local governments the remaining 10 percent. Some 90 percent of total revenues, however, were collected by provinces, revealing, in Fincher's words, China's "common wealth and the Center's poverty."[9]

Provincial governors, plus the new provincial assemblies, argued with the Center over definitions of national and local revenues and expenditures. The ensuing

debate found the governors and provincial assemblies cooperating against the Court despite recognition of potential disagreement between them. As Fincher explains, governors'

> revenues and power of expenditure had grown enormously with the development of 'self-strengthening' enterprises. To protect them from the central ministries, governors would have to argue that such revenues were 'local' [i.e. provincial and county] not 'national' in character. [But] ...if they declared them 'local' they might lose part of their control to the assemblies, which were ...to discuss local budgets.[10]

Through 1910 and 1911, the issue of recentralization came to a stalemate as central edicts were largely ignored and provincial assemblymen, as delegates to the National Assembly, increasingly acted outside proper political channels. The National Assembly delegates elected from provincial assemblies worked more often through the United Conference of Provincial Assemblymen, bypassing the delegates appointed by the Court. Fincher calls this body a "defacto parliament indifferent to the monarch."[11] The provincial assemblies coopted the authority of governors by threatening to dissolve themselves, forcing political issues into potential constitutional crises that had to be referred to the National Assembly.

The National Assembly then became bogged down in attempts to settling intra-provincial disputes as well as national issues, especially Court efforts to recentralize financial authority. As a result, and as part of a plan to forestall recentralization, the National Assembly and various provincial assemblies petitioned the Court to establish a formal parliament and cabinet government in 1911 rather than the planned-for 1917.

The Court responded to this challenge to recentralization by agreeing to establish a parliament in 1913 but also by establishing, beforehand in May 1911, a cabinet made up entirely of Manchus. This step was taken to reduce the powers of governors as well as that of provincial assemblies and the National Assembly. At the same time, the Center went ahead with recentralization by announcing plans to nationalize China's railway system, which was then being built in all but four provinces. Both steps led to violent protests, especially in Sichuan, over newly-won railroad rights-of-way provinces hoped to retain plus the growing anti-Manchu feelings that soon colored most other issues.

When the Wuchang Uprising occurred prematurely on October 10, 1911, revolutionary leaders were caught by surprise.[12] The provincial assemblies, led by Hubei, seized the initiative by declaring their independence from

the Manchu Court and allegiance to a Republic. By the end of November, 15 provinces declared independence.

The provincial assemblies rallied around Sun Yat-sen's efforts to create a Republic. These hopes were dashed when Sun, lacking the ultimate stabilizing resource of military power to back up his new government, had to acquiece in permitting Yuan Shi-kai to become president in January 1912.

Yuan, a military leader of the old order, recognized the challenges to centralized authority and promptly disbanded the provincial assemblies. He made efforts to institute a constitutional monarchy with himself as China's new emperor. But he was unable to channel his military rule into civilian authority because the Center and the provinces by now lacked any civilian government on which to build a new imperial dynasty.

> The decline of the Confucian order meant also the decline of the civil order; the scholar-officials and the local gentry lost the high focus which had given them a 'natural right' to rule. Their own loss of identity paralleled by the growing lack of respect for them on the part of the new holders of power, the militarists. The Centre had gone, and so had the supra-regional class of scholar-bureaucrats....Yuan ...could not transform his military control into civilian control because there was no civil system to call up.[13]

This view stresses the influence of the militarists, who, indeed, held most of the power. But Nathan identifies two other sources which would desert any "civil system" that involved a new monarchy because of their interest in constitutionalism as the only means to make China modern and strong. These were the Qing bureaucrats, to whom constitutionalism meant modernization along western lines, and the new strata of professionals in commerce and politics who rose to power because of the late Qing reforms. Potential civilian supporters of a new monarchy had been effectively blocked from power.

When Yuan died in 1916, after his failure to establish a new monarchy, China broke apart with the Center just one of many regional militarist regimes controlling an ever-changing piece of territory. Thus began 11 years of warlordism, a legacy that would die hard. Ultimately, the warlords would force Chiang Kai-shek into compromises that would prevent the KMT from achieving the full national integration Sun Yat-sen sought.

China's last imperial dynasty fell as all others had fallen, by a combination of administrative breakdown and a rise of competitors for power which, ironically, the dynasty's own policies had fostered. These competitors for power had been permitted wide latitude in pushing

their authority beyond recognized limits. Provinces acted on their own behalf in areas once the exclusive domain of the central government. Until its final efforts at recentralization, the Qing dynasty relied on provinces for military needs it was unable to supply. So too the Center relied more and more on provincial offices for a variety of civil duties.

Among them were critical economic responsibilities. Traditional economic duties had always been carried out by the central government bureaus in the provinces. These included offices for such duties as taxation, industry, finance and mines. During the late 19th Century, however, these responsibilities were gradually taken over by regional governments. Soon these responsibilities were increased to involve provincial financing of modern industries and purchase of railroad rights-of-way from foreigners. This was followed after 1911 by direct provincial government negotiations with foreign financiers for mining and railroad expansion or construction, all trends seen, albeit on a smaller scale, in the economic reforms of the Deng Xiaoping era.

As the military became fragmented during the Warlord period, such provincial economic authority that had existed expanded to new areas that further plunged China into chaos. First, several provinces began issuing their

own currencies. For example, the Hubei Provincial Bank for Agriculture and Industry was founded in 1919 on money provided by the province and private subscriptions.

> Here again the central government tried to take action: [it] declared that 'provincial banks recently begun to issue bank notes, under the pretext of lack of liquid money,' prohibited this practice in the future and ordered the withdrawal of the notes already issued. This decision had little effect.[14]

Further, there were strict controls, if not outright prohibitions, against inter-provincial trade, even in dire emergencies. In 1920, for example,

> the Tientsin Chamber of Commerce tried in vain to get the Peking government to authorize the import of rice from Kiangsu (famine was severe in the north) for the Chambers of Commerce in this province opposed it.[15]

This experience no doubt colors the fears of central leaders in the Deng era who, faced with admittedly less dramatic economic blockades between provinces in the 1980s, moved quickly, although not always successfully to prevent them.[16]

Unlike western notions of constitutionalism that are rooted in Locke, Rousseau and Jefferson, the Chinese in this period fit constitutionalism with basic political

cultural notions of Confucius and Mencius, i.e. the ordering of the mind, voluntarism and the benevolent ruler.[17]

This proved tragic, for the goal of constitutionalism was to transform political culture. By interpreting western constitutional remedies along traditional political cultural lines, the use of constitutionalism as the prevalent political wind immediately before and after the 1911 revolution meant the persistence of political tradition rather than its change. The Chinese in the early 20th Century were unable to do otherwise.

> Chinese ...understand what it is to be trusted with authority, and what it is to be subordinated to authority. But to be thrown into equality-groups with no one in authority and no one subordinated calls for a radical change of their whole sense of human relations.[18]

As Nathan states, the Chinese fell back on familiar forms of political organization while retaining the facade of constitutional organizations.[19] Among these "familiar forms" was clientelism, which persisted after 1911 despite efforts to do away with it. The result was the same as had been repeated so often in Chinese history:

> ...constructive long-term goals are subordinated to the immediate tactical demands of conflict ...[which] produce ...disintegrative behavior....[20]

As I discuss in Chapter V, the Chinese in the late 20th Century again hope to change a major element of their political culture. At the root of China's economic reforms are efforts to replace organizational tiao-tiao and kuai-kuai relations with purely economic relations that will, by their very nature, serve to eliminate clientelistic ties. The question for the Deng era is this: are the Chinese of thisperiod better prepared than their grandparents "to be thrown into equality groups with no one in authority?"

My view is they are not. The lessons learned in the 1911-1916 period showed China's leaders that it was better to opt for gradual change through the crucible of experience and education. The ouster of Hu Yaobang as Communist Party General Secretary and the CCP's internal campaign against bourgeois liberalism in 1987 as a reaction against the increasingly numerous calls for political reform reveal a political leadership content with opting for gradual change through continued experience and education. Sun Yatsen and the KMT of the 1920s also saw this as China's best hope for development. The opportunity was lost, however, by two critical choices

Chiang Kai-shek made to ensure short-run returns to his political rule.

1922-1930

Many scholars blame the failure of Nationalist China to unify the country on the Japanese invasion and World War II.[21] While no doubt having a major impact on China's development in the 1930s and 1940s, I think the seeds of demise were sown by Chiang Kai-shek between 1927 and 1930. This is a story of missed opportunities; of bribing rather than defeating military opponents and later having to compromise with them to secure continued loyalty; of a failure to reintegrate society by political and social means because of the short-term benefits of military rule; and of the failure of a vague ideology, which, in the absence of an effective political party organization at the grassroots level, could not stand the tests of economic depression, foreign invasion, hyper-inflation and civil war.

During the early 1920s, it became increasingly clear that constitutionalism would not work in China. The rise of anti-foreign, nationalist sympathies in the wake of the May Fourth Movement in 1919, coupled with the repeated failure since 1912 to establish a unified constitutional

regime, forced Sun Yat-sen to restructure the KMT into a revolutionary party along Soviet lines. From 1922 to 1924 the KMT was reorganized and expanded to include many revoutionary groups, including the Communists.

Between 1924, with reorganization complete, and 1927, when Chiang unified China to a considerable extent under the KMT banner, Sun's party grew in four important ways.[22] First, it expanded membership regardless of class, educational or regional background. Cavendish says membership rose from "less than 50,000 in 1924 to more than 400,000 civilian members by the end of 1926."[23] The new party was organized on the basis of democratic-centralism, in no small part due to Soviet advice.[24]

Second, the KMT organized mass movements and popular organizations as a means of implementing long-held goals of developing civic and nationalist ethics. Third, the party began to emphasize propaganda and political organization as a means of politicizing the populace to raise their revolutionary potential. And fourth, despite these civilian efforts, the KMT continued its preoccupation with the military, establishing the Whampoa Military Academy to build a politically-indoctrinated army.

The critical years in this period were 1927 to 1930, when Chiang made two choices for advancing his rule over all of China. These choices would alienate his early supporters within the KMT and permit the rise of competitors for power long before World War II. The Japanese invasion may have prevented Chiang from eliminating the Communists and other competitors, but it did not cause their rise. The war ultimately provided these competitors the opportunities to eventually seal Chiang's fate.

The first choice was made during the Northern Expedition of 1926-1928. Chiang unified China, not so much by superior military strength and defeat of warlord enemies, but by bringing them into the party, government and army by "the established practice of assimilating erstwhile opponents and enticing hesitant enemies with financial rewards and commands in the Nationalist Revolutionary Army."[25] This assured Chiang's political ascendency but set the stage for a split between conservative and liberal elements within the Party, government and army. In a short time, Chiang's need to keep former warlords mollified would force him to purge the KMT of Communists and more radical members and to exclude civilian elements from central policy-making bodies.

Rozman points out that, during the Nanjing decade of 1927-1937, 63 percent of provincial governors had military educations and 84 percent had military careers. Only 13 percent had civilian college educations and 18 percent civilian careers. "As in traditional times, most of China's leaders followed one career, but now that vocation was military."[26]

Chiang's second choice, a companion to this, was to neglect using the KMT Party apparatus to achieve the professed goals of his regime. Chiang and the KMT claimed to follow the plan for development of China outlined in Sun's Fundamentals. The program was to be in three stages. First would come a period of military rule which would include elimination of obstacles to the revolution and propagation of ideology. This would be followed by a period of tutelary rule, which would prepare the populace for democratic government by focusing on changing county, or xian level politics to local self-government. Such a focus, to be undertaken by local branches of the KMT, would include political training in such things as the exercise of democratic political rights, but also such essential but mundane tasks as taking census and land surveys, road building and other development projects. This period would ultimately be followed by a final stage of constitutional rule in which a National Assembly would

be elected. Other aspects of this final period were left undefined, and, therefore, vague.

The first period, that of military rule, was seen as the destructive stage while the second and third periods were to be constructive. The army clearly would play the primary role in the first stage but the Party and its apparatus would be essential for the following periods, although Sun never defined the Party's role.

In the halcyon days of 1928 and 1929, after the Northern Expedition had successfully unified China under Chiang's rule, the KMT was eager to press for a transition from military to tutelary rule with itself as the tutor.

With the monarchy gone, the KMT was now seen as the logical choice for reintegrating society into a unified, national entity that could turn back the unequal treaties imposed by foreigners and set about modernizing China through economic development. To do so, the Party's relationship with the State and society were critical.

To carry out the tutelary period and ensure that the various regions of China would remain unified, Chiang believed that the proper policy-making scheme and chain of command would flow from the Party to the State and then to the army. By 1929, however, liberals within the Party complained that the chain of command was backward, that the army was controlling state administration which, in

turn, was controlling the Party. Local party officials were mistreated, party workers were prevented from doing their work and were arrested, and they repeatedly asked the Center for protection from provincial governments which were either opposing or physically attacking party members.[27]

It was clear that Party relations with governments below the Center were not what they should be. KMT members made numerous proposals for direct Party control of administration at all levels of governments, but Chiang rejected this in favor of a two-tier system in which Party branches could complain about an equivalent government agency to the next senior Party branch, which would discuss the problem with the government agency's next senior authority.

> ...proposals for various forms of direct supervision and control were not adopted. This must be attributed to ...Chiang Kai-shek who, in his approach to the problem of party-state relations, emphasized above all the need to protect the administration from party interference. ...The party's role below the Centre was ...to be restricted to 'propaganda' in the widest sense of the term.[28]

Thus, in terms of party and state relations, Chiang rejected the use of the party's organization as a means of controlling and integrating the disparate forces within

the Chinese government, relying instead on a powerful government, bent on modernization and under <u>his</u> tutelage, not the Party's, to bring them along.

The Party's relations with the public is another critical area where Chiang's policies would hamper the development of political party organization and KMT efforts to reintegrate society. Initially, the Party was seen as providing an educational role for the populace. Its duty was "to urge on and instruct the people in the tasks of political and economic reconstruction."[29] This, of course, required Party members "going to the people" and "getting close to the masses," acting as an intermediary between them and the government, fulfilling the role once held by the gentry in imperial China.

Chiang and the government moved against this role at two levels. First, the government complained that the KMT was encouraging the public to make impractical demands, which led to resentment against the regime when those demands could not be met. Second, the government in 1928 suspended entirely all mass movements and organizations, fearing they were front organizations for the Communists.

Anti-Communist trade unions, especially in Shanghai, opposed this on the grounds that healthy national organizations were the best defense against the Communist Party. The KMT soon split on this issue, with the

conservatives, including the military and commercial elements opposed to trade unions as well as Communists, refusing to see the political efficacy of mass organizations.

Liberal Party members

> ...accused ...their colleagues of regarding all mass movements as communistic and accused 'some of those in authority' of gradually shelving party policy in order to achieve quick gains through compromise with the old forces.[30]

While mass movements could be used in the destructive phase of military rule for purposes of toppling the warlords, Chiang chose not to see the advantages of the positive role mass movements and organizations could play in bringing the public into line with central KMT policies. He thus chose to abolish all mass organizations and reduced their related departments within the KMT, such as the Workers, Peasants, Youth, Merchant and Women's departments, into a Committee for Mass Training, a move which went far in damaging the health of local party branches and the morale of many Party members.[31]

Cavendish raises a critical question that gets at the heart of Chiang's strategy at the time:

> ...were the authorities really prepared to allow the growth of the organized and trained public opinion which they professed to desire, and to set about the political mobilization of the people? Nanking failed, in fact, to reconcile its desire for public support with its insistence of the 'stabilization' of society and subordinated other considerations to the need for security.[32]

Chiang realized the need for party politics in seizing power, but once power was assured, he rejected party government--even that of a single party--and the role it might play in reshaping and reintegrating Chinese society. He chose instead strong-armed military rule shielded by professed Party rule at the Center. In this regard, he proved himself to be much less the crafty politician he is so often credited as being, especially when compared with such contemporaries as Hitler, Stalin, and Mussolini and, later, Mao Zedong.

Under these circumstances, Chiang's regime was ruptured by factionalism, had no clear ideology and had become more and more autocratic. It gave the KMT no real role for forging a cohesive, highly organized and efficient administration. The destabilizing phenomena were present and uncontrolled by 1930, seven years before the Japanese invasion. The opportunity for developing the stabilizing phenomena of political cohesion and organization was missed. It was up to the Communist Party

to rectify this situation after 1949 by a more sophisticated use of political organization.

1949-1960

There are three critical contradictions in the People's Republic that have a bearing on how the regime has organized itself and how that organization periodically changes. The first is "red versus expert," considered briefly below, which is a redefined version of past debates concerning the efficacy of technical or classically-trained bureaucrats. While important in its own right, the remainder of this chapter and the next focuses on two other contradictions which have plagued China's search for organization for centuries.

One is the proper degree of centralization or decentralization, of Center versus region. The People's Republic, like each dynasty before it, continues to wrestle with the problem of finding the right formula for permitted local and regional governments to maintain flexibility in policy implementation while giving the Center the ultimate means of control over the disparate elements that might rise up to challenge it.

The other contradiction, which is subsumed under the former one, is the proper amount of state control over the economy. Put in the vocabulary of the 1980s, the degree

to which market mechanisms are permitted to replace state controls. The People's Republic, again like each dynasty before it, wrestles with this problem as well.

How each of these is handled determines the extent to which stabilizing or destabilizing phenomena are permitted to influence the Chinese polity. Too much decentralization, as we have seen, can lead to the rise of competitors for power. Too much state control, on the other hand, dampens economic activity and development, creating hard times that could also prompt the rise of competitors for power. As the following discussion suggests, these traditional political and organizational dilemmas persist in the Comunists' "New China."

The Incongruity of Means and Ends

When the Communists finally put Chiang Kai-shek and the KMT to flight in 1949, they assumed the reins of power in China with the benefit of political cohesion not known since the days of the Qing's Qian Long. This was made possible by a highly defined, rigorous ideology based on the writings of Marx, Lenin, Stalin, Mao Zedong and others. Unlike the days of the early Republic or the early years of the Nanjing Decade, there was little overt disagreement among the Communists regarding their goal--to build a strong, socialist state--or the ideological means

by which to do so. Their political cohesion was backed up by the ultimate stabilizing phenomena: superior military force that kept potential opppoents from challenging the system. For the first time in at least a century, Chinese society had shed its anomie. Party cadres assumed the role of tying the top and bottom of society together, a role once held by the gentry. The Party, through means of democratic-centralism, would serve as the glue that would give the many elements of society the discipline to remain united.

But despite the presence of political cohesion provided by the Communist Party's ideology and the military superiority in the hands of the People's Liberation Army, the Communist Party faced a basic incongruity: it lacked the organizational capacity to achieve its goals. In his detailed history of the politics of organizing the People's Republic, Harding[33] puts into clear perspective the domestic tasks the Communists faced in 1949 and their organizational inability to meet them without jeopardizing the strong political cohesion that helped bring them to power.

According to Harding, the three basic domestic tasks facing the Communists were economic recovery, reorganization and transformation of the Chinese socioeconomic order, and, stabilizing and consolidating

their rule. Economic recovery required an extensive and efficient administrative organization to gain control of the economy. Socioeconomic transformation required an extensive and efficient political network that could carry out Party policy. Political consolidation required a Party and government free of corruption, restrained in implementing new programs, and responsive to popular demands, all problems of the Qing and Republican eras the Communists had rallied to eliminate.[34]

In 1949 and 1950, the incongruity between ends and means was this: the Communists lacked an extensive administrative organization and thus had to rely on bureaucrats from the previous regime.

In Canton, for example, which benefited from the experiences the Communists gained elsewhere in taking over, pacifying and reconstructing cities, the Party had to rely on an alliance between former KMT government officials and pro-Communist revolutionary youth to administer the city.[35]In the reorganization of Centon's government, the new bureau heads were given wide latitude to determine which former KMT officials could be retained. Predictably, this led to great confusion and inconsistencies between agencies. Policies were no sooner decided upon then they were rescinded. Personnel was no sooner hired than they were fired. The political

reliability of former KMT officials was suspect, and the need to workwith and even under them created no small amount of ill feelings among Communist Party cadres. This posed a major dilemma for the new regime: it needed the expertise of former NAtionalist bureaucrats but could never really be certain of their political reliability, despite security checks. This dilemma was compounded by the continuing sabotage carried out by some KMT remnant groups.[36]

Thus the Communists faced the first instance of their long-running indecision as to whether "red" or "expert" was better. The short-term result was a network of Party cadres and government bureaucrats who alienated the public by severe implementation of Party policy, unresponsiveness to popular demands, growing corruption, and feuding between themselves. The long-term result was a split within the Communist Party along several dimensions, including red versus expert and centralization versus decentralization, that would ultimately plunge the cohesive young People's Republic into the factional politics, both organizational and personal, that was so much a part of traditional China.

These results inspired a series of rectification campaigns[37] between 1950 and 1953 to eliminate corruption, bureaucratism, waste, and commandism so as to purify the Communist Party. The fact that three successive campaigns were needed reveals the depth of the problem.

In short, the Party's organizational resources could not achieve its goals. This compounded the problems of a normal waning of revolutionary zeal and commitment among Party cadres after so long an effort to gain power. Their zeal was being diluted by normal desires to enjoy victory and by new technical personnel not necessarily committed to the Party or its ideology.

The Rise of Regionalism

While the Communists dealt with these basic organizational problems, the Center also faced that traditional challenge to all new dynasties, the rise of regionalism and competitors for power as a result of decentralization. Following the long struggle to gain national power, the Communists in 1949 found they controlled a nation with vastly different conditions and levels of development. The result, logical enough, was the creation of six regional political governments and Party bureaus. Without considerable political cohesion and strict adherence to the principles of democratic

centralism among Party leaders at this regional level, this policy posed real dangers for the new regime. This is so because, while basic policy was set by the Center,

> ...regional authorities were given substantial leeway in adjusting policies to meet local conditions, determining the pace at which they would be carried out, and supplementing them with programs designed to solve specific local problems.[38]

This first effort at decentralization, albeit at the multi-provincial level, proved problematic for the Communists for two reasons. First, it contradicted the administrative organization then being established that was to implement the highly centralized Stalinist development model the People's Republic chose to pursue.

Second, regional government in China had an historical tendency to seek greater independence and was seen by many at the Center as the major cause of China's weakness from the Taiping Rebellion in the 1850s until 1949. Memories of the Warlord era were still quite fresh. Fears of a revival of regional independence were raised by the actions of Gao Gang and Rao Shushi, leaders of the Northeast and East China regions, respectively.

Between 1952 and 1954, when they were dismissed, Gao and Rao were accused of a variety of activities, including using their lower-level power bases to demand policy and leadership changes at the Center and refusal to transfer resources from their relatively wealthy areas to less-developed regions in central and southwestern China.

The case against them came simultaneously with moves to abolish the six regional administrations. As differences among the regions lessened, especially in terms of organizing local governments, these regional governments appeared less necessary if the new economic model was to work. In June 1954 the regional governments and Party bureaus were abolished. This was followed by the 1954 constitution which established a unitary rather than a federal system.

Decentralization and Dual Rule

The experiment with regional government can be seen as the natural outcome of the Communist Party's taking control of China in piece-meal fashion during the 1930s and 1940s. When compared with the decentralization efforts of 1957, however, this original scheme had little impact on Chinese organizational politics.

Between 1954 and 1957 it became clear that the highly centralized Stalinist system, which had the political benefit of maintaining stabilizing phenomena and preventing the rise of competitors for power, had a very negative impact on China's economy. Harding states that, by mid-1955, three major problems were evident:

> the central planning agencies could not control the ministries, the ministries could not handle the flood of information sent in from the provinces, and the provinces lacked authority to modify central directives or even to coordinate economic activities that were directed from the center.[39]

As Mao said, China was plagued with "a heavy head and weak feet." Political unity was bought at the price of economic development.

The 1956-1957 decentralization debate and the subsequent form decentralization took is central to the _tiao-kuai_ model I proposed in Chapter 1. It was here where the concept of dual rule was first applied, where formal, government sanction of _tiao-tiao_ and _kuai-kuai_ lines of authority, theoretically to act in concert, created the numerous cells of power that serve to restrict Chinese growth and development, socially, economically and politically. All other efforts at recentralization or decentralization in the People's Republic since 1957 have

been implemented by changes in the power ratio between *tiao-tiao* or *kuai-kuai* lines of authority, not by their elimination.

Indeed, these *tiao-tiao* and *kuai-kuai* lines of authority are an organizational device that fit well with traditional Chinese culture. They have, in fact, become part of that political culture. *Tiao-tiao* and *kuai-kuai* are, in Schurmann's words, "core elements" of the Chinese social system.[40] It is, therefore, important to focus on the debate over decentralization, how decentralization was to be implemented through the concept of dual rule, and the result of attempts to find the proper balance between Center and region through dual rule.

The Decentralization Debate

The origins of the debate on how best to decentralize--what sectors of the state to decentralize and what sectors not to--begins with a series of Politburo meetings in early 1956. These discussions were summed up by Mao in his speech "On the Ten Great Relationships,"--one of the relationships was that between Center and region. In this section, Mao made clear he was focusing on problems within the state administration, not the Party.

From the state, Mao said, the goal was "unity together with individuality."[41] But how to attain this was unclear.

> This individuality is not Kao Kang's kind..., which amounted to striving for an independent kingdom; it is the individuality necessary in the interest of the whole country and to strengthen national unity.
> ...the comrades at the lower levels ...should not act wildly, ...must exercise caution. Where they can conform, they ought to conform. Where they ought to conform, they must conform. Where they cannot conform, were they ought not to conform, then conformity should not be sought at all costs... .
>
> The independence sanctioned by the Centre must be a proper degree of independence. ...the regions should have an appropriate degree of power.[42]

Mao's speech left unclear just who should determine when conformity should or should not be sought. As well, it was unclear, in a regime that Mao admitted had "little experience, and little maturity" in this relationship, just what the appropriate degree of regional power should be. Following several meetings between Mao's speech in April, and August 1956, the State Council produced a draft for governmental reorganization that sparked a year-long debate over the best way to decentralize decision-making power. By September 1957 the debate focused on two

documents that viewed the matter in quite different ways.[43]

The first view was promoted by Zhou Enlai in his report on the Second Five-Year Plan to the Eighth Party Congress. The thrust of his proposal was to give local government, especially provinces, greater power over such critical areas as planning, finance, enterprise management, personnel and allocation of materials. This reorganization would change the then-current system from a centralized, top-down command administration to one involving four new elements.

First, ownership of non-critical and non-capital intensive enterprises would be transferred to provinces. Second, lower-level governments would be given a draft plan from the State Council covering the entire economy rather than a series of separate plans presented by each ministry. Third, provinces would be given greater authority to adjust plan targets and to shift inputs such as labor and raw materials as needed. Finally, and most important, enterprises that remained under central ownership would be run under a concept of dual rule, in otherwords, controlled by both the central ministry branch agency in that province and by the provincial government.

The second view was embodied in an article by noted economist Xue Muqiao, who has played a major role in the economic reforms of the Deng Xiaoping era. Xue advocated giving production enterprises, as well as lower-level governments, fixed amounts of authority in planning and management. The Center would retain control over such major economic activity as investments, wage rates and major-product production, procurement, sales and pricing. Xue's view involved a greater role for market mechanisms, a role that he advocated be expanded further in the post-1979 reforms.

In brief, Xue argued for greater autonomy at the production level, with plans being either mandatory, alterable with permission, or advisory, depending on the industry involved.

The two versions were labeled by Schurmann as Decentralization I (part of Xue's plan), with power transferred down to the production level, and Decentralization II (Zhou's), with power transferred down to provincial government administration.[44] There are many differences between these two views, but, basically, Zhou sought to reduce central control by shifting power to provincial governments while Xue sought to maintain central control but make it, in Harding's words, "less stringent."[45]

The outcome was a compromise between the two views that was engineered by Liu Shaoqi. In effect, the decentralization decision followed Zhou Enlai's version, with some exceptions in the planning process, by giving provincial leaders much more authority, especially in agriculture and light industry. Liu's plan utilized portions of Xue Muqiao's views by reforming the planning system through a reduction of the number of mandatory planned targets.

The move to Decentralization II very clearly enhanced Party control over the economy and the administrative apparatus at every level. By 1957, the Communist Party controlled provincial governments. The on-going effort at that time was to enhance the power of the Party committees within basic production-level units. These units were then under the thumb of central ministries. Giving production units greater power, under terms of Decentralization I, would have involved at best a sharing of power between production units and their Party committees.

Decentralization II, however, gave all power to production-unit Party committees, especially during the anti-rightist campaign in which intellectuals and factory managers were under attack and such slogans as "politics takes command" were prevalent. These production-level

Party committees were controlled by provincial Party committees. Decentralization II, then, not only gave provincial governments more power, but allowed provincial Party leaders' power to reach down to the lowest organizational level of society.

The 1957 decentralization measures did four things. Control over a wide range of industrial enterprises and commercial agencies was transferred to provinces. In industry, provinces now had new powers over the allocation of materials, a greater share of above-target production and enterprise profits and, most critical, greater authority over personnel, including personnel in enterprises which remained under central jurisdiction. In commerce, controls over allocation of critical supplies and prices were given to the provinces. "What the central branch agencies lost," Schurmann wrote, "the provincial governments gained.[46] Finally, as a result, provincial Party committees became much more powerful.

The proper handling of these new powers was critical to China's success. Decentralization could be implemented only if power was shared by the Center and regions through the concept of dual rule.

Dual Rule

In theory, dual rule provides a means whereby different levels of government can share power and cooperate in formulating and implementing policy. The Communist Party branches at different levels were to continue their integrating function by a unified rule through democratic centralism.

Discussion of Chinese administrative organization focus on the concepts of vertical rule and dule rule. Vertical rule typically is that control over Chinese society exercised by central ministries, which had branch agencies throughout the country which were to implement policies set at the Center and to oversee all units within their functional jurisdiction. For example, the Ministry of Foreign Trade maintained provincial foreign trade bureaus, which administered all foreign trade activity, from production to export to transport to import to customs within their respective provinces.

Dual rule is usually an _undefined_ sharing of power between the vertical, or _tiao-tiao_ leading organ and the local-level _kuai-kuai_ organizations. These local level organs initially were committees comprised of members of different central agency branches. Because of this composition, the committees would facilitate cooperation

by cutting across the vertical branch lines.[47] The purpose of these horizontal committees was coordination, not assumption of power.

Using this conception, Schurmann was correct when he wrote:

> If at a regional level, administrative powers are vested in a committee which includes representatives from branch agencies of the central government, then command ...flow[s] horizontally. If a regional agency is subject to dual rule, coming vertically from the center and horizontally from the regional Party or government committee, then ...the more the agency is controlled by the committee, the more reduced its branch-type functions; the reverse also holds true.[48]

There are two problems here, however. First, as a practical tool, dual rule does not work. Like "constitutionalism" and "tutelary rule" before it, dual rule was vague. How was power to be shared? Whose authority took precedence? Communist Party leaders, _if they really believed_ dual rule would solve the problems inherent in the contradictions between Center and region, failed miserably to foresee that different levels of government, without clearly defined limits of authority, have a tendency to grab for as much power as they can. Thus, instead of sharing power in a cooperative effort, officials at different governmental levels compete for

power and influence over policy choices and policy implementation.

This phenomena was aptly described by Downs, who hypothesized that "every official is significantly motivated by his own self-interest even when acting in a purely official capacity.[49] Downs listed several laws concerning bureaucracy. The most pertinent here are the laws of:

---hierarchy, in which coordination of activities without markets require a hierarchical administrative structure;

---imperfect control, where no one can fully control the behavior of a large organization;

---diminishing control, in which control diminishes as an organization becomes larger;

---decreasing coordination, in which coordination decreases as organization size increases;

---control duplication, in which attempts to control an organization generate creation of a new organization;

---counter-control, in which the greater the effort organizational leaders make to control subordinates, the greater the efforts by those subordinates to counteract that control;

---progress through imperialism, in which the desire to aggrandize breeds innovation;

---self-serving loyalty, in which officials exhibit loyalty to their organizations, and;
---interorganizational conflict, in which organizations are in partial conflict with other social agents with which they deal.

The second problem is that the Communist Party failed to recognize that, in this competition, there was a great probability that kuai-kuai units would be redefined by provincial leaders and the people under their control to mean provincial Party committees and governments, not committees comprised of various central branch agencies in each locality. Schurmann failed to define what ultimately became horizonal, or kuai-kuai rule. To him, any government level that issued commands downward, i.e. vertically, whether Center or province, is a tiao-tiao organ. Kuai-kuai rule was exercised by committees that cut across these strictly vertical lines of authority. But, as I said in Chapter I, kuai-kuai lines of authority are, in reality, those exercised at the local level, whether commands flow vertically or horizontally. Provincial government and provincial Party committees are the ultimate holders of this power.

It strains credulity to think that China's leaders could not foresee that any decentralization to lower-level governments would compound the problems of bureaucratism

they so easily recognized at the Center. In "On the Ten Great Relationships," Mao pointed directly to the net enveloping all of society that was created by tiao-tiao lines of authority:

> At present there are dozens of hands meddling in regional affairs, making them difficult to manage. Every day various ministries issue orders to the offices of provincial and municipal governments. These orders are supposed to come from the Centre, even though the Centre knows nothing about them and neither does the State Council. They put a great strain on the regions. Statistics and reports come rushing in like a torrent. This must be changed.[50]

To think that decentralization would not unleash the more numerous kuai-kuai lines of authority that would also "put a great strain" on production units was naive. So was any hope that the concept of dual rule could maintain an atmosphere of cooperation between tiao-tiao and newly unleashed kuai-kuai lines of authority. Faith in decentralization through dual rule meant faith in lower-level government officials willingly subordinating themselves to central agencies in far-off Beijing. Downs' laws that are important here are those of diminishing control, decreasing coordination, counter-control, progress through imperialism, self-serving loyalty and interorganizational conflict. Faith in decentralization

through dual rule also meant having faith that control of lower-level government officials could be maintained by local branches of the Communist Party, which, in Schurmann's equally naive view, was and would remain a unified organization and "knew exactly what real policy was."[51]

But perhaps the intent was not to forge a mechanism whereby government at different levels might cooperate, but to create the means whereby the Communist Party itself could assume control of the Chinese economic and social administrative structure from the very top to the very bottom of society. This would allow the Party to by-pass the central and regional government bureaus Communist leaders saw as hopeless. These disparate elements of Chinese bureaucracy and society could be unified through the enhanced power that would accrue to local Party committees when the government organs became grid-locked. Party committees alone could clarify any confusion between vertical, branch agencies and the horizontal committees. Schurmann[52] provides the following example of how dual rule was supposed to work and how local Party committees could fill the breach in any conflict.

County government offices, acting under vertical rule as defined by Schurmann, would issue orders directly to their branches at the township or village level. This

relationship mirrored that of the central government and its branches at the provincial level. Dual rule, however, mandated that such orders first be sent through the county government committees and then to the township or village committees. This would cause confusion: which group was primary? Only the local Party committees exercised, supposedly, unified rule through democratic centralism.

Dual rule, then, was to replace the bureaucracy at different levels of government, which were seen as hopelessly squabbling with each other, by the unified, politically cohesive Communist Party apparatus.

The Result

The result of dual rule was not to limit regional power to being "cooperative" with the Center, nor did the Party remain immune from the competitions inherent in the contradiction between Center and region, fitting well with Downs' law of control duplication. The 1957 decentralization created two competitors for power, the tiao-tiao leading organs in government and Party at the Center and the kuai-kuai leading organs within provincial government and local Party committees. Chinese have come to view vertical rule as that coming directly from the central government or Party in Beijing. Dual rule, rarely

mentioned, has been replaced by horizontal, or <u>kuai-kuai</u> rule, which means local, especially provincial government <u>and</u> Party rule. The 1957 decentralization, therefore, succeeded primarily in splitting the Party apart by making local Party officials less responsive because they now shared local interests with their "government" counterparts. This power source is seen in very traditional fashion:

> A socialist country is a planned economy. This industry or that belongs to the economy and can help each other. This help isn't willing sometimes. Thus this must be decided by a common organ. In Hubei Province the top organ is the Hubei government. In every place, the provincial government is the top organ. Organs have relationships because they have the same kin--the provincial government. This kin is imperial, like Huangdi. If they use the whip the whole mountain must move.[53]

While provincial Party committees were supposed to remain immune from exercising local interests as provincial governments might do under dual rule, it is clear from efforts to decentralize in 1960 that the Communist Party faced a growing localism within its various provincial branches. This was caused, according to Kang Chao, either by a central planning system weakened by the Great Leap Forward that provided local Party cadres

with inconsistent directives, or because "local cadres deliberately ignored the signals when they were counter to regional interests." [54] To halt this tendency and recentralize central Party control over local Party committees, six supra-regional Party bureaus that had been abolished in 1954 were reestablished. Each of these central bureaus

> was to represent the Party Central Committee ...and to supervise and lead the provincial and municipal Party committees in each region. Through these bridging organs the Party hoped to extend its control more effectively down to the lowest level. [55]

In each of the major decentralization efforts, 1957, 1965 and 1979, provincial governments, and, consequently, Party committees, have been granted increasing amounts of power that subsequent periods of recentralization, in 1960 and 1975, could not recapture.

For example, despite the recentralization of the economy between 1960 and 1965, China did not reimpose the highly centralized ministerial system that was abolished in the 1957 decentralization. Most industrial enterprises remained under provincial control, national policy was made at central work conferences attended by provincial leaders who had input into decisions, and the newly-established supra-regional Party bureaus were staffed by

former provincial officials and became a forum for articulating provincial demands.[56]

In the decentralization of 1965-1969, these supra-regional Party bureaus were again abolished, the 1957 planning and budgetary process was reestablished, and the centralized economic trusts created in 1964 and 1965 were abolished. Central control of national production declined from 70 or 80 percent in 1965 to 50 percent in 1972.[57]

The 1975 recentralization reaffirmed much of the 1957 decentralization program but sought to bring provinces into line by strengthening unified state planning. Also, it sought to establish supra-regional economic planning supervisory agencies.[58]

Conclusion

This chapter shows that, in its search for a political form, China has often looked to ideal political forms rather than realistically facing its own cultural characteristics on which any political form needs to be built. Provincial assemblies and constitutionalism were to solve China's political anomie and set the stage for making the country a rival to other modern powers in the early 20th Century. China was not ready for

constitutional government at that time.

A tutelary rule by a Nationalist Party bent on inculcating such political values as civil rights and participation was no match for an autocrat who found it easier to shore up his own power and ignore the usefulness of a political organization to aid political development. He relied instead on traditional political factions to ensure his rule.

And an ideal system of sharing power, dual rule, through the tutelage of the Communist Party, was no match for traditional Chinese political characteristics that have created the centuries-long contradictions between Center and region.

None of these efforts have faced the basic reality of Chinese political culture: the lack of any established means by which political competition can be channeled into open and legitimate debate before a public willing to listen.

I contend that little in China's traditional political culture has changed, despite monumental efforts to do so. As I show in the next chapter, the decentralization measures taken after the December 1978 Third Plenum of the 11th Party Central Committee continue to make the contradiction between Center and region a serious problem for both government and Party. Deng

Xiaoping's efforts at economic reform confront a political culture that refuses to give way.

ENDNOTES Chapter IV

1. Among the continual redefining of ideology by China's Communist leaders are the steps taken to end class struggle in 1977, to denounce "whateverism" in 1978, to openly state it "is glorious to get rich" in 1983 to the claim that "Marx does not hold all the answers to the problems of the late 20th century" in 1984. This atmosphere came to a head in late 1986 after calls for democratic reforms, including curbing Communist Party power, culminated in student demonstrations, Hu Yaobang's dismissal as Party Secretary in 1987 and the contention between the conservative and reformist factions leading to the 14th Party Congress that was to convene in late 1987.

2. Andrew J. Nathan, Chinese Democracy, (New York: Knopf, 1985), 114.

3. Andrew J. Nathan, Peking Politics, 1918-1923, (Berkeley: University of California Press, 1976), 9.

4. John H. Fincher, Chinese Democracy, (Canberra: Australian National University Press, 1981), 126.

5. Ibid., 127.

6. Ibid., 100-101.

7. Ibid., 163.

8. Ibid., 164.

9. Ibid., 167.

10. Ibid., 166.

11. Ibid., 196.

12. Sun Yat-sen was in Denver, Colorado, on a fund-raising trip when the Wuchang Uprising occurred.

13. Diana Lary, Region and Nation: The Kwangsi Clique in Chinese Politics, 1925-1937, (London: Cambridge University Press, 1974), 14-15.

14. Jean Chesneaux; "The Federalist Movement in China, 1920-3," in Modern China's Search for a Political Form, ed. Jack Grey, (Oxford: Oxford University Press, 1969), 99, note 12.

15. Ibid., 99-100.

16. FBIS, 21 November 1984, K2.

17. Nathan, Peking Politics, 25.

18. Lyon Sharmon, Sun Yat-sen: His Life and Its Meaning; A Critical Biography, quoted in Nathan, Peking Politics, 27.

19. Nathan, Peking Politics, 27.

20. Ibid., 28.

21. "The Japanese destroyed the Kuomintang as a viable government that had been moving toward unifying and stabilizing China and eliminating the Communist Party." Gilbert Rozman, ed.; The Modernization of China, (New York: The Free Press, 1981), 444.

22. Patrick Cavendish; "The 'New China' of the Kuomintang" in Jack Grey, ed., Modern China's Search for a Political Form, 140-149.

23. Ibid., 140-141.

24. For detailed discussion of Soviet influence in thie period, see Robert C. North; Moscow and the Chinese Communists, (Stanford: Stanford University Press, 1963), and O. Edmund Clubb; China and Russia, (New York: Columbia University Press, 1971).

25. Ibid., 147.

26. Rozman, The Modernization of China, 263.

27. Ibid., 158.

28. Ibid., 161.

29. Ibid., 164.

30. Ibid., 168.

31. Ibid., 161.

32. Ibid., 171.

33. Harry Harding, Organizing China, The Problem of Bureaucracy 1949-1976, (Stanford: Stanford University Press, 1981).

34. Ibid., 32-34.

35. Ezra Vogel, Canton Under Communism, (Cambridge: Harvard University Press, 1969), 41-90.

36. Ibid., 53.

37. These were the 1950-1951 campaign against arrogance, bureaucratism and commandism; the 1951-1952 San-fan campaign against corruption, waste amd bureaucratism; and the 1953 New San-fan campaign against bureaucratism, commandism and violations of law and discipline. Bureaucratism is defined here as the alienation of cadres from the people while commandism involves the use of command and coercion rather than education and pursuasion to obtain public compliance with directives.

38. Harding, Organizing China, 67.

39. Ibid., 107.

40. At issue here is whether organization has become self-regulating and, therefore, a "core element" of the social system. Schurmann maintained that organization was not a self-regulating core element of the social system, but a "conscious contrivance" that "demands constant effort to maintain it." I think China's tiao-tiao kuai-kuai organization has become self-regulating and, as such, has become the system itself. The question becomes, can China replace it, as it hopes to do, without causing irrepairable damage to the system itself? See Franz Schurmann, Ideology and Organization in Communist China, (Berkeley: University of California Press, 1968), 2-6. I return to this discussion in Chapter 7.

41. Mao Zedong; "On the Ten Great Relationships," in Chairman Mao Talks to the People, ed. Stuart Schram, (New York: Pantheon Books, 1974), 73.

42. Ibid.

43. This discussion draws on several sources, including Zhou Enlai's "Report on the Proposals for the Second Five-Year Plan for Development of the National Economy" to the Eighth Congress of the Communist Party of China, September 16, 1956, in Bowie and Fairbank, *Communist China 1955-1959, Policy Documents With Analysis*, (Cambridge: Harvard University Press, 1962), 216-242; Harding, *Organizing China*, 109-115; and Schurmann, *Ideology and Organization*, 195-210.

44. Schurmann, *Ideology and Organization*, 175.

45. Harding, *Organizing China*, 112.

46. Schurmann, *Ideology and Organization*, 208.

47. Ibid., 89.

48. Ibid.

49. Anthony Downs, *Inside Bureaucracy*, (Boston: Little, Brown & Co., 1967), 262.

50. Mao Zedong in Schram, *Chairman Mao Talks to the People*, 72.

51. Schurmann, *Ideology and Organization*, 192.

52. Ibid., 191-192.

53. Interview File A, Interview Number 20, December 23, 1984, Wuhan.

54. Kang Chao, "Policies and Performance in Industry," in *Economic Trends in Communist China*, ed. Alexander Eckstein, Walter Galenson and Ta-chung Liu, (Hawthorne, New York: Aldine Publishing Co., 1968), 568.

55. Ibid.

56. Harding, *Organizing China*, 186-187.

57. Ibid., 290-291.

58. Ibid., 318.

Chapter V

COMPETITION FOR POWER

China's effort to reform its urban economy in the 1980s involve, at root, multiple struggles for power. These struggles are delineated in two basic conflicts that strike at the heart of political power held by the Chinese Communist Party. First, reforms have given rise to new actors in government and Party whose appointments to office increasingly are based on managerial and technical skills rather than the traditional communist criteria of ideology and politics. Second, efforts to "free up" enterprises, to separate government administration from enterprise activity, to give factory managers more decision-making power, to encourage enterprise integration and cooperation along economic lines of their specializations, is a direct challenge to the control of those enterprises by entrenched government and Party bureaucrats at all levels.

In Hubei Province, for example, Provincial Party Secretary Guan Guangfu complained in April 1983 that "certain leaders" in the Party "regard the units they head as places where they can do as they please. Some of them take a very incorrect approach toward implementing the

Party's line, principles, policies and resolutions."[1] Guan further complained that "a few" Party cadres used their power for private gain and that "there has still been no fundamental turn for the better in our party work style."

Power in the People's Republic, in the end, is based on ownership and/or use of the means of production. This, in turn, is determined by the relative influence of _tiao-tiao_ and _kuai-kuai_ lines of authority that more often than not determine how enterprises are run. Thus, at times of centralization, ultimate decision-making power is held by _tiao-tiao_ authorities. In periods of decentralization, power is in the hands of _kuai-kuai_ authorities at the provincial, or local, level. Production units are controlled, in reality owned, by government and Party. Consequently, commercial activity is organized politically and administratively, not economically. Urban economic reforms, especially those involving enterprise decentralization, are designed to replace this organization of _tiao-tiao_ and _kuai-kuai_ authority with economic ties to spur production and increase national wealth.

It is in this effort that China's urban economic reforms falter, in large measure because their implementation has been entrusted to those already holding

tiao-tiao and *kuai-kuai* authority; they have little interest in implementing policy deleterious to their positions. As *Renmin Ribao* editorialized in 1981,

> To organize our industry rationally it will be necessary to break through 'department ownership' [*tiao-tiao*] and 'local ownership'[*kuai-kuai*]....
>
> "Industrial restructuring and integrating touch upon ...a series of reforms in the upper structures as ...[they] deal with interests and power in various quarters. It is a very complicated task.[2]

There is a fundamental irony, then, in China's drive toward modernization. The commonly-held view is that decentralization will lead to increased economic production and development. Yet decentralization gives greater power to those forces which oppose replacing their control over economic activity with the economic logic of market mechanisms. Entrenched power-holders at the local level, so often pictured as bound hand and foot by the Center, are, in reality, the major obstacle to economic development in China. Decentralization, while easing the most apparent symptoms of economic malaise, does nothing to cure the disease.

Thus struggles for power arise at all levels between those hoping to continue their political control of economic activity in either *tiao-tiao* or *kuai-kuai* capacities and those wanting to replace this political

control with economic relationships. The western vission of China as a highly disciplined Communist state is quite incorrect.

Using Dahl and Lindblom's scheme of control techniques, those hoping to continue their power fear the replacement of their direct control, either command or manipulative, by economic relations (or spontaneous field control) because the latter appears unpredictable and erratic. By adhering to commands rather than spontaneous field control, "order will prevail over chaos," a deeply-felt need of traditional Chinese political culture.[3]

A natural outcome of these power struggles is the increasing call for political reform from both within and without the Party. As the People's Republic entered its Seventh Five-Year Plan (1986-1990), media discussions focused on changing the political system, on new methods of electing leaders, on preventing a "monopoly of power held by a few people (where) democracy is replaced by autocracy."[4] As events in December and January 1986 and 1987 showed, this discussion went only so far.

Put into the framework of traditional Chinese power struggles, this new competition raises two key questions: First, will this competition for power result in levels of disharmony and chaos that, feeling threatened, the Party scraps reforms in the name of order, as happened in 1085

following the reforms of Wang Anshi? Or, with the rise of new competitors for power, especially those whose power base is economic and technical rather than political or ideological, will the Chinese Communist regime as we know it change in any appreciable way?

Indeed, the ouster of Hu Yaobang as Party general secretary and the campaign against bourgeois liberalism in January 1987 is a manifestation of the Party's insecurity with even the potential chaos that calls for political reform might generate. Following the December 1986 demonstrations across China, in which students demanded undefined "freedom and democracy," the Party clamped down. While the campaign against bourgeois liberalism was being kept within the Party during 1987, the implication was clear: continued demands for western-style democracy, or for creation of a credible political opposition as has happened on Taiwan,[5] could force the Party to take the campaign beyond its membership. Any tendency to stray from the four cardinal principles,[6] especially continued leadership of the Party, would not be tolerated, providing local power-holders in government and Party a clear sign that their continued control of economic activity would not soon be challenged.

Responding to widespread concern within China and abroad that the campaign would be generalized, Acting Party General Secretary and Premier Zhao Ziyang summarized the Party's position in a late January speech. It could have been voiced by any Chinese central leader, dynastic, Republican, or Communist.

> Could our reform continue for one day if the political situation were in chaos and social order in turmoil? Everyone is eager to see a take-off of the Chinese economy, but who can achieve it amidst an earthquake? Only political and economic stability can bring hope to China....Chaos in a single province or a single city--not to mention the entire country--would be enough to leave us no peace and get us nowhere.
>
> China's chances lie in political and economic stability; a stable political environment cannot do without a powerful leading core.
>
> To maintain political stability it is necessary to have a powerful leading core. This is not a complicated theoretical issue but a very practical one. China has found in the Communist Party a very powerful core capable of leading the reform and construction. Bourgeois liberalization is, in essence, designed to write off Party leadership.

Ironically, implementation of urban economic reform aimed at cutting tiao-kuai influence is made more complex by companion reforms giving provincial governments greater decision-making power and the financial resources to exercise that power. This served to enhance the kuai-kuai influence of the local government and Party organizations charged with implementing the reforms designed to free-up enterprises within their jurisdiction, while at the same time decreasing the relative tiao-tiao influence exerted by central ministries.

This increased kuai-kuai influence is seen in a demand, voiced by Hubei's then acting-governor Huang Zhizhen but no doubt issued by the Center to curb growing disunity among government and Party at all levels. "Government at all levels and all subordinate departments in the province ...[must] persistently maintain complete political and ideological unity with the Central Committee."[8]

As said in Chapter 1, China has then a strategic domestic triangle of Center, local government (typically provinces) and enterprises. The goal of urban economic reform is to decentralize the Center-Province (CP), Center-enterprise (CE) and Province-enterprise (PE) relationships. It is my view that success in the first, decentralized CP relations, has aided success in the

second, decentralized CE relations, because provinces have assumed more responsibility for enterprises in their areas, thereby freeing central departments from many tasks of oversight and financial subsidies. But successful CP decentralization has made decentralized PE relations impossible unless enterprises can mount a credible challenge to local power-holders.

To better understand the continuing influence of *tiao-kuai* authority and the efforts to overcome them, this chapter focuses on the relationships between these three critical actors in post-Mao China. After a brief discussion of economic reforms, I look at the decentralized relationship between Center and province. Next I examine efforts to decentralize the CE relationship to spur China's push to modernization. Finally, I examine the critical third leg of this triangle, the relationship between provinces and their enterprises, with a focus on Hubei Province.

This discussion sets the stage for Chapter 6, drawing a *tiao-kuai* map of China's reformed foreign trade system in one Chinese province. This mapping shows the PE relationship has yet to be decentralized.

THE NATURE OF REFORM

Urban economic reform in China has revealed a variety of contending groups and shifting alliances. At risk of oversimplification, conservatives favor reforms that encourage economic activity and reduce the State's burden in managing it all, but oppose reforms that would ultimately jeopardize government and Party control of economic actors, assets and profits. Reformers, to greater or lesser degrees, have set about changing the basic relationships between government and business activity.

Conservatives profess that continued centralized control over the economy will eventually lead to economic development. They prefer what Lindblom called the vertical axis of authority.[9] Thus, each level, Center, province and locality must be politically and administratively balanced, or unified, as the Chinese like to say. Economic development must also be balanced. Only the locus of centralization, at the Center, the Province or the city, is open to debate. In China, this position is decidedly weakened by 30 years of repeated failure, especially when compared to the successes of Taiwan and Hong Kong and to the substantial rate of economic growth in the People's Republic under the less centralized system

at work since 1979.

Reformers[10], however, have set about changing the basic relationship between government and business activity. Their goal is to replace governmental administrative measures used to control business activity with basic fiscal and monetary tools of government spending, prices, taxation and lending. This would enable the Center to maintain an indirect macro-guidance of the national economy. For example, while leaving control of enterprises to enterprise managers, leasing enterprises to collectives or individuals while retaining ownership would aid, they think, in separating government from enterprise work. This puts greater emphasis on what Lindblom called the horizontal axis of exchange.[11]

The urban economic reforms pushed by Deng Xiaoping and his group since 1979 are two-fold. First, decision-making authority, deemed too rigid in pre-1979 China, was decentralized to lower governmental levels after the Third Plenum of the 11th Central Committee in December 1978.

Naughton took a closer look at the effects recent decentralization measures have had in central control over investment in post-Mao China. He found that the percentage of total fixed investment under local control rose from 40 percent in 1977 to 63 percent in 1982. Central control has diminished steadily since 1977 because

of institutional changes that have come about in the course of economic reform. The reforms allowed local governments to retain greater amounts of depreciation funds and profits, obtain bank loans and to tap extra-budgetary incomes. As Naughton states,

> These institutional changes mean that local governments and industrial systems are in some senses genuinely autonomous. They do not _depend_ on the central government for any of their critical resources: all they need is _permission_ to use them. Not surprisingly,...the temptation to proceed without permission is very strong....a simple conclusion [is] the Center simply does not possess adequate tools to directly control local investment.[12]

Donnithorne examined budgeting, price-setting, planning and foreign trade, finding that "changes in the fiscal relations between the central government and the provinces have reduced the resources at the disposal of the Centre."[13] Further, she predicted that the importance of the fiscal arrangements between Center and provinces and its relative decentralization or centralization will diminish in time because

> the growth of enterprise autonomy, loosening the links between production and any level of the government administration,...[plus]...the greater scope of the market...has freed an increasing proportion of the distribution system from administrative control and has effected a straddling of boundaries between local authorities and between vertical 'system' or sectors of the economy.[14]

This prediction, made in the heady days of early reform efforts, minimized the importance of relations between provinces and enterprises. In my view, enterprise autonomy <u>from the Center</u> has increased, but autonomy from provincial government and Party control has not kept pace. Fiscal and other arrangements between Center and provinces and the relative decentralization or centralization, therefore, remain quite important.

The second part of the reform involves a variety of mechanisms for overhauling organizational aspects of commercial activity so as to develop the comparative advantages of China's many regions and provinces and to reduce localist tendencies for self-sufficiency.

According to Chinese economist Ma Hong, the goals of this second part of the reform were fourfold.[15] First, enterprises were to be consolidated and reorganized, with expanded decision-making authority, increased use of the market's regulatory role, and implementation of an

enterprise responsibility system. Second, enterprises would be integrated according to specialization by means of new corporations that could break the administrative links to government at all levels, replacing them with economic links. Third, associations along industrial lines would be established to strengthen these economic links, both within localities and within larger regions. Fourth, economic centers, or central cities, would be created to promote economic links within and between regions.

It is important to note that, based on statements by reformers trusted by the Party, none of this was intended to eliminate overall governmental and Party control of enterprises. Contrary to the popular western notion that China is "going capitalist," economic activity in China would still be managed, ultimately, by the Center. Both Ma Hong and Xue Muqiao, whose prescriptions for economic reform were given life by Deng, envisioned overall governmental control of the economy <u>at all levels.</u> A new economic management system, Ma wrote,

> ...must be able to mobilize the enthusiasm of the various economic units and facilitate the effective leadership of the central and local authorities.[16]

Xue sought China's golden fleece, the proper balance between the Center, local government and enterprises. His oft-quoted description did not call for enterprise independence from governmental control.

> If unified state leadership over the economy is interpreted as centralized management and is allowed to weaken the power of the local authorities and enterprises to manage their own affairs, our economic life will stagnate....On the other hand, over-emphasis on independent management by the local authorities and enterprises and a weakening of unified state leadership over the economy would lead to anarchy.[17]

It is clear from China's economic performance between 1979 and 1986 that the reforms have redirected the economy, correcting the ossification caused by an overly-centralized administrative system. For example, the average annual increase in gross output value of agriculture and industry for the 1979 to 1984 period was nine percent while that of the 1981 to 1985 Sixth Five-Year Plan period was 11 percent.[18]

But the balance sought by Ma and Xue is as elusive as Marx's communal world. No one seems to know what it is. And, if they did, it would require a reorganization of the power relationships between actors at the Center, in the localities and within enterprises <u>plus</u> their

willingness to go along with that reorganization. In other words, the "haves" are required to willingly give up power to the "have nots."

The experience of command-economy countries reveals that efforts to achieve this balance results not in "unified state leadership" or the ability "to mobilize the enthusiasm of the various economic units," but the inevitable rise of localism, of competition for power which thwarts the Center's goals for a decentralized, active and competitive economy.[19] This is indicative of any regime where commercial activity is spurred, not by the economic interests of the market place, but by economically-artificial orders from the political forces in authority. In China, this is the case for both the ancien regimes and the People's Republic, where commercial activity is organized politically, not economically. Solinger called this organization "uncertain paternalism, (a) mode of integration that is never complete and that easily falters."[20]

As I show in this chapter, two of Xue's three actors, central and local governments, hinder the flexibility needed to successfully respond to the challenges of economic and technological change. In an era where such flexibility is required to become or remain competitive, the economic roles these two actors play become

increasingly redundant. Economic, or market forces, strive to reduce or eliminate their influence. The political actors devise new methods to continue to hold what power they have, including the commercialization of former political bureaus into corporations or companies that permit them to continue, to, in fact, dominate, as before.

The urban economic reforms in China reveal this dilemma as nothing else could. The many changes in China's economy have shown a recalcitrant government and Party that does not relish giving up power to the more efficient engines of the market place.[21] This is not a new phenomenon in China, as the two previous chapters show, but a reformulation of a continuing problem all Chinese regimes have faced.

The focus of political life in Deng's China, then, is the power struggle embedded in the societal fishnet of <u>tiao-tiao</u> and <u>kuai-kuai</u> relationships described in Chapter I. This is the battleground for China's latest competitors for power, and it provides the key to understanding the Chinese puzzle of who holds power in different localities or functional areas.

To understand the influence of this <u>tiao-tiao kuai-kuai</u> it is necessary to examine efforts to change the basic relationships between governments at the Center and

provincial levels with enterprises under their control.

CENTER-ENTERPRISE DECENTRALIZATION

The success of urban economic reform requires that the relationship between Center and enterprises be decentralized.[22] The entire thrust of the reforms has been to "free-up" enterprises from an overly restrictive, unrealistic and inefficient administration by central authorities. As Ma Hong stated, Chinese enterprises had become apendages of administrative organs at different governmental levels. Natural economic relations (Lindblom's horizontal ties)[23] between enterprises had been cut off. With too many rigid targets set by central plans, enterprises gave up on efficiency and product quality to devote their energies to meeting targets. With enterprise losses subsidized by the Center, responsibility for economic activity disappeared. The Center was drained financially, and the localities and enterprises shared equally in the resultant poverty.[24] Clearly, reform of this system was in order.[25]

The parameters of urban economic reform, which were gradually developed in the late 1970s and early 1980s, included three basic ideas.[26] First, any new economic

management system should fully involve the state, various economic institutions such as enterprises and banks, and the workers. Second, government planning should be combined with regulation by market mechanisms where appropriate. Third, management by the central government and Party by administrative means should give way to management by economic institutions using economic tools.

In the beginning, reformers were uncertain as to what constituted enterprise reform. Some wanted to give enterprises more authority, others favored giving them a limited amount. This dilemma was clear in a 1979 article by Qing Wen and Xu Guang that appeared in Renmin Ribao titled "How can the Decision-Making Power of Enterprises be Expanded?"[27] Successful economic development, they wrote, "lies in increasing the powers of enterprises and giving them the proper right to manage their own affairs." (emphasis added). But they had no idea of what the "proper" rights of an enterprises should be.

In the midst of settling their own uncertainty, reformers also had to face opponents to any enterprise reform. Despite the major changes in Party line taken at the December 1978 Third Plenum, enterprise decentralization was not a sure thing. Opposition existed at all levels, including the newly-constituted Center.

While many in the government, Party and academia called for enterprise decentralization, others insisted that economic development should be achieved through strengthened government administration and central planning. For example, in May 1979, Renmin Ribao published a commentary advocating reform of the government's administrative system instead of enterprises to improve its supervision of economic activity.

> Our management system and methods also need rehabilitation and innovation. ...this calls for contiuously bringing into full play the role of industrial and commercial administration and management.
>
> ...It is necessary to supervise and restrain all economic activities already incorporated into the plan to prevent violations of the plan.
>
> ...Industrial and commercial administration and management involve all departments in the national economy and are closely related to the masses' living standards. Departments of industrial and commercial administration and management must rely on the leadership of party committees and the masses' support." [emphasis added].[28]

It is important to note that opponents to enterprise decentralization began defending their opposition in terms of protecting the people's standard of living, thereby using a similar argument as the reformers, who increasingly saw improved living standards a political as well as economic imperative.

With this background, the effort to decentralize enterprise power can be put into four phases. Each phase spurred debate among economists and political leaders as to how best to reform the urban economic system. Each phase gave reformers the economic success needed to consolidate their political strength to push their proposal through political organs.

The first phase, lasting roughly from 1978 to 1980, involved experiments with a variety of enterprise profit retention models (lirun liuchang zhidu). When results proved the viability of these models, reformers could announce the second phase, a series of experiments which permitted enterprises to exercise independent accounting and payment of taxes in lieu of turning profits over to the state and receiving subsidies (li gai shui). The early experiments in this phase lasted roughly from 1980 through 1981, although it should be noted that further experiments and full implementation cotninued into 1987 as part of other reform phases.

By 1981 China had changed its economy enough that problems inherent in its industrial and commercial infrastructures, plus enterprise management capabilities, had come to light. Serious economic dislocations had surfaced. For example, it became clear that China had run a budget deficit in 1980 of 12.75 billion yuan following

the 1979 deficit of 17.06 billion yuan. Inflation for 1980, mild by western standards, saw China's average retail price index go up six percent.[29]

Conservatives demanded that enterprises be consolidated and brought under closer supervision of government and Party. Reformers, pointing to the success of experimental enterprises in reducing costs and increasing profits, called for implementation of a three-tiered program which involved the replacement of profit turnover for taxation, independent enterprise accounting, an enterprise responsibility system (yishui daili, duli hesuan, zifu yingkui). Greater decision-making power would be given to enterprise managers "under the guidance" of enterprise Party committees.

Throughout this third phase, from 1981 to mid-1984, reform would be neatly combined with the enterprise consolidation effort as reformers and conservatives vied for control of efforts to change the basic leadership within China's state-owned enterprises. Conservatives preferred leaders whose qualifications were "red" enough while reformers preferred "experts," even at the cost of political and ideological purity.

By early 1984, it was clear that enterprises needed more decision-making authority and that it should be vested with the manager alone. Thus phase four began with

calls for an enterprise manager responsibility system (changzhang fuzezhi), coupled with continued replacement of profit turnover with taxation. These efforts led to the October Third Plenum of the 12th Party Congress, in which this system was officially endorsed as the road to reform and modernization and the best means of separating government administration from business activity.

During each of these periods, reformers practiced the same piecemeal tactics they used in the agricultural sectors,[30] gradually changing the context in which reform was carried out so as to gradually change the content of the reforms. Successful implementation of the phase-four reforms, however, has run into stiff resistance from tiao-kuai system power-holders who are loathe to give up authority to enterprises within their jurisdictions.

PHASE ONE (1978-1980)

During this period, the ever-changing political context brought about by continual economic success allowed reformers to gradually expand the scope of enterprise decentralization and increase the numbers of enterprises participating in the experiments. Their goal was to break down opposition to enterprise management reform. In so doing, they had help, initially, from some

reform-minded provincial leaders who saw an opportunity to enhance their new-won administrative and financial power granted them by the Center (see above). Their goal was not to "free up" enterprises but to fully utilize enterprise capacity to spur production and increase income. Thus, initially, they pushed enterprise decentralization. Later, when this decentralization would threaten their control, problems of fully implementing such reforms as the enterprise manager responsibility systems became evident (see below).

Initially, reform experiments granted trial-point enterprises the right to retain a share of profits, keep most of the depreciation funds for fixed assets, obtain loans, pay taxes on fixed assets, and determine their own planning and production after planned production targets were met.

By mid-July 1979, the results of Sichuan's 100 trial-point enterprises showed their industrial output value for the first half of that year rose 14.1% over the same period in 1978.[31] This prompted the State Council to issue five different documents on restructuring the administrative system in state-run enterprises and to call for a nationwide test "at selected enterprises."[32]

Selection was determined by provincial authorities, who had more enterprises involved in the tests than was made public. For example, on October 19 the Hubei Provincial Industry and Communications Office said 50 enterprises in Hubei were engaged in the experiment up to that time.[33] By October 29 provincial leaders decided on a number of new economic policies, including giving enterprises, whether trial-point or not, the right to sell products themselves not procurred by government commercial departments[34] (and to reform the enterprise management system as discussed below). By January 10, 1980, Hubei Provincial First Party Secretary Chen Pixian said there were 153 trial-point enterprises in Hubei.[35]

The increase of 103 enterprises in Hubei's publically-declared trial-point status between October and January was not sudden. In fact, Hubei had been experimenting with increased enterprise autonomy in all 153 enterprises since September 1979.[36] Presumably provincial leaders were fearful of publicly stating how many enterprises had been participating in the experiment until economic results were in and they felt more secure about the Center's reaction. When Hubei's 1979 economic statistics became available, provincial industrial production had jumped 17.5%.[37]

Hubei's actions were not aimed at freeing up enterprises from government and Party control. In fact, enterprise Party committees were to control the expansion of enterprise authority using the rubric of "enterprises being under the collective leadership of Party committees," a system in force since the purge of the Gang of Four in October 1976. According to the Hubei Provincial Industry and Communications Office,

> Trial-point work in expanding the self-management rights of the enterprises must be implemented under the unified leadership of the party committees. The party committees at all levels must strengthen leadership over this work.[38]

The selective nature of the experiments during this period was a sore point with enterprise managers, especially those that remained under the thumb of the Center. Yang Zhonghan, head of the reception office at Wuhan Iron and Steel, worried that the experiments in enterprise decentralization would not be extended to large enterprises.

> We expect it to come here, but only if it works elsewhere. It is an important measure because it properly belongs to management how best to manage an enterprise.[39]

In early 1980 there was a clear change in the tone used to push the enterprise experiments. National economic growth in 1979, at a rate of 8.6 percent,[40] had clearly changed the political context in which reformers pushed their goals. Statistics from trial-point enterprises bolstered this position further. In Sichuan's 100 experimental enterprises, output value for January through July 1979 was 9.7% higher than in the same period in 1978.[41] In 84 other "local" enterprises which had participated in the tests, output value was 15.6% higher than in 1978.

By 1980 refomers' goals were much more specific than they had been a year earlier. According to Beijing Radio, enterprise decentralization now included giving enterprises the power to:

--make decisions and plans on supply of inputs, production and marketing;

--control the use of funds available to them;

--sell products and strengthen ties to markets;

--assist foreign trade departments in negotiating contracts with foreign firms;

--evaluate workers and hire them on the basis of merit selection;

--set prices except for designated products.

As well, reformers' goals now included an effort to reduce

many of the bureaucratic burdens placed on enterprises by government at all levels.[42]

These new goals were not without opponents, but reformers were able to use economic logic and the results from the 1979 experiments against them.[43] Thus, while critics worried that enterprise decentralization would weaken the state's plan, proponents now openly criticized the limitations of state planning. They pointed out that trial-point enterprises, with greater decision-making power, made up for "the inadequacies of the state's unified plan." Reformers added that the state's plan could not possibly "reflect precisely" society's needs and that it was simply impossible "to make specific plans for the production, supply and marketing of all enterprises."

Critics also worried that greater enterprise power would reduce state revenue. The trial-point enterprises proved otherwise, reformers pointed out. Other opponents worried that enterprises and workers would get rich and thus "damage the state's interests." Reformers flatly stated getting rich was in the state's interests.

Finally, critics argued that enterprises with new powers will ultimately abuse those powers, an argument still used in late 1986.[44] Reformers, as yet unprepared to call for a wholesale change in enterprise leadership ranks, argued only that power should be given to workers,

in the form of workers' congresses, to protect against abuses.

In addition to consolidating these early steps, reformers in 1980 began to expand enterprise decentralization with limited tests of the enterprise economic responsibility system. In January 1980, Sichuan Province expanded the rights already granted to five enterprises, permitting them to do their own accounting and to pay taxes instead of turning in all profits to the state.[45] While other enterprises in reform experiments were permitted to retain a small percentage of their profits, these select few were decentralized further to what became known as socialist commodity producers, albeit remaining "under the central guidance of the state plan."

By April, reformers, armed with more results from the trial-point enterprises, had gained the upper hand. A national conference on Industrial Economy, Increasing Income and Cutting Expenses in Nanjing revealed "profound changes" brought about by enterprise decentralization.[46] Those cited were: transforming enterprises from passive to active economic units; providing favorable conditions for "tapping latent potential" by allowing enterprises to retain portions of their profits; employees better able to "exercise their power as masters" of their enterprise; and cadres with management skills being pushed to the fore.

Looking to the political battles that lay ahead, reformers saw the results as key to the success of their implementation tactics. The experimental units could now play "an active role as a motive force behind the reform of China's entire economic management system."

Despite these successes, a companion work conference in Nanjing, called by the State Council, revealed that the reforms had brought serious problems into the spotlight.[47] These included a low-level ability to use market mechanisms, short supplies of raw, semi-finished and finished industrial inputs, and an inadequate pricing system.

This conference also revealed several problems that existed within enterprises and local and central bureaucracies which hampered national economic activity. These included unfulfilled state plans, poor quality goods, departmentalism, illegal price hikes and the state's inability to control market forces.

There were other problems as well. By May, the State Economic Commission moved to limit the amount of bonuses enterprises could grant to each worker to one-and-a-half months' wage each year.[48] It was hoped most of the retained profits would be reinvested in the enterprises. Instead, more was going to workers' bonuses. Still others protested the "get rich" idea and the lack of

egalitarianism.

In July 1980 Renmin Ribao criticized this opposition.

> Egalitarianism is the ideology of the small producer. It is not socialism and not a principle of communism. In the socialist system of distribution, it is absolutely necessary to oppose egalitarianism.[49]

Despite these problems, experiments in enterprise decentralization continued. By the end of June, 6,600 enterprises in 28 provinces and cities were engaged in some type of experiment with expanded authority. These accounted for 16% of all state-run enterprises, 60% of China's total output value and 70% of total profits.[50]

PHASE TWO (1980-1981)

By August, armed with additional proof of success, reformers pushed their program further. Sichuan again took the lead in this effort. Xinhua reported that during the January through June period, the five provincial factories experimenting with the new enterprise responsibility system had increased their output value by 50.8 percent, profit by 89.6 percent and turnover to the state by 54 percent compared with the same period in 1979. Xinhua added that Sichuan's "provincial economic

commission has decided to double the experimenting units to 10 in the last half of 1980,[51] indicating that provincial governments were still selecting which enterprises would participate in experiments. A month later Xinhua reported that 99 commercial enterprises in Sichuan had been involved in similar experiments since February with retail sales rising 18 percent and profits by 24 percent. Total taxes paid were 16.7 percent higher than profits turned over to the state in the same period in 1979.[52]

These results gave the government the needed impetus to approve the new enterprise responsibility system for all state-owned industrial enterprises beginning in 1981.[53]

As China entered the autumn of 1980, reformers began to push for more enterprise decentralization by pointing to the increasing tendency among enterprises to attempt various forms of cooperation between themselves.[54] Enterprises began to obtain raw materials directly from suppliers rather than going through state supply channels. They also began to attempt a variety of cooperative efforts in personnel and financial resources. This led to calls for greater economic integration among enterprises, but existing tiao-kuai lines of authority stood in the way, prompting Renmin Ribao to editorialize its complaint:

> Industrial development and the progress of science and technology call for specialization and coordination. However, ...enterprises are owned either by 'departments' [tiao-tiao)] or 'localities' [kuai-kuai]. Thus, enterprises are only appendages to higher-level departments. This is why when we organize specialized companies or general factories, we ...encounter contradictions between departments and localities. Such contradictions have obstructed the development of coordination between specialized departments.[55]

The editorial demanded that enterprises be given even "greater power of self-management,' a step which now envisioned reform of all of China's economic systems, beyond taxes and marketing, to supplies, labor, prices and foreign trade.[56]

Discussions of the relative merits of the various reforms and the factors inhibiting them now ended with the dilemma posed by tiao-kuai lines of authority emanating from both government and Party. Looking beyond the initial experiments, Ma Hong found that the enterprise leadership system itself was controled by tiao-kuai authorities and presented another, more fundamental stumbling block to economic development. He laid the blame for this squarely with enterprise Party committees.[57]

The committees, he said, had claimed too much authority in running enterprises. The current system, he wrote, was detrimental to:

--strengthening true Party leadership because Party committees were "submerged by the day-to-day administrative work" and were neglecting their role as exemplars of correct policies and ideology;

--democratic management and promotion of socialism. Party committees had become the top authority in enterprises, not enterprise workers' congresses;

--objective requirements of socialist large-scale production and to promotion of the factory director's centralized direction;

--promoting the role of specialists because "management power [is]...in the hands of...cadres who are unfamiliar with technology and with economics and management, and who are even reluctant to engage in these matters;

--strengthening the legal system because power (in the hands of Party committees) is separated from responsibility (on the shoulders of the factory director);

--establishing joint operations because enterprise Party committees are subordinate to local Party committees which engage in departmentalism or other "regional restrictions."

Sounding a faint echo of Montesquieu, Ma called for a "separation of powers" within enterprises, putting decision-making power in the hands of workers' congresses, directing power in the hands of enterprise managers, and only supervisory power in the hands of Party committees.[58] The latter's vagueness left the Party committees much room to define for themselves the paramters of their authority.

> ...the three types of power were previously [and still are] basically exercised by Party committees in the name of the workers' representatives. In making decisions, it often occurred that only what the Party committee secretary said counted.[59]

Ma then called for a one-man factory manager leadership system (changzhang fuzezhi) as Lenin advocated to avoid "a system of collective management (which) can fritter away a huge amount of labor and offers no guarantees of the speed and precision of work required" in running a modern enterprise.[60]

The one-man leadership system Ma proposed in late 1980 became subsumed in calls for economic readjustment and enterprise consolidation as statistics mounted that enterprise management in China was far from adequate.

PHASE THREE (1981-1984)

The new year dawned with a troubled economy and a set of statistics that pointed to poor management in China's state-owned enterprises. The opportunity was not lost on conservatives, who were able to forestall further enterprise decentralization. The government found itself with a budget deficit while many provinces were enjoying increasing fiscal resources. To cover its 12.75 billion yuan deficit for 1980, the Center borrowed 8 billion from banks and another 4.75 billion yuan from the sale of State Treasury Bonds to provincial and local govern,ments. To cover its anticipated 1981 deficit of 8 billion yuan, the Center asked local governments to "lend" it another 7 billion yuan.[61]

In addition, as China examined its industrial managerial infrastructure more closely, the Center was finding considerable amounts of waste, idle capacity and outright deception on the part of many enterprises. Revealing statistics cast doubt on any continued enterprise decentralization.

In 29 state-owned enterprises in Beijing alone, investigators found that 11.4 percent of total fixed assets, or RMB 252.36 million, were idle or otherwise wasted. Of that amount, RMB 164.5 million, or 65.2

percent, involved assets that had never been used or were not needed. New equipment had not been installed, existing equipment was not properly maintained, old equipment which might have been used elsewhere was abandoned, and overbuying and duplicate purchases were evident.[62]

Statistics like these forced the government and Party to look closely at enterprise financial work and overall management. A January forum in Beijing on these topics found that:[63]

--RMB 500 million in profit was kept by enterprises in more than a dozen areas instead of being turned over to the state.

--enterprises' expenditures were too high, with RMB 5 to 6 billion spent each year in administratrive, travel and other expenditures. Many loopholes in regulations result in "a great deal of waste...such as buying expensive consumer items, holding banquets, giving presents, and causing other extravagant waste."[64]

--enterprises were continuing to "indiscriminatingly" [sic] offer incentive pay and other subsidies. The forum ended with a demand that enterprises cut expenses by 20 percent and that management be improved.

Hubei faced much the same dilemma, including a rash of criminal activity. Governor Han Ningfu, in his work report for 1980, said the new year would have to include efforts to strengthen centralization and unity and guidance by planning." Han touched on China's lasting dilemma, how to find the proper balance between decentralization and centralization, but he could offer no solution.[65]

Other problems also came to light, from a slack tax collection system, continued enterprise deficits, increasing irresponsibility and indifference and a rising economic crime rate.[66]

A Hubei Party Committee circular, issued by its Discipline Inspection Committee, urged "all levels" in the province to struggle against such "unhealthy trends" as bureaucratism, irresponsibility for work, indifference to property, departmentalism, tax evasion, shifting of capital without permission, theft, indiscriminate issuance of bonuses and other material benefits, fraud in business, engaging in unlawful business, extravagance, waste and "use of power and position to receive bribes and money."[67] Clearly the western concept of a uniform, highly disciplined Chinese Communist state was incorrect.

The State Council warned that the new year might bring more "rigid control or cancellation of ...fixed subsidies for deficits." Further, for enterprises whose deficits were caused by poor management, subsidies or bank loans to cover them would cease and they would no longer be able to retain any of their earnings or issue bonuses.[68]

Proponents of enterprise decentralization, however, pointed out that, although profits turned over to the state in 1980 by industrial enterprises declined, 5,700 of the 6,600 trial-point enterprises turned over to the state 7.4 percent more profit than they had in 1979. In a survey of 10 provinces and municipalities, trial-point enterprises turned in 7.9 percent more profit in 1980 while profits earned by enterprises not involved in decentralization experiments declined 17.4 percent.[69] While the pace of enterprise decentralization would slow in 1981 and be "subordinated and beneficial to" the new readjustment period, Xinhua said experiments would continue nevertheless.[70]

By March the issue of enterprise reform focused on two quite opposite points of view. In the wake of the readjustment period and the slow-down on further experiments, reformers pushed for more inter-enterprise specialization and coordination, a new tactic that

attacked continued _tiao-kuai_ interference in business activity. The culprit in this problem was once again the enterprise Party committee, and reformers wanted its interference curtailed.

Opponents of enterprise decentralization, however, pushed the need for enterprise consolidation, a code word for strengthening Party control of enterprise activity, especially over guidance of workers' congresses and selection of factory directors.

The need for a period of readjustment in China's economy was evident from the fact that industrial enterprises were unable to meet their full productive potential, according to _Renmin Ribao_.[71] But the newspaper attributed the problems to a variety of situations, including "irrational organizational structure, duplicate leadership, loose management ...low specialized production, ...backward technology, serious irrational duplicate production, construction and imports."[72]

Renmin Ribao then called for a voluntary program of "restructuring and integrating" enterprises to increase economic efficiency. But, the paper warned that the program would not work without support from _tiao-kuai_ authorities.

> Integration will not come on the basis of voluntary participation by the enterprises alone without promotion from higher authorities. Therefore it is very necessary to stress state administrative intervention.[73]

Realizing integration and specialization spoke to the tiao-kuai power structure, the editorial predicted a tough road ahead. To successfully and rationally integrate enterprises along lines of specialization, the newspaper said,

> It is necessary to break through the conventional confines of different localities, departments and ownerships.... Some plants ...are willing to undergo restructuring and integrating. But this has not been agreed on by the leading departments ...because they consider the enterprises as their subordinate units and are unwilling to give them up. These leading departments neither shoulder economic responsibility nor are they willing to allow subordinate plants to participate in association. To organize our industry rationally it will be necessary to break through 'department ownership' [tiao-tiao] and 'locality ownership" [kuai-kuai].
>
> ...Industrial restructuring and integrating touch upon the system of economic management and a series of reforms in the upper structures as well as deasl with the interests and power in various quarters. It is a very complicated task.[74]

This reform was no longer economic. It spoke to the control of enterprises and their employees, the heart of China's political and administrative setup, the very source of power on which the Communist Party based its existence. The task of economic reform became more complex because China's economic activity, ultimately, is embedded in a political system that maintains itself in power through control of the country's economic units.

Predictably, conservatives in this period pushed the consolidation drive to enhance Party control over the changing enterprise structure and activity. A Beijing Municipal Party Committee conference on democratic management in June put both the new factory director responsibility system and the workers' congresses "under the leadership of the party committees."[75] Gongren Ribao spoke to this effort while commenting on new regulations establishing workers' congresses in state-owned enterprises.[76] Echoing Ma Hong's views of the previous December, the newspaper's editorial called for a division of labor in enterprises "so that they will be collectively led by the Party committees, democratically managed by the workers and staff and administrationally [sic] directed by the directors."[77] The newspaper, however, did not repeat Ma's call for one-man management.

Gongren Ribao elaborated on what this system should be, agreeing that government and Party work should be separated and that factory directors should be more experienced in management and technical skills.[78] But the commentary would go no further in relinquishing ultimate Party control.

> Plans concerning production, capital construction, the tapping of potential, innovations and reforms, administrative and management reform programs, finances, personnel, labor wages, discipline, environmental protection and other major issues should be submitted by the factory director to the party committee for discussion. In addition, the party committee may select a topic and ask the factory director to make periodic reports to the party committee. On certain important issues, the party committee can also organize the relevant personnel to find out about the situation from the production and administrative departments and to conduct investigations on administrative cadres. The party committee should ensure that the party's line, principles and policies are smoothly implemented in the enterprise.[79]

The enterprise Party committee would also dominate discussions by the workers' congresses and elections of cadres to leading posts within the enterprise by that congress.[80] There would be little left for anyone else to do.

Problems within Chinese enterprises, however, were economic as well as political. Both reformers and conservatives agreed they were the result of poor administration, low management skills and lax Party leadership. The State Economic Commission complained that many enterprises consumed too many raw materials and turned over too little in profit to the state, blaming this on inefficient management and ideology.[81] Xinhua said a basic problem was that "people's sense of the state and the state plan was getting blurred in some localities and units" as evidenced by reselling raw materials at inflated prices, withholding of profits, tax evasion and misappropriation of state revenue.[82]

This "sense of the state" and its plan is brought about, no doubt, by the frequency with wich state plans are changed by the various planning agencies.

> Plans mean nothing, really. They aren't even announced and they are changed. There isa lot of confusion. No one knows what can or should be done. This gives a unit much power to do what it wishes but it also ties our feet and blocks our development.[83]

A Renmin Ribao editorial complained about the "disorderly state of management" in some enterprises but was more sweeping in its criticism, calling for more supervision by staff and workers against those engaged in

embezzlement, waste, beating, smashing and looting.

> A fundamental aspect of the consolidation of enterprises is to give full play to the supervisory role of the staff and workers. ...Staff and workers who dare to struggle against embezzlement and waste, violation of law and discipline and other unhealthy practices must be ...supported. Acts aimed at suppressing criticism and retaliation must be dealt with seriously so as to really protect the democratic rights of staff and workers.[84]

In late August, Hubei Ribao criticized "some people" for using reform as an excuse to "stir up a sinister trend in economic activity," including contravening commodity circulation regulations, tax evasion, bribery, abuse of authority, "throwing parties, ...giving gifts, ...[and] kickbacks" and called for measures to stop such activity.[85]

In this situation, further enterprise decentralization in 1981 became subsumed in the enterprise consolidation campaign. Ironically, reformers used this campaign to push the enterprise responsibility system. At a July forum attended by 15 provincial and municipal economic commissions, the State Economic Commission hailed the responsibility system as "a breakthrough with which to expedite the improvement of enterprise management and consolidation and building of the leadering bodies in enterprises."[86]

To solve the economic problems caused by lax management, the forum agreed that enterprises should become responsible for their activities. In so doing, however, the local and central economic commission members favored strengthening the leadership of "various regions" (kuai-kuai) and industrial departments (tiao-tiao)." There was no mention of giving enterprise managers added authority to go with their new responsibility.[87]

Hubei Ribao reported that 70 percent of the province's industrial enterprises had implemented various forms of the responsibility system while 10 percent of the industrial bureaus had assumed responsibility for profits and loss in some trades.[88]

The debators on both sides of the issue had kept their perceived culprits unnamed, but that changed by summer's end. Tianjin Ribao reported serious problems in that city's enterprises involving decreased profits, waste, high consumption and high prices and attributed them all to poor management by factory directors.[89] The commentator urged a "straightening out" of enterprises while they are reformed, and called for clear definition of the limits of their power.

> It is necessary to use the method of straightening out to enable the enterprises to embark on the path of scientific management and to clearly define the limits of ...[their] power, responsibilities and interests. Otherwise, when the enterprises' power has been expanded, there will be phenomena of incompetence in exercising power, impossibility of using power or abuse of power, so that the ...reform of our systems will be poor, and side effects will occur.[90]

A Renmin Ribao commentator defended the reform policies, laying the blame for poor economic results on incomplete implementation of the responsibility system by kuai-kuai authorities.

> On the one hand, the requirement for maintaining ...responsibility for losses for at least 2 or 3 years has not been put into practice. In some places, this system was rescinded as soon as enterprises had a small favorable balance. On the other hand, preserving funds saved due to a reduction in losses for future use had not been fully implemented either. Some units have treated these funds as profits and took a share of [them]. Thus, having their gains taken away immediately, the enterprises are unable to take a breath and accumulate funds for further development.[91]

The commentator suggested that leading organs also be placed in a responsibility system so that, together with enterprises, "the duties for each as well as rewards and punishments (will be) made clear, (and) the increase of

both production and income of the enterprises can then be expected."[92]

Hubei Ribao echoed this, advocating that relations between enterprises and between enterprises and their bureaus be put on a contractual basis.[93]

Two days later, a second Renmin Ribao commentator complained that the relations between enterprise Party committees, workers congresses and enterprise managers had yet to be clearly defined, much less changed.[94] The Party committees, he wrote, "are bogged down in routine matters so that its own leading role is weakened." Workers congresses cannot "exercise democratic rights of management" because they were little more than a "mere formality" with no power or responsibility, and that the factory director's "functions, powers and responsibilities ...are not integrated."

The bulk of this criticism was saved for the enterprise Party committees which, because they answer to local Party committees, are a critical source for continued kuai-kuai interference in enterprise work. Successful management of enterprises would come only when the enterprise Party committee allowed workers' congresses and factory directors to do their jobs.

> Strengthening and improving party leadership constitutes a basic problem which must be solved initially in reforming the system of leadership over the enterprises.
>
> ...the party organization must be separated from administrative organization so as to put an end to the phenomenon that the party committee undertakes all administrative affairs. ...The party committee and the administrative organization should be separated into two different groups of people, and as far as possible they should not share common offices. The secretary of the party committee generally should not concurrently assume duties of administrative leadership. The party committee should not include an overly large number of party members who are leading administrative cadres. In production and administration, the factory director should exercise unified command, and the secretary of the party committee must not exercise direct intervention.[95]

Reformers saw that continued eeconomic and social problems within enterprises, caused by improper management or tiao-kuai interference, could only be solved by making enterprises responsible for their own management, including production, marketing and profit and loss. Such a system also had the benefit of aiding consolidation of enterprise leading groups, especially Party committees, a result that was sure to have "ripple effects" back to the localities and departments controlling enterprises as well as local and national Party committees.

By September, nationwide implementation of the enterprise responsibility system was seen as logical, but reformers still had to rely on local officials for that implementation. A State Council forum on Industry and Transportation saw implementation of the responsibility system imperative but called upon "local authorities to work out different methods to carry out the system in accordance with their own circumstances."[96] The implementation process would be uneven.

In early November, the State Council issued a directive on enterprise consolidation[97] and then in December approved provisional regulations on implementing the economic responsibility system in state-owned enterprises.[98] The latter defined the system and allowed for economic means of punishment as well as continued state support of enterprises for low-profit products and commodities that are in short supply. The State Council demanded that local regulations which "contradict the provisional regulation should be revised ...without disruption of ...work," but left ultimate implementation to lower-level governments.

China's leadership envisioned a two or three-year program of reorganizing enterprises aimed at improving enterprise leaders' political and ideological consciousness as well as economic problems of poor product

quality, rising consumption rates and declining profits.[99] These programs were to involve reorganization of enterprise leadership, the administrative system, labor discipline and financial accountability.

A Renmin Ribao editorial[100] on January 21 outlined five tasks in the enterprise consolidation campaign. The first was implementation of the enterprise responsibility system. Second, reinstitution of rules and regulations to reorganize and strengthen labor discipline, including a call to "strictly enforce government regulations governing rewards and punishments." The editorial stated "the anarchism rampant during the 10 years of ...turmoil has not yet been eliminated." The third key task of the campaign was to reorganize financial discipline which was aimed at problems of embezzlement, corruption, robbery and theft in addition to "common mistakes."[101]

Such crimes continued to concern Hubei officials in 1982. Xinhua carried a report nationally on Hubei's situation, which Han Ningfu said involved "a large number of violations" involving embezzlement, bribery, smuggling, receiving and selling stolen and smuggled goods, retention of profits due the state, tax evasion, indiscriminate granting of bonuses and wages "feasting guests and buying gifts."[102]

The fourth task was reorganization of labor organizations, personnel quotas, and training to stop "overstaffing and laxity." This was to be done by implementing a personal responsibility system within each enterprise. The editorial's suggestions point out the anarchic conditions regarding job tasks and responsibilities:

> ...it is necessary to define responsibilities at each ...work post, set qualitative and quantitative standards for ...personnel according to ...requirements of ...technology and ...work and ...assign qualified personnel to posts by strictly following established standards.[103]

The fifth task of the consolidation campaign was to reorganize the "leading body" of enterprises. This meant following the tripartite system of collective leadership by the Party committee, democratic management by workers' congresses and administrative direction by factory managers, a system never fully implemented. This system envisioned a director's responsibility system but left undefined what authority the manager would exercise. "Important principles and policies should be decided by the party organization ...while daily production and administrative work should be placed in the charge of factory directors."[104]

By Spring a full-blown rectification campaign was underway in China's enterprises. The outcome of this campaign would determine whether urban economic reforms would continue beyond where they had gone since the December 1978 Third Plenum.

As the campaign got underway, the State Council sent 9,255 people from 27 provinces and government bureaus to investigate the 1,595 large and medium-sized enterprises which were to be consolidated first.[105] One-third of Hubei's cadres were sent to investigate 4,600 enterprises in the province at the start of a rectification campaign that was to last two years. More than 3,300 cadres were sent to Hubei's 690 key industrial enterprises.[106]

The investigation teams were to assist in restructuring enterprises, _Hongqi_ said, to expand enterprise decision-making power, implement the economic responsibility system, build democratic _and_ centralized leadership under the leadership of the Party committee, seek ideologically and technically competent leaders (red and expert) and institute "scientific and civilized" management systems.[107]

Here again was a case where complex problems of economic development were seen as solvable with single-minded solutions, even if they involved lengthy rectification campaigns. According to _Hongqi_, the Party's

theoretical journal,

> By means of the rectification, the leading bodies of ...enterprises will be strengthened, production and technical management will be established..., various rules and regulations will be harmoniously coordinated, and problems in the implementation of the responsibility system will be properly solved. This will enable the management and administration work of the enterprises to reach a new level and there will be a notable improvement in economic results.[108]

Others, however, took a less sanguine view. It was clear to some reformers that changes in China's economic management system, as envisioned by the enterprise consolidation campaign, would not be enough if the reforms were to accomplish anything. Urban economic reform would be much more complex, economically, than agricultural reform. Xue Muqiao now discussed the need for overall reform of China's pricing, taxation and banking systems and called for development of economic legislation. Properly organized, these systems could be used to keep enterprises in line with state plans rather than the continued reliance on outmoded administrative orders, Xue said.

> It is doubtful whether all enterprises in a socialist country care about the interests of the state. ...But once [they] are allowed to show initiative, it is necessary to manage the economy by applying economic methods; by using pricing, taxation, credits and other economic levers to gear ...development to ...the state plan; by resorting to economic legislation and state supervision ...to provide against malpractices in enterprises....[109]

A few months later, Xue pointed to the problems caused by too much decentralization in a system with no capacity to handle widely-dispersed decision-making power. Thus, power given to localities and enterprises was being abused. Expanding that power had brought local and enterprise initiative into play, he said, but

> ...our reforms of the economic tools such as the price and tax system have failed to keep pace with the changing situation and to guide the localities and enterprises to develop along the course charted by the state plan. They tend to violate the state plan for their own interests.[110]

In light of this, the Center's formulation of a planned economy regulated by market mechanisms was changed to a planned economy with the "supplementary role of regulation by market mechanism."

In June, the first reports of the enterprise consolidation campaign were in and the results were discouraging. Few enterprises were being consolidated and, in those that were, evidence mounted that they had simply gone through the formalities and were improperly checked and certified. By mid-July, Zhao Ziyang pinpointed the major problem as weak leadership in implementing the goals of the campaign. He told a consolidation campaign forum that

> It is most important to overcome weak leadership in order to successfully consolidate enterprises. The leadership must have ...determination and courage .... If the leadership is irresolute and hesitant, obstruction will mount and enterprise consolidation will inevitably turn out to be a mere formality.[111]

Given this less than strong interest in restructuring enterprises with new leaders and a responsibility system, the Center forced the issue by making full implementation of the economic responsibility system the highest priority of the Communist Party. Accordingly, the 12th Party Congress in September 1982 called for an end to "eating from the same big pot" and to egalitarianism.

With a renewed effort at pushing implementation of the responsibility system, the emphasis of the consolidation campaign shifted to installing new leading groups in the enterprises. New leaders should be "more revolutionary, younger in average age, better educated and more professionally competent."[112] Gongren Ribao cautioned, however, that this new emphasis must be equally placed on the three leading organs within enterprises, the factory manager, workers' congresses and the Party committee.[113]

Here again is evidence of the Chinese desire to implement a perfectly coordinated management system from above rather than from within each enterprise, an insistance on the Confucian notion of a proper balance in relationships between key actors in society. It is believed that anything less than a perfect balance would bring dire consequences, including jeopardizing the political structure of the People's Republic.

> In the overall consolidation of enterprises, if we fail to perfect and amplify the leadership system..., it will be impossible for us to have a system to ensure correct method and style of leadership, and it will even be possible for us to depart from the correct line.[114]

The emphasis on enterprise leading groups provided reformers a new opportunity. By late January 1983 calls for reform overshadowed the other goal of consolidation, that of control. This new round of reform promotion came from an unnamed "responsible person" of the enterprise Consolidatioin Group at a State Council work conference. The officials called for both consolidation of previous reforms, but also issued a call to "initiate new reforms."[115]

His speech, setting out the tasks for 1983, divided the goals of reform into two areas, that of inside and outside the enterprise.[116] Enterprises were to concentrate on reforming and consolidating their own management system, organizational structure, rules and regulations, emphasize individual responsibility systems by distributing bonuses according to work, changing the product mix, upgrading product quality and technical transformation.

Externally, the officials called for further enterprise decentralization, "expanding the power of management of enterprises to what they should have," more technical transformation and a responsibility system that envisioned closing down, suspending or merging unprofitable or poorly-managed enterprises.

To set the stage for a move toward the enterprise manager responsibility system (changzhang fuzezhi), the reformers went on the attack. In a front page editorial on January 17, Jingji Ribao openly criticized the "more than 1 million" Party cadres engaged in enterprise political work for "not keeping abreast of the developing situation." The editorial criticized them for being tied to old methods, having low cultural standards and theoretical levels, low education, inflexibility and for being out of touch with the masses, especially the young.[117]

The editorial said that the educational, cultural and technical level of enterprise staff and workers was quickly outpacing that of Party cadres. In a damning criticism, Jingji Ribao claimed the Party cadres in question actually knew little of Party ideology and such basics as Marxism-Leninism. It suggested they improve themselves through educational programs that are traditionally reserved for those of low status in China, self-study or "various kinds of sparetime, correspondence, broadcast and TV schools."[118]

Three days later, another front-page Jingji Ribao editorial,[119] citing "the struggles between innovation and conservatism," criticized political work cadres for impeding progress.

> In order to conduct conscientious reform it is necessary to remove all old regulations, restrictions and work styles that hamper our progress. ...various kinds of problems related to ideological understanding will inevitably emerge, ...between innovation and conservatism, and between the advanced and the backward. ...It is absolutely necessary for the ideological and political workers in enterprises to adopt [sic] as speedily as possible the content and methods of their work to the needs of this new situation."[120]

In a short time the push for reform focused on two aspects of the same phenomenon. First, _tiao-kuai_ lines of authority were now seen as the major stumbling block to China's economic development. Entrepreneurship and development of economic relations, both essential elements to economic development in any country, were hindered by government administration of economic activity ay all levels. Second, it became increasingly obvious that these _tiao-tiao_, and, to a much greater extent, _kuai-kuai_ lines of authority were impeding implementation of the economic reforms pushed by the Deng regime. The gradual reduction of direct _tiao-tiao_ interference in economic activity, through CE decentralization, could be more easily accomplished because central bureaucracies were directly controlled by the State Council and Party Central

Committee. Thus, for example, the Ministry of Commerce could implement a program allowing collectives and individuals to deal in grain, ending at least a portion of the state's monopoly over commercial circulation of that commodity.

Central bureaucrats had much less ability to force local governments and Party organizations to ease kuai-kuai interference in economic activity, as I discuss in the next section.

The open attack on the tiao-kuai system began appearing in China's national media by Spring 1983. An article by Wan Dianwu in Renmin Ribao listed a variety of "evils" that exist from the combination of government administration and commercial enterprise management.[121] First, entrepreneurship is hindered by having "to wait for the decision of the government commercial departments at all levels for any matter, big or small."[122] In his article, Wan reported that

> ...we asked the people ...why they had failed to do things that the enterprises ought to have done on their own. We often got the answer [that] 'we ...do not have the power to do these things and ...have to ask the advice of the upper levels.'[123]

Wan listed other "evils" as well, including the tremendous cost in a capital-short economy. Commodity circulation, he wrote, is "forced" along "administrative lines and levels of division of administrative areas," hampering economically-rational commodity flows. This created, he estimated, "hundreds too many" wholesale centers that "take up billions of yuan of liquid capital."

In August, a national conference on Industrial and Communications Work concluded that "only by enhancing the quality of the enterprises through consolidation can we achieve better economic results."[124] Enterprise quality was defined as the capacity for development and adaptability to changing conditions. It included labor, technology and management resources which, the conference concluded, were "fairly poor." The reasons for this were many but centered on low levels of political, educational, technical and professional personnel.

To improve enterprises, the conference concluded that the consolidation campaign must bring to the fore "competent leading bodies" and technical transformation, but must also "reform the unreasonable organizational structure."[125]

As implementation of the enterprise responsibility system appeared to be systematically blocked by lower levels (see next section), central reformers gradually

came to see that enterprise Party committees would have to give way. Reforms would have to give enterprise managers more authority and the Party itself would need further rectification.[126]

A Renmin Ribao commentary criticized the existing seniority system and lifetime tenure as keeping untalented managers in office and talented managers from an opportunity to exercise their skills. Further, the seniority system created an atmosphere of fear on the part of younger cadres who became unwilling to run risks, an essential ingredient in entrepreneurship.[127]

It was increasingly clear, however, that full implementation of the responsibility system, a key element of the consolidation campaign, was still not being accomplished. Through November 1983, only 14.5 percent, or 7,388 of the 50,565 enterprises that were to be consolidated by the end of that year had done so. Of the 3,116 big and medium-sized "backbone" enterprises included in the planned-for total, only 37.3 percent, or 1,160, had their consolidation efforts checked and approved.[128] Yuan Baohua, leader of the national Enterprise Consolidation Group, said this work would have to continue in 1984. He complained about lax implementation of the consolidation program in most regions and departments.

> ...taken as a whole, enterprise consolidation has developed unevenly. Most regions and departments have failed to meet the requirements of projected planning. With regard to the 5 consolidation items, the consolidation of labor organization, which is difficult, has not been really resolved. Some regions have made no progress in enterprise consolidation, while certain consolidation work was carried out poorly; there is a tendency to carry out the consolidation superficially.[129]

This situation, he said, jeopardized China's goal of consolidating all state-owned enterprises before 1985, and of improving their quality, economic efficiency and the anticipated enterprise Party committee "shake-up."[130]

Despite these problems, which I discuss in the next section, economic statistics available in January 1984 gave new impetus to the call for further enterprise decentralization. The Ministry of Finance announced on January 31 that the losses reported by state enterprises in 1983 were down RMB 1.48 billion, or 34.6 percent from the 1982 figure. Twenty-two provinces and localities overfulfilled their planned targets for deficit reductions while seven others cut losses over 50% of the targets.[131] With this as impetus, reformers continued their efforts to decentralize enterprises further.

PHASE FOUR (1984--)

Writing in _Renmin Ribao_,[132] Song Yifeng cited five critical problems. These were stabilization of the resource allocation system; reform of the planning and management systems controlling enterprises; reform of the three-tier management system within enterprises; development _and_ enforcement of economic legislation; and, finally, finding the wherewithall to put these into effect.

These suggestions were another attack on the entrenched powers of _tiao-kuai_ leadership organs in central departments and regions, organs which might make enterprises extinct.[133]

To Song, _tiao-kuai_ relationships were irrational, made more so by the fact that decentralization of decision-making power to provinces had "separated departments (_tiao-tiao_) from regions (_kuai-kuai_)," thereby causing further restrictive factors on enterprise activity.[134]

Song naively concluded that full implementation of the taxation system (_ligaishui_) was the key to reforming the restrictive economic structure, a move, he said, that "will free" enterprises from departments and regions economically.[135]

The value of Song's article does not lie in its simplistic solution to the problem of irrational economic structure, but in its depiction of an irrational _tiao-kuai_ system made more so by the enhancement of _kuai-kuai_ power as a result of CP decentralization. Also, this article renewed the call for reform of the multi-leader management system within enterprises that was voiced by Xue Muqiao in late 1980 but largely ignored since then.

The focus on new enterprise leadership continued into the year with calls for selecting new enterprise leaders. A _Renmin Ribao_ commentary said the new leaders must be "in the prime of life" and "equipped with professional knowledge and who are bold in blazing new trails."[136]

Enterprise reform now involved two elements. First, the logical extension of calls for new leadership was the elimination of collective enterprise management. Thus _Jingji Ribao_ reported that the factory manager responsibility system was being tested in Beijing, Shanghai, Dalian, Shenyang, Changzhou and Tianjin. The experiments were aimed at "resolving the problem that enterprise leaders do not have sufficient authority to deal with management matters."[137] Second, reformers now sought to find a workable method to separate government administration from enterprise management.

The need for greater enterprise power was outlined by

a commentary in Renmin Ribao,[138] which described what items tiao-tiao and kuai-kuai authorities control under the rubric of "unification." Thus personnel, finance, material inputs and supplies, production and marketing, all items essential to the proper management of enterprises, were controled by government bureaus at the Center and in the provinces.

Renmin Ribao complained that economic activity is hampered because too many "grannies" were involved in management decisions, and that, the management system, rather than using clear-cut guidelines, rules and regulations for the implementation of policy, relied instead on the "subjective judgement" of the many local government and Party officials with power to control enterprise activity.

> Highly concentrated power in the economic management departments shows serious defects. The "rope-type" method of administering enterprises has led to the 'unification' of many things under the authority of the leading bodies.... Superficially, it seems this method possesses a high degree of planning, but essentially it contains a great degree of subjective judgement. When the method is workable, it means that (it) accords with reality; when it does not work, it will lead to great losses. ... Everything is decided by 'granny,' and there are a great number of 'grannies.'[139]

The new goal of reform was to "loosen the ties" that bind enterprises, and the Chinese media kept up its reportage on the abuses of the tiao-kuai system. Xinhua said that all the reforms of the previous five years were not enough.[140] Enterprise managers, still operating under the collective leadership of enterprise Party committees, typically found their authority assumed by that committee.[141]

The push to cut tiao-kuai interference in enterprise activities now came under the slogan of separating government administration and the economy.[142] Gongren Ribao called for a system which would mandate production of "a small number of important products," but otherwise would leave enterprises alone. The government should promote national economic development by use of such economic levers as taxation, credit and prices, and offer a variety of services such as market information and training, but otherwise enterprises should be able to operate as they see fit while being responsible for profit and loss, the newspaper said.

A front-page Renmin Ribao editorial[143] in July called the separation of government administration from enterprise management a "fundamental reform" that would permit development of natural economic ties between enterprises throughout China.

The move away from collective enterprise leadership was made necessary by the ill-defined duties of the three leading groups, the Party committee, workers' congresses and enterprise manager, just as Lenin had predicted.[144] A good portion of the blame for this was leveled at enterprise Party committees by Yuan Baohua, head of the Enterprise Consolidation Group under the State Council.

> The duties and the division of work between [them] ...are still not well defined and the problems of multiple leadership in production and management and the 'failure of party organs to engage in party work' are still not completely resolved. Judging from the results of our practice, ...the leading system of enterprises is not satisfactory.[145]

Reformers had gained the upper hand. The enterprise consolidation campaign was subsumed in reform of the economic administrative structure rather than the opposite, as had been the case since 1982. Consolidation now came to mean removal of conservative Party cadres who blocked reforms. "Consolidation," Renmin Ribao said, "lays the foundation while reform provides the driving force.[146]

This new push for reform was accompanied by public discussions about changes in the ownership-management relations of state enterprises. Public ownership did not

"necessarily have to adopt the form of direct operation by the state," He Jianzhang wrote in Renmin Ribao.[147] He thought it feasible to lease enterprises to collectives or individuals with professional managerial skills while the state retained ownership, creating, in brief, a form of state capitalism. As time went on, reformers saw this as a means of separating government and enterprises.

These new forms of enterprise decentralization were embodied in "The Decision on Reform of the Economic Structure" adopted by the Third Plenum of the 12th Party Central Committee on October 20, 1984. This document was a watershed in efforts by reformers to give their program ideological and political legitimacy. In it, the Communist Party declared that "invigorating enterprises [was] the key to restructuring the national economy."[148] This section made two key points in its attack on the "serious subjectivism and bureaucratism" that saps China's enterprises of any economic vitality. First, it disavowed the notion prevalent in China that ownership by the whole people means direct operation by the state. Second, it called for giving enterprises the right to adopt different forms of operation as "relatively independent economic entit[ies]."

These two elements were part of the leadership's goal of "separating the functions of government and enterprises, streamlining administration and instituting decentralization to invigorate the enterprises and the national economy."[149] This would involve leasing enterprises to collectives or individuals in an effort to break tiao-kuai interference.

Implementation of the enterprise manager responsibility system was to begin in 1985. But by early 1987 less than half, 23,000, of China's 54,000 state-owned industrial enterprises had implemented the new system and only 2,900 small state enterprises had been leased.[150]

Further defining the "rights, responsibilities and interests" of enterprises would continue as decentralization was expanded into 1987 which was to see a more fully implemented separation of ownership from management via leasing of state-owned enterprises.[151]

Much of the rights and responsibilities of enterprises under this new decentralized power are spelled out in draft legislation on the enterprise manager law, a controversial piece of legislation that was not brought up for a vote by the Fifth Session of the National People's Congress in March 1987. It was clear that passage of the proposed law, and, hense, implementation of enterprise decentralization, was blocked by the recalcitrance of

tiao-tiao and *kuai-kuai* leading organs, which, ironically, are charged with implementing the decentralization policies. This is especially so of *kuai-kuai* authorities, which have gained enough power from CP decentralization to block decentralization of the critical third leg of China's strategic domestic economic development triangle, provincial-enterprise relations.

PROVINCIAL-ENTERPRISE DECENTRALIZATION

Prior to the consolidation phase of 1982-1984, the Center could rely on provincial government and Party organs to implement reform policies designed to relieve enterprises from the strictures of overcentralization. Thus, as I said, Hubei pushed enterprise decentralization to improve economic efficiency and increase profits *as long as* decentralization was kept within the bounds of local government and Party control. During the consolidation phase, however, when reformers pushed for greater enterprise decentralization, there was increasing disunity in policy implementation, and, as time went on, open refusal to implement enterprise decentralization policies.

This was the result of the rise of kuai-kuai influence in Deng's reform era, which has prompted a spate of localism similar to that of the late Qing reform era in the early years of the 20th century.[152] This localism is of three varieties.

The first type is inter-provincial, which, as I have shown in chapter three, has historical roots in China. This involves, for example, internal barriers to the free-flow of commodities between provinces. A national industrial conference in March 1982 described a variety of barriers, including some regions prohibiting goods of other areas from entering their localities or bans on the purchase of goods from outside.[153] The conference demanded that "all regulations drawn up by localities banning imports of products from other areas ...[be] abrogated." Despite the demands, such activity continued into 1984. A Renmin Ribao commentary admitted that the inflow of goods from other areas "will certainly put pressure on those local products which are rather weak in their competitive power," but wondered whether"restrictive measures" preventing the inflow of non-local products should be continued "in order to protect local products, or should they take up the challenge bravely and face competition?"[154]

Hubei's response to such calls was not automatic. In a speech to Shashi City government and Party cadres, Provincial Party Secretary Guan Guangfu admitted it was essential to "bring in outstanding and brand products from elsewhere that do not exist locally" in an effort to spur improvement of local products or to meet the public's needs. But, he added,

> ...it is necessary to control certain things. We must resolutely control dumping popular goods and poor-quality products on local markets for sale at cheap prices. We must not let such products in. Opening up does not mean letting go of everything. Necessary and correct control is aimed at conservation, not blockade.[155]

Despite the economic logic in removing such "restrictive measures," the mindset of inter-provincial localism is obvious from the response of an official of the Hubei Provincial Economic Commission who complained that "much of the packaged food here comes from Guangdong and we don't like it. We have a hard time developing our own food industry because these products are here before ours can be produced."[156]

The second type is competition between those provinces with cities that have been granted provincial-level authority in economic planning and foreign trade. Thus Chongqing competes with Sichuan, Nanjing with Jiangsu and Wuhan with Hubei.[157]

For example, prior to June 1984 when Wuhan was granted such status, Hubei included the city in its annual lists of planned projects requiring foreign technology or investment. Hubei's 1985 list included 238 projects, none of which were in Wuhan, the largest city in the province. Wuhan projects were also excluded from Hubei's 1986 and 1987 lists.

In addition, Wuhan products were excluded from the 1986 Hubei Export Commodities Exhibition at the Ohio State Fair, a nearly annual event that has traditionally included many products from Wuhan. Further, arrangements for Ohio government and business officials to meet Wuhan representatives, traditionally handled by Hubei Province, were no longer readily made.

Wuhan trade officials publicly state the city cooperates with the province, but privately admit the competition between them is keen. Discussions with city officials concerning a Wuhan exhibit in Ohio elicited a quick and firm response that Wuhan did not want to exhibit

at the state fair because of Hubei's presence. Any other time or place "would be preferable."[158]

> The city is in very tough competition with Hubei, despite what is said publicly. That's why we want an exhibit in Ohio separate from Hubei's.[159]

As well, such competition exists between prefectures, cities and counties within provinces. At a Hubei provincial conference on economic and technical cooperation, delegates discussed the lack of cooperation between the province and prefectures, between cities and prefectures, between prefectures and counties, and between enterprises. This situation was attributed to the influence of small-scale peasant economy in that:

--local authorities were afraid of being taken advantage of by more advanced areas;

--developed areas pursue self-sufficiency while undeveloped areas fear imported goods would monopolize local markets;

--local authorities believe exchanging goods is better than technological cooperation and cooperation with foreign firms better than with other Chinese firms.[160]

The third type of localism involves lower level political units not implementing policies directed by the Center or the province. The Center began complaining

about this in early 1983 as implementation of the consolidation campaign floundered. For example, in discussing implementation of three provisional regulations on enterprise directors, Party committees and workers' congresses, Gongren Ribao warned that uneven or lax implementation with "everyone taking what they need and going their own way" would lead to ineffectual policies.[161]

As the enterprise consolidation/reform phase progressed, it became evident that implementation of many specific parts of the program would be weak. In April, Xinhua reported that only 17.3 percent of the first group of enterprises to be consolidated had done so through March and that "a few areas and enterprises have failed to impose high standards and strict demands to ensure the quality of checking before acceptance."[162]

Consolidation, if it involved decentralization, may not have been a major goal for provincial leaders. In Hubei, Han Ningfu told a provincial gathering on reorganizing enterprises that:

> the most important task for our enterprises is to raise their economic effectiveness. The criterion for judging whether or not an enterprise has satisfactorily undergone reorganization is whether or not it has achieved good economic effects.[163]

Good economic effects were quickly coming to mean reductions in expenditures and increases in profits.

By June, the Party Central Committee and State Council complained that regions should "assign someone to take charge of (enterprise consolidation) work" to get the job done.[164] The National Leading Group for Enterprise Consolidation, headed by Yuan Baohua, said the work

> has progressed unevenly and its result has not been ideal. Many units lack the spirit of reform. They use stereotyped methods to carry out consolidation and ...are unable to make good progress. In a few units, there is the danger of making consolidation nothing but a gesture. Some units ...do not earnestly attend to their work and dare not confront the major contradictions of the enterprise.[165]

The emphasis of this criticism went beyond local bureaucrats to local Party organs as well.[166]

This criticism continued as Renmin Ribao editorialized in August against those who "have only gone through the motions" of consolidation.[167] The newspaper felt obliged to renew its criticism in October, complaining that some enterprises, such as Fushun Steel Factory, "put up false fronts" and go through consolidation "perfunctorily" with acceptance checks done only "in a formalist manner."[168] Renmin Ribao further criticized those enterprises which falsify reports about

new achievements and that "some units, localities and leading comrades turn a blind eye to such bad practices."[169]

According to Renmin Ribao, Fushun Steel Factory "was managed in a disorderly manner" but still obtained a consolidation certificate because the group assigned to check its work was irresponsible, unprofessional, susceptible to bribery and lacking the courage to be critical.[170]

Such laxness in 1983 led to the Enterprise Consolidation Group issuing new rules for the acceptance inspection groups. The six rules forbade favoritism, lying to the inspection groups or "cheating" them with false enterprise rules and regulations; use of "extravagant eating and drinking," theatre tickets and other gifts, and the use of bonuses for workers if the consolidation inspection proved successful.[171]

Also, in May 1984, the State Council put out 10 provisional regulations on Enterprise decentralization, most of which were ignored by either provincial or municipal governments charged with implementing them, or by the new industrial corporations that began to arise in 1984.

These corporations were organized either by legitimate consolidation of enterprises or by the reorganization of industrial bureaus of provincial and municipal governments. Their intended purpose was to change the overall control of enterprises into a system that actually contributed to the technical and economic development of China's producers.

By August, however, Renmin Ribao criticized the results of this policy:

> Not all of them can meet the requirements of economic development, because ...these corporations may represent only a simple change in the administrative structure and the industrial organization rather than a thorough reform...These corporations must actually perform economic functions rather than exist only as titular economic entities.[172]

In many cases, the new corporations were actually government bureaus which continued exercising kuai-kuai influence, albeit under a new name. This created the impression that China had abandoned centralized state control and allowed business enterprises to flourish. Western business partners were no longer dealing with government industrial bureaus, it was thought, but with industrial corporations which should be more sympathetic to their concerns.

But the control these corporations exercised over their subordinate factories made enterprise decentralization a fiction.

For example, Ye Hengfu, manager of the Wuhan Cotton Mill No. 4, stated that foreign exchange earned by his factory was controlled by the Wuhan Textile Industry Company. "If we needed foreign exchange, we could make a request to this company above us."[173]

Despite its criticism of simply changing administrative agencies' names, Renmin Ribao in no way advocated full enterprise decentralization as conceived by the West:

> The jurisdiction of the corporation should encompass decisions ... [on] business operations of the whole corporation; formulation of ...long-term development plans; coordination of the use of funds in different sections of the corporation; approval of production and operation plans for its subordinate units; assessment of the business results of various factories; distribution of economic benefits among them; inspection of the implementation of yearly production and operation plans; [and] the supervision of financial conditions and business accoutning in various factories.[174]

Later, Jingji Ribao praised Chongqing for granting decision-making power to more than 500 enterprises, but added that the corporations involved

> are just administrative institutions which are equivalent to government bureaus, so they should delegate power ...to their subordinate factories, rather than expand their own powers...[175]

Thus, for the enterprise manager, the system remained centralized. The locus of centralized power was either with the new corporations, many of which had held that power as government bureaus, or remained with provincial or municipal government agencies because the Center's regulations of enterprise decentralization were not being implemented.

Jingji Ribao reported in October that the failure to implement these regulations and the subsequent failure to decentralize the critical third leg of China's economic triangle, Provincial-enterprise relations, were having "a vital bearing" on the success of urban economic reform.[176]

Also in October, Xinhua complained that the Center had "issued repeated injunctions" that power be decentralized to enterprises but many units had not yet "obtained their due decisionmaking powers."[177] The fault for this was with provincial and municipal governments, or with the new corporations, which skirted the Center's 10-point regulations and "rigidly controlled" the enterprises.

The Hubei Party's Standing Committee admitted it was not maintaining unity with the Center in many areas, including "slowness in carrying out reforms," which the committee characterized as worse in the urban than rural areas. Also, the committee admitted it had "not gone far enough in opening up to other countries or other provinces. Our policies are not lively."[178]

Speaking about Wuhan, Changjiang Ribao admitted that "some cadres are taking a wait-and-see attitude toward reform, and hesitate to take action."

> ...we must delegate decisionmaking power to lower levels and lift restrictions on people both within and outside the enterprises. Only in this way can we go in for reform and free the grassroots units and enterprises from the binding of many kinds of bonds.[179]

Xinhua[180] detailed the major problems, all of which speak to enterprise control by kuai-kuai authorities, as follows:

--a failure to delegate power to enterprises, with upper level units controling enteprise rights to market products, use funds for technical transformation and recruit skilled labor. "Some even use such power to seek personal gain, or to further the interests of small groups."

--social units make demands on enterprises, thereby "encroaching" on enterprise' rights to retain profits or use funds.

--irrational regulations and institutions which "fetter the hands and feet of the enterprises." Approval for actions thought to be within the scope of legitimate enterprise power was still required and this process "entails government red tape and loss of much time. Thus, the golden opportunity is often missed."

Xinhua said these practices by the various localities and departments "apparently violate the guideline of the [Third Plenum of the 12th Party Central Committee]".

The difficulties in implementing the guidelines set by the Third Plenum clearly rest with continued tiao-kuai interference. In late 1984, the Chinese media began to expose various methods by which kuai-kuai authorities skirt implementing central requirements for enterprise decentralization, including new local regulations; invoking documents with "leftist" characteristics; "upgrading" local enterprises or "nationalizing" them; changing the nature of ownership in the name of reform; using "centralized management by specialized departments;" joint operations, with government and enterprise organs being combined; or "solving the problem of funds and raw materials."[181]

The combination of government and enterprise function presents problems for potential foreign trade partners who naturally become skeptical when it is unclear with whom they are dealing. The result is logistical confusion as foreign business representatives spend time sorting out Chinese name cards and wondering on which organization they should focus their efforts:

> In some cases, one organ performs two types of functions--the government function and the enterprise function. In other cases, one organ has 'two signboards,' which is a form of one organ having two types of functions. Some enterprises are enterprises in name but government organs in reality. The title 'bureau' is changed to company while the rest remains unchanged.[182]

The success of urban economic reforms, then, depended upon successful implementation of enterprise decentralization. By late 1984, the rise of what Jingji Ribao called "enterprise-like companies" were threatening to limit not only future enterprise decentralization but the powers already granted to grassroots producers in the previous five years. The newspaper said the "primary task" of these companies was "to take over the power from enterprises."[183] These companies not only discourage competition between enterprises and weaken their position as independent commodity producers, Jingji Ribao said, but

also prevented the breakup of barriers between localities and departments.

By late 1984, it was clear little had been done in Hubei to accommodate breaking down barriers between departments and regions or in decentralizing power to enterprises. On Christmas Day, the provincial Party and government urged a speeding-up of implementing reforms, including: handing provincial enterprises down to lower levels; expanding the localities' power to approve projects for which they have money; expand enterprise decision-making power; reducing mandatory plans in industry from 177 products to 43; using economic levers to guide the economy; clearing commodity circulation channels; and urging cities to delegate power to their enterprises.[184]

The irony is that the Center had to rely on local government and Party organs to implement its policies: there was and rarely ever has been in China, any alternative. Thus, Yuan Baohua, head of the National Enterprise Consolidation Leading Group, could only urge that consolidation of small and medium-sized enterprises be implemented by allowing "various localities and departments [to] set different standards and requirements, according to actual conditions, and check and accept consolidation work in strict accordance with <u>such</u>

standards and requirements."[185]

And Jingji Ribao, after criticizing localities' failure to implement the enterprise decentralization regulations, offered no alternative to implementing central directive other than relying on local government and Party organs.[186]

These problems continued into the second half of the 1980s as China's leaders considered, then declined, to enshrine the complete separation of enterprise management from Party control into law.[187] Kuai-kuai power remained, with local government and the corporations they founded.

CONCLUSION

By 1987, China's leaders faced a system that accentuated long-asked questions about who is in control of things. The Sixth National People's Congress in April failed to approve two key laws which reformers hoped would spur China's economy. The first involved price reform, the second, and enterprise management law separating factory management from Party control.

The NPC's failure to enact either law speaks to two facets of modern China. First is an economic dilemma: the NPC was unable to decide which law should be enacted and implemented first. Without price reform, full management

responsibility for enterprise managers means little. But price reform, without enterprise managers having full authority to run their businesses, would likely result in economic chaos. Both laws are to spur the economy by relying on market mechanisms to a greater extent than has heretofore been done in a Communist-controlled country. But both laws would, ultimately, have great impact on the power of government bureaus and Party committees at all levels by cutting many of the _tiao-kuai_ lines of authority that now bind the Chinese economy.

Second, in the absence of enacting one or both of these laws, the NPC was forced to rely on Premier Zhao Ziyang's government program for enterprise reform, a collection of different approaches to enterprise management and control, from leasing out small factories to a variety of responsibility system contracts specifying in detail each manager's authority and responsibility.

Thus, China continues to depend on experimental implementation of a new enterprise management system first with enactment of laws at some later date. This inability to codify an enterprise management system is the result of the power of local, _kuai-kuai_ authorities who would be required to implement and enforce the new law. The dilemma of having to rely on lower-level government bureaus and Party committees, then, continues. Central

plans for economic reform and development continue to be dependent on tiao-kuai lines of authority, especially the kuai-kuai power that the Center unleashed in the current wave of decentralization.

The real problems in reforming China's urban economic setup come more from local power-holders than the Center. The latter, certainly not of one mind about the reforms, has proposed bold (for China) changes in the economic management system. The Center's continuing exhortations to kuai-kuai authorities to implement reforms indicates its helplessness in forcing lower-levels to do so. The Center is dependent on local-level governments and Party committees, which in view of the decentralization of decision-making authorities tothem, have become competitors for power with the Center in determining the scope and pace of the urban reforms.

This dependence is clear from the many exhortations to "fully carry out" the Party's policies in the Chinese media.[188] The near-complete resistence to reforms is evident in Xinhua's 1980 demanded that "All Departments Should Support Greater Decisionmaking Powers for Enterprises."[189] The report said that 95 enterprises in Guangdong were experimenting with management reforms but were meeting resistance from "other concerned departments" which had not yet changed rules and regulations so as to

accommodate the reforms to the existing power structure or by fighting "with one another over trifles."

While not criticizing any specific departments, Xinhua said

> Many comrades of the experimenting enterprises hold that the principal leading comrades of the provincial party committee and the provincial People's Government are dutybound to grasp the economic reform, and that the economic and planning commissions as well as the finance, tax, banking, labor, supply, pricing, foreign trade, commerce and personnel departments should vigorously support these experiments.[190]

In short, the entire provincial government and Party apparatus.

China's dilemma in the last years of the 20th century, then, is indicative of that faced by most Communist regimes: economic reform is needed to spur growth, but the greater use of market mechanisms dictated by economic reform runs counter to the regime's need for control.

The need for economic reform is evident to most Chinese. The problem, in the end, rests with the Center's reliance on lower-levels for implementation of reforms that threaten the power of the implementors. Ironically, the power of these kuai-kuai authorities was enhanced by initial decentralization. Whether the system is called

Marxist or State Capitalism, the ties that bind China's economy actors are still strong.

ENDNOTES Chapter V

1. FBIS 8 April 1983, P1.

2. FBIS 24 March 1981, L4.

3. Robert A. Dahl and Charles E. Lindblom, Politics, Economics and Welfare, (Chicago: University of Chicago Press, 2d ed. 1976), 101.

4. "Political Democracy Must be Ensured," China Daily, Nov. 24, 1986, 4. Political reform was a major topic among intellectuals throughout 1986, culminating in student demonstrations at several major Chinese universities in December and the ouster of Hu Yaobang as Communist Party General Secretary in January 1987.

5. In 1986, the Kuomintang permitted the establishment of the Democratic Progressive Party, a unified group of hitherto weak opposition parties. In the December 6 elections, the DPP attracted 22 percent of the total vote while the ruling KMT's popular vote dropped from 73 percent in 1983 to 69 percent. Although the KMT came away from the December elections with 81 percent of the seats in Taiwan's Legislative Yuan, the DPP's vote totals indicated widespread popular support for continued political reform that would include legitimate political parties openly contesting elections. Although the KMT has yet to grant legal recognition of the DPP, the new opposition party's popularity seemed to indicate such a move could not be forestalled for long. See "A new rising star," Far Eastern Economic Review, 18 December 1986, 12-13.

6. The four cardinal principles are socialism, the people's democratic distatorship, leadership by the Communist Party, and Marxism-Leninism-Mao Zedong Thought.

7. "Zhao Ziyang on the Two Basics of the Party Line," Beijing Review, 30, Nos. 4 & 5, (Feb. 9, 1987), 27.

8. FBIS 27 April 1983, P12.

9. Charles E. Lindblom, Politics and Markets, (New York: Basic Books, 1977).

10. Reformers are an amorphous group which defies a generalized label. Some favor certain reforms but oppose others. Some adhere to the Communist Party's four cardinal principles while others, at least in the view of conservative opponents to Hu Yaobang, seem less committed to upholding Marxist-Leninist orthodoxy. Some are committed to reforms for the sake of national economic development, while others do so for their own political gain. By reformers, I mean those in government and Party at all levels who have pushed the idea of economic reform in general at the policy formulation and implementation stages as opposed to conservatives who favor only a return to the Chinese economic system of the First Five-year Plan of 1953-1957.

11. Lindblom, Politics and Markets.

12. Barry Naughton, "The Decline of Central Control Over Investment in Post-Mao China," in Policy Implementation in Post-Mao China, ed. David M. Lampton, (Berkeley: University of California Press, 1987), 39-40.

13. Audrey Donnithorne, Centre-Provincial Economic Relations in China, (Canberra: Contemporary China Centre, Australian National University, 1981), 33.

14. Ibid., 34.

15. Ma Hong: New Strategy for China's Economy, (Beijing: Foreign Language Press, 1983), 117.

16. Ibid., 93.

17. Xue Muqiao: China's Socialist Economy, (Beijing: Foreign Language Press, 1982), 204.

18. China: A Statistics Survey in 1985: (Beijing: New World Press and China Statistical Information and Consultancy Service Centre, 1985), 5, and "Ten Major Socio-Economic Changes" in Beijing Review, No. 15, (April 14, 1986): 19.

19. See, for example, Barbara Wolfe Jancar: Czechoslovakia and the Absolute Monopoly of Power, (New York: Praeger, 1971): Alec Nove: The Economics of Feasible Socialism, (London: Allen & Unwin, 1983): and Dennison Rusinow: The Yugoslav Experiment, 1948-1974, (Berkeley: University of California Press, 1978): and Janos Kornai, "The Dilemmas of a Socialist Economy" Cambridge Journal of Economics, 4, No. 2, (June 1980).

20. Dorothy Solinger, Decentralization and the Problem of Encapsulation: Spatial Reform of the Economic Structure paper presented at the conference on "To Reform the Chinese Political Order" 18-23 June 1984, Harwichport, Massachusetts, sponsored by the Joint Committee on Chinese Studies of the American Council of Learned Scholars and the Social Science Research Council, 18.

21. This does not mean the Chinese do not desire efficiency. Lampton points out that a "deeper problem" than officials recalcitrance "is that the mass itself desires ... goals among which ...are sharp internal contradiction: political order, high rates of growth, economic security, distributional fairness, and the maintenance of traditional social and cultural patterns." Thus opposition to reforms lies not only with those tiao-tiao and kuai-kuai authorities who stand to lose power, but from the masses, who view reforms as limiting their economic security. See David M. Lampton: "Driving Beyond the Headlights: The Politics of Reform in China," paper prepared for the conference on "China's Modernization: Economic and Security Implications" co-sponsored by the American Enterprise Institute, Washington, D.C., and the Institute of Southeast Asian Studies, Singapore, March 23-24, 1987, 4-12.

22. The communique issued by the Third Plenum of the 11th Central Committee as states: "One of the serious shortcomings in the structure of economic management ...is the overcentralization of authority. It is necessary. . . to boldly shift authority to lower levels in order that local officials and enterprises will have greater decision-making power." A February 19 editorial in Renmin Ribao commented that "this is a major reform that must be carried out....in order to accomplish the four modernizations." FBIS 26 February 1979, E9.

23. Lindblom's horizontal ties are not to be confused with the horizontal administrative ties the Chinese term kuai-kuai that were discussed in Chapter 1.

24. Ma Hong, New Strategy, 93-94.

25. Zhang Zhuoyuan; "Introduction: China's Economy After the 'Cultural Revolution' in China's Economic Reforms, ed. Lin Wei and Arnold Chao, (University Park: University of Pennsylvania Press, 1982), 19. Here, Zhang distinguishes between reform of the economic setup, or economic management system, and reform of the economic

pattern, or the proportions of economic activity in the agricultural, light and heavy industrial sectors. As part of this latter problem, Zhang says disproportions are "the result of incorrect guidelines and the adventurous 'leaps forward'" and are not caused by an overcentralized management system. I am concerned here only with reform of China's management system, or setup, not its economic pattern, which is a policy choice no matter what system is used.

26. Ibid., 21-22.

27. FBIS 21 June 1979, L16-18.

28. FBIS 11 May 1979, L20.

29. "Report on the Final Accounts for 1980 and Implementation of the Financial Estimates for 1981," delivered by Chinese Minister of Finance Wang Bingqian, Fourth Session of the Fifth National People's Congress, Dec. 1, 1981, in Beijing Review, No. 2, (Jan. 11, 1982), 14-23.

30. Zweig, David: "Context and Content in Policy Implementation: Household Contracts and Decollectivization, 1977-1983" in ed. David M. Lampton, Policy Implementation in the Post-Mao China.

31. FBIS 16 July 1979, Q1.

32. The five documents were "Some Regulations to Expand State-run Industrial Enterprises' Administrative Authority," "Regulations on the Percentage of Profits Allowed to be Retained by the State-run Enterprises," "Tentative regulations on Raising the Depreciation Rate of the State-run Industrial Enterprises' Fixed Assets and Improving the Methods of Spending Depreciation Charge," "Tentative Regulations on Levying Taxes on Fixed Assets of the State-run Industrial Enterprises," and "Tentative Regulations on Extending Full Credit to the Circulating Fund of the State-run Enterprises." FBIS 30 July 1979, L5-6.

33. FBIS 22 October 1979, P3.

34. FBIS 1 November 1979, P2.

35. FBIS 16 January 1980, P1.

36. Interview with Ding Fanying, chief of the secretary's office, Hubei Industry and Communications Office, May 14, 1980, Wuhan.

37. FBIS 16 January 1980, P2.

38. Ibid.

39. Interview with Yang Zhonghan, head of the reception office, Wuhan Iron and Steel, May 9, 1980, Wuhan.

40. FBIS 2 September 1980, L7.

41. FBIS 16 June 1980, L8. This figure seems to be a discrepancy from the 14.4% mentioned earlier for the January through June 1979 period.

42. FBIS 16 January 1980, L6-8.

43. Ibid., L8-9.

44. "Changzhang yong quan guotou le ma?" (Can factory managers overuse their power?), Changjiang Ribao, Decemeber 3, 1986, 1.

45. FBIS 27 August 1980, Q1.

46. FBIS 21 April 1980, L9-11.

47. FBIS 22 April 1980, L8-9.

48. FBIS 29 May 1980, L11-12.

49. FBIS 22 July 1980, L13.

50. Ibid., L9.

51. FBIS 27 August 1980, Q1.

52. FBIS 18 September 1980, Q1.

53. FBIS 2 September 1980, L27.

54. FBIS 20 October 1980, L10-12.

55. Ibid., L11.

56. Ibid.

57. FBIS 10 December 1980, L22-29.

58. Ma defines decision-making power as referring to decisions on the "scope of operations, the guiding policies and important measures." He sees directing power referring to "the administrative power relating to the day-to-day production and management operations," while supervisory power "refers to the overall supervision over the decisionmakers and directors...on the basis of the interests of the owners of the enterprise." Ibid., L25.

59. Ibid.

60. Ibid., L28.

61. Wang Bingqian, "Report on Final State Accounts" in Beijing Review, No. 2 (Jan. 11, 1982).

62. FBIS 13 January 1981, L5-6.

63. FBIS 3 February 1981, L1.

64. Ibid.

65. FBIS 27 February 1981, P4.

66. FBIS 17 February 1981, L16.

67. FBIS 5 August 1981, P3.

68. FBIS 10 March 1981, L14.

69. FBIS 11 March 1981, L25-26.

70. FBIS 18 March 1981, L9.

71. FBIS 24 March 1981, L3.

72. Ibid.

73. Ibid.

74. Ibid.

75. FBIS 10 July 1981, R1.

76. FBIS 4 August 1981, K7-9.

77. Ibid., K8.

78. FBIS 4 August 1981, K9-11.

79. Ibid., K10.

80. Ibid., K11.

81. FBIS 7 August 1981, K7.

82. FBIS 1 September 1981, K1.

83. Interview File H, Interview No. 1, April 1, 1987, Wuhan.

84. FBIS 20 October 1981, K3.

85. "Jingji yao gaohao, waifeng yao shazhu," [Economizing must be done well, unhealthy trends must stop] Hubei Ribao August 30, 1981, 1.

86. FBIS 7 August 1981, K7.

87. Ibid., K8.

88. "Luoshi Jingji Zerenzhi, Zhuajin Ye Wa Gaige," [Carry out the economic responsibility system, firmly grasp digging into enterprise reform] Hubei Ribao September 17, 1981, 1.

89. FBIS 20 August 1981, R10-12.

90. Ibid., R11.

91. FBIS 21 August 1981, K20.

92. Ibid.

93. "Luoshi Jingji Zerenzhi, Zhuajin Ye Wa Gaige," [Carry out the economic responsibility system, firmly grasp digging into enterprise reform] Hubei Ribao September 17, 1981, 1.

94. FBIS 26 August 1981, K9-12.

95. Ibid., K10.

96. FBIS 4 September 1981, K4.

97. FBIS 13 November 1981, K3-5.

98. FBIS 7 December 1981, K20-21.

99. _FBIS_ 12 January 1982, K6.

100. _FBIS_ 25 January 1982, K12-14.

101. Ibid., K13.

102. _FBIS_ 9 Feburary 1982, P1.

103. Ibid.

104. Ibid., K14.

105. _FBIS_ 30 March 1982, K5.

106. _FBIS_ 9 February 1982, P1 and _FBIS_ 24 February 1982, P5.

107. _FBIS_ 2 April 1982, K8.

108. Ibid.

109. _FBIS_ 24 February 1982, K11.

110. _FBIS_ 25 June 1982, K1.

111. _FBIS_ 20 July 1982, K2.

112. _FBIS_ 10 December 1982, K13.

113. _FBIS_ 6 January 1983, K8-10.

114. Ibid., K9.

115. _FBIS_ 24 January 1983, K20.

116. Ibid.

117. _FBIS_ 28 January 1983, K4.

118. Ibid., K5.

119. _FBIS_ 1 Feburary 1983, K1.

120. Ibid.

121. _FBIS_ 26 April 1983, K3-8.

122. Ibid., K5.

123. Ibid., K4-5.

124. *FBIS* 18 August 1983, K4.

125. Ibid., K5.

126. *FBIS* 6 October 1983, K5-6.

127. Ibid., K6.

128. *FBIS* 12 January 1984, K7.

129. Ibid., K8.

130. Ibid.

131. *FBIS* 2 February 1984, K19.

132. *FBIS* 16 February 1984, K3-5.

133. Ibid., K4.

134. Ibid.

135. Ibid.

136. *FBIS* 26 March 1984, K4.

137. *FBIS* 8 May 1984, K7.

138. *FBIS* 13 June 1984, K21-22.

139. Ibid., K22.

140. *FBIS* 20 June 1984, K12-13.

141 Ibid., K12.

142. *FBIS* 21 June 1984, K12-15.

143. *FBIS* 1 August 1984, K15-16.

144. In discussing economic administration in the new Soviet Union, Lenin said "Even under the most favorable circumstances, the system of collective management can fritter away a huge amount of labor and offers no guarantees of the speed and precision of work required in a concentrated and large-scale industrial environment. ...it will be necessary to adopt the system of one-man leadership because this system is best able to guarantee the proper and better use of manpower and to ensure the

actual instead of rhetorical examination of work." Collected Works of Lenin, 30, 278-279 in FBIS, 10 December 1980, L28.

145. FBIS 22 August 1984, K14.

146. FBIS 21 June 1984, K10.

147. FBIS 13 September 1984, K9-10.

148. "The Decision on Reform of the Economic Structure," China Daily, October 22, 1984, 9.

149. Ibid., 10.

150. "Industrial Enterprises Make Gains in Reforms," China Daily, February 20, 1987, 3.

151. "1987: Year of Enterprise Autonomy" in Beijing Review, No. 10, March 9, 1987, 18-20.

152. Mary C. Wright, ed.: China in Revolution, the First Phase 1900-1913, (New Haven: Yale University Press, 1968).

153. FBIS 5 March 1982, K3-4.

154. FBIS 21 November 1984, K2.

155. "Wei hetongzhi zhigong juji baoxian jijin" [Contract system staff and workers build up an insurance fund] Hubei Ribao, August 15, 1984, 1.

156. Interview File G, December 26, 1986, Wuhan.

157. FBIS 8 June 1984, K17.

158. Interview with Lu Zhiwen, deputy director, Wuhan City Foreign Affairs Office, Nov. 5, 1986, Wuhan. Discussion of a proposed Wuhan exhibit with other city officials elicited the same response.

159. Interview File E, Interview No. 3, Oct. 17, 1986, Wuhan.

160. FBIS 21 November 1984, P3.

161. FBIS 6 January 1983, K9.

162. FBIS 22 April 1983, K2.

163. FBIS 11 August 1982, P3.

164. FBIS 1 July 1983, K8.

165. Ibid.

166. Ibid., K9. Also, in the wake of continued economic crimes and abuse of power on the part of Hubei provincial Party cadres, the provincial Party Committee issued new regulations pertaining to Party work style. These regulations renewed study of Party doctrines and specific documents, linking collective leadership with dividing work among individuals, "resolutely implement" central directives, reduce the number of meetings and documents, give due consideration to grassroots units, and avoid undue publicity. See FBIS 27 April 1983, P9-10.

167. FBIS 15 August 1983, K16.

168. FBIS 18 October 1983, K6.

169. Ibid., K7.

170. Ibid.

171. FBIS 7 December 1983, K8-9.

172. FBIS 7 August 1984, K12.

173. Interview with Ye Hengfu, Director, wuhan Cotton Mill No. 4, December 10, 1984, Wuhan.

174. Ibid.

175. FBIS 29 October 1984, K16.

176. Ibid., K15.

177. FBIS 2 November 1984, K17.

178. FBIS 1 June 1984, P2.

179. "Fangkai Shoujiao Gao Chengshi Gaige," [Guard against underhanded methods in carrying out urban reforms] Changjiang Ribao May 11, 1984, 1.

180. FBIS 2 November 1984, K17.

181. See FBIS 7 December 1984, K14-15; FBIS 12 December 1984, K3-6.

182. _FBIS_ 12 December 1984, K3.

183. _FBIS_ 26 December 1984, K16-18.

184. _FBIS_ 28 December 1984, P1-3.

185. _FBIS_ 23 March 1984, K4.

186. _FBIS_ 29 October 1984, K16.

187. "Slow boat for China," _Far Eastern Economic Review_, 23 April 1987, 51-53.

188. For example, see "Zai quanmin suoyouzhi gongye qiye zhong guanmian tuixing changzhang (jingli) fuzezhi (In industrial enterrprises under the system of ownership by the whole people comprehensively carry out the factory manager responsibility system)," _Hubei Ribao_, Dec. 21, 1986, 1.

189. _FBIS_ 19 November 1980, L2-3.

190. Ibid., L3.

CHAPTER VI

MAPPING POWER IN HUBEI'S FOREIGN TRADE SYSTEM

China's foreign trade system provides an excellent example of the tension between centralized and decentralized power in the post-Mao period. Beginning with foreign trade decentralization in 1979, *kuai-kuai* authorities have used, and in the minds of central leaders, abused, their new-found power. This has prompted periodic central efforts to recoup some of the authority given to provincial governments. These efforts included creation of the Ministry of Foreign Economic Relations and Trade in 1982, implementation of an export and import licensing system in 1984, a brief attempt to recentralize all trade activity for six months in 1984, and imposition of a variety of new import control mechanisms in 1985 and 1986. They all failed to recentralize because implementation of central policy is in the hands of provincial foreign trade departments and government official who base the parameters of implementation on local conditions and their own position regarding control.

Despite these efforts to recapture control, the Center faces the same problem that plagued past dynasties: it must rely on provincial governments to implement these new controls. Ironically this offers lower-level governments new opportunities to exercise their power. This kuai-kuai power is found in an examination of the various foreign trade activities handled by provincial-level trade officials.

I used the tiao-kuai framework to map loci of decision-making power in Hubei's foreign trade system for the 1979 to 1987 period. This map offers a clear picture of which governmental units have some authority in foreign trade decisions. In Hubei, the Provincial Economic Commission, Planning Commission, Foreign Economic Relations and Trade Department, the Hubei branch of the Bank of China[1] and the various provincial industrial bureaus are the primary agencies which make final decisions on which factories will receive export licenses and on prioritizing imports or investment projects.[2] Because these decisions often require unanimity, this mapping reveals those units most likely to be involved in the "bargaining treadmill" to achieve either agency, group or individual foreign trade goals.[3]

While this mapping can be done in each of Hubei's cities and counties under provincial jurisdiction, my focus is on provincial government and party as the key authority in making final foreign trade decisions for these localities. It is the province which allocates export licenses. It is the province which plans and prioritizes import projects. It is the province to which foreign businesses have turned to successfully negotiate contracts. Foreign businesses dealing only with end-users or suppliers without including provincial government and Party units (or provincial-level municipal governments such as Wuhan) typically are unsuccessful.[4] It is the province which, together with the Center, claims ultimate authority for any changes in plans already made.[5]

Before mapping power in Hubei's foreign trade system, a discussion of China's foreign trade system reforms, which have given _kuai-kuai_ authorities greater power, is in order.

FOREIGN TRADE REFORMS

Statistics abound which show the low level and slow growth of China's foreign trade before the reforms of the post-1979 period. For example, table 6.1 shows the increases in the value of total foreign trade for every three years beginning in 1950. The major increases came

in 1978, 1979 and 1980, just prior to and after the Third Plenum of the 11th Party Central Committee in December 1978. It was at this meeting that China formally decided to emphasize economic growth instead of ideological criteria.

Table 6.1

CHINA'S FOREIGN TRADE, 1950-1980
UNIT: U.S. $1 billion

YEAR	TOTAL TRADE
1950	1.13
1953	2.37
1956	3.21
1959	4.38
1962	2.66
1965	4.25
1968	4.05
1971	4.85
1974	14.57
1977	14.80
1978	20.64
1979	29.33
1980	37.82

Source: former Ministry of Foreign Trade[6]

These reflect a system in which all foreign trade activity, and thus all foreign exchange earnings, was monopolized by the Center's Ministry of Foreign Trade. Trade was conducted by a dozen or so foreign trade corporations (FTCs) that functioned in specialized areas.[7] This level of activity was a result of an ideological point of view that took the notion of self-reliance to mean autarky: there was no inherent value in trade as an integral part of economic development. By adopting a highly centralized development model, China locked into place a foreign trade system that would prove to be too inflexible, too cumbersome, and, therefore, "uniquely unsuited for the high-tech, information-based and highly interdependent world economy of the 1980s.[8]" Clearly, if China's goal was to quadruple production by the year 2000, it would have to become an active participant in international commerce. This would require major reforms of the centralized foreign trade system.

Statistics also abound which show the increasingly high level of China's foreign trade activity after the December 1978 Third Plenum. Table 6.2, for example, reveals a near-doubling of China's total trade between 1980 and 1986.

Table 6.2

CHINA'S FOREIGN TRADE, 1980-1986
UNIT: Billion US Dollars

YEAR	TOTAL TRADE
1980	38.04
1981	43.13
1982	40.88
1983	43.48
1984	51.78
1985	69.62
1986	73.83

Source: State Statistical Bureau[9]
Total trade is FOB and CIF.

These figures reflect the major systemic changes in China's foreign trade system since 1979, changes which came about in two phases. The first, implemented as part of overall Center-Province (CP) decentralization, gave provincial governments and some municipalities the right to engage in trade themselves without central approval. The second, from summer 1984, involved efforts to separate government administration from foreign trade work, complementing similar efforts to separate government administration from enterprise management in the Center-Enterprise (CE) and Province-Enterprise (PE) relationships discussed in the previous chapter.

As the first phase unfolded, foreign businesses welcomed the chance to deal directly with end-users. But decentralization did not bring foreign trade decision-making power to end-users. Trade negotiations still require the active intervention of governmental actors, only now from the provincial level or below instead of from the Center.

The result is a much more complex foreign trade system than existed before 1979 because the number of actors has risen dramatically. Chinese statistics show that, by the end of August 1984, there were about 600 import and export companies at or above the provincial level. That is a 500 percent increase in the number of such FTCs since 1978.[10] This increased activity no doubt has played a major roll in the large increases in China's foreign trade volume since 1979.

The nature of these reforms are seen in Hubei's experience, which is typical of the structural changes in most Chinese provinces.

Prior to 1983, Hubei's foreign trade system was directed by central government agents located in the provincial capital of Wuhan. The Hubei Province Foreign Trade Bureau was an arm of the Ministry of Foreign Trade, while the various FTCs in Hubei were branches of their general offices in Beijing, all under the thumb of the

trade ministry. All provincial trade activity was handled by these agencies. Any trade required approval from the general FTC office in Beijing or the ministry. This centralized system put emphasis on tiao-tiao leadership as the loci of decision-making power.

In 1979, however, as part of the experiments in trade decentralization, Hubei was permitted limited rights to deal directly with foreign business.[11] Thus began the increased power of kuai-kuai leadership in foreign trade matters. Initially, this activity was handled by the provincial government's Import and Export Management Commission comprised of officers from the provincial Economic and Planning Commissions and the Industry and Communication Office. It was managed by Sun Yiran. Representatives from the Hubei Foreign Trade Bureau were conspicuous by their absence from commission membership, a fact that angered bureau chief Song Yisan, as noted earlier.[12]

The Import and Export Management Commission's task was to plot a development strategy for Hubei's foreign trade. This involved determining which commodities stood the best chance of earning foreign exchange through export and planning the technological imports needed to improve export commodity production capacity and quality.[13]

In March 1982, fearing loss of central control in this growing activity, the Center merged the Ministry of Foreign Trade with the Ministry of Economic Relations with Foreign Countries, the Import and Export Affairs and the Foreign Investment commissions to create the Ministry of Foreign Economic Relations and Trade. While this centralized the central-level decision-making process into one agency, its effect was to turn over entirely to provinces the personnel composition and policy-making goals to the new provincial Foreign Economic Relations and Trade departments.

In early 1983 Hubei's Import and Export Management Commission became the Provincial Foreign Economic Relations and Trade Department, headed by Sun Yiran. Much of the leadership of the Hubei Foreign Trade Bureau was disbanded, its staff subsumed by the new provincial organ. Song Yisan was transferred to the provincial grain bureau (liangshi ju)[14]

Using Hubei's 1983 and 1984 foreign trade contract negotiation symposia as an example, Sun was blunt about provincial power in setting provincial foreign trade goals and implementing China's open door policy:

> Our foreign trade department controls implementation of the policy of opening to the outside. Therefore there is more of a burden on us. Before 1983 no one would take responsibility for holding a trade symposium [with foreign business]. Such an event could not have happened. Now, Hubei can take the initiative [Emphasis added].[15]

Throughout this period, Hubei became much more active in foreign trade matters, as statistics show.

TABLE 6.3

VALUE OF HUBEI PROVINCIAL EXPORTS, SELECTED YEARS
UNIT: US $10,000

YEAR	VALUE
1953	8243
1958	7455
1965	3496
1978	15,901
1979	22,550
1980	25,110
1981	33,064
1982	36,012
1983	41,192

Sources: Hubei Province Statistical Bureau (for years 1979 to 1983). Interview File A, Interview Number 3, September 23, 1984, Wuhan (for years 1953 to 1983).[16]

TABLE 6.4

VALUE OF HUBEI PROVINCE LOCAL IMPORTS, SELECTED YEARS
UNIT: US $10,000

YEAR	VALUE
1950	28
1978	1432
1983	4075

Source: Interview file A, Interview Number 3, September 23, 1984, Wuhan.

TABLE 6.5

USE OF FOREIGN CAPITAL, HUBEI PROVINCE, SELECTED YEARS
UNIT: US $10,000

YEARS	VALUE
73-78 (total)	584
79-82 (total)	3460
1983	5000

Source: Interview File A, Interview Number 3 September 23, 1984, Wuhan

While this level of activity was welcomed by national and provincial leaders as evidence of China's "latent potential," the 1979 to 1984 period became increasingly marked by "contradictions" between central hopes for uniform trade policy and inter- and intra-provincial

competition, all the result of new-found power at the provincial level.

The biggest problem was competition between provinces for export sales, which resulted in price-slashing of export commodities.[17]

This activity brought the issue of foreign trade system reform to its policy-formulation denouement. Citing widespread confusion about export commodity prices, MoFERT asserted in March 1984 it would recentralize foreign trade activity by: determining commodity prices; expanding the commodities needing export licenses; giving central-level FTCs monopolies over trade in certain products; and requiring lower-levels to get ministry permission for the formation of new trading corporations.

This announced recentralization, like creation of MoFERT and implementation of the export and import licensing systems (discussed below), was another Central effort to regain some measure of control over the burgeoning foreign trade activity its initial decentralization policies unleashed.

Even as MoFERT announced its recentralization efforts, however, other voices in China's economic leadsership were calling for greater decentralization in the foreign trade system.[18] Clearly the issue of foreign trade reform had reached the level of internal debate over

basic policy direction. That MoFERT could publically announce a recentralization of foreign trade in the midst of China's efforts to create greater competition within all spheres of the economy through decentralization seemed to indicate a victory for conservatives, including MoFERT Minister Chen Muhua. If so, it was short-lived.

Throughout the spring and summer, the issue of foreign trade reform shifted into its second phase, that of permitting greater decentralization by following the principle of separating government administration from enterprise management, or CE and PE decentralization. In foreign trade, this meant establishing an import and export agency system with FTCs acting on behalf of other enterprises. As envisioned by proponents, including then-vice minister and later MoFERT Minister Zheng Tuobin, FTCs would "become economic entities that operate independently and are responsible for their own losses and profits."[19] This plan theoretically would accomplish two tasks: decentralize power to enterprises to spur economic development and cut the kuai-kuai power of local governments.

Zheng was head of the ministry's Party group charged with reforming the foreign trade system to complement ongoing reforms in China's overall urban economy. In August, the group attacked what it called "irresponsible

bureaucratic attitudes that have caused serious economic damage since early this May."[20]

Zheng's group found 990 cases of economic damage and waste involving RMB 310 million going back to 1980.[21] Despite these revelations and the sense of urgency they created, the group admitted that solving such problems was not easy: kuai-kuai power had become too much a part of the Chinese polity. "Combatting bureaucracy is a long-term task and a fundamental problem," Zheng said.[22] The systemic reform required would, in turn, require further decentralization to break tiao-kuai power if China hoped to compete in international markets.

An editorial in Renmin Ribao pointed to a long list of problems in China's foreign trade system:

> In the field of management, the responsibilities, functions and rights of business enterprises are mixed up with those of the state administrative bodies; in the field of business operations, excessive restrictions are imposed on foreign trade, which is separated from industrial production; and in the field of finance, all profits and losses are borne by the state, and foreign trade companies can just 'share food from the same big pot.' This has led to poor economic efficiency."[23]

Reformers gained the upper hand in the debate as the State Council in September approved an internal MoFERT report on reforming the foreign trade system.

The structural reforms were to accomplish two basic tasks. First, they were to implement an agency system whereby FTCs would handle foreign trade for enterprises "independently ...without interference from administrative bodies of the state."[24] FTCs would be placed on a responsibility system, being accountable for profits and losses. In the words of China's foreign trade officials, FTCs would export goods for manufacturers and import goods for enterprises "which have placed orders," being paid on a commission basis. As I show below, these comments are overstatements at best.

Second, MoFERT and the various foreign trade agencies at the provincial and local levels would no longer focus on the work done by FTCs but instead would determine "overall policies and general principles," provide international market analysis and other foreign trade services for the FTCs and their customers.

After the Third Plenum of the 12th Party Central Committee in October 1984, Chen Muhua stressed five key tasks in foreign trade system reform, which was to begin January 1, 1985. These were: separating the functions of government and enterprises; implementing the agency

system; relying on economic rather than administrative means to improve export commodity capacity and quality; integrating foreign trade with industrial production with FTCs becoming more involved in providing enterprises with world-class technological information; and doing business with the outside world with a "unified approach."[25]

This plan was an effort to cut _kuai-kuai_ power over foreign trade activity in the provinces by giving foreign trade corporations (FTCs) rights and responsibilities to run their business, albeit with continued _tiao-tiao_ lines offering coordinated policy, rules and regulations.

The following chart provides a schematic view of the foreign trade system in Hubei Province prior to the reform effort of 1985. It clearly shows the broad power of _kuai-kuai_ authorities.

```
MoFERT
   sets               --controls personnel, contracts
     --policy                and planning
     --regulations         Central FTCs
     --licensing


Hubei FERT
   implements         --controls personnel, contracts
     --policy                and planning
     --regulations
     --licensing            Local FTCs
```

SOURCE: Interview File A, Interview No. 9, October 21, 1984, Wuhan.

FIGURE 6.1

HUBEI PROVINCE FOREIGN TRADE SYSTEM

The reforms proposed for 1985 envisioned a foreign trade system as follows:

<u>MoFERT</u>
sets
--policy
--regulations
--licensing

provides
--education
--information
--market research

<u>Central FTCs</u>
--given rights of personnel, planning and contracts

<u>Hubei FERT</u>
implements
--policy
--regulations
--licensing

provides
--education
--information
--market research

<u>Local FTCs</u>
--given rights of personnel, planning, contracts

SOURCE: Interview File A, Interview No. 9, October 21, 1984, Wuhan.

FIGURE 6.2

PROPOSED REFORMS, HUBEI FOREIGN TRADE SYSTEM

Despite the desire for an agency system, this "unified approach" did not envision FTCs acting "independently ...without interference from administrative bodies of the state," as China's leaders so often stated. Instead MoFERT was to

> ...intensify the necessary administrative management over foreign trade. [FTCs] ...will handle their business independently by following the state's policies and regulations. In ...foreign trade work, it is ...necessary to adhere to ...acting in a well-coordinated way. We must not give up this principle in reforming the foreign trade system. All foreign trade companies must be subordinated to the leadership, coordination, and management of the state administrative department in charge of foreign trade.[26]

In short, while reformers apparently gained the upper hand over the basic direction of foreign trade reform as 1984 progressed, they had neither the power, nor perhaps the desire, to push stated reform goals to their logical conclusion. As 1985 would unfold into 1986 and 1987, foreign trade reforms, like those granting enterprise managers more authority, would meet resistance from _kuai-kuai_ authorities. Public statements by Chinese officials and the media make it appear Chinese manufacturers may ask FTCs to export their goods. It also appears Chinese enterprises can simply "place an order"

for imported technology. This is clearly not the case. Chinese enterprises are tightly controlled when it comes to foreign trade. The extent of this control is not evident until a tiao-kuai mapping of power in a provincial foreign trade system reveals the fishnet holding the Chinese enterprises in place.

CONTROL OF HUBEI'S FOREIGN TRADE

The Center cannot possibly control all activity in China. It must rely on local governments to oversee implementation of its policy directives. The task of controlling the activity of enterprises and their staff is made easier by giving certain government and Party agencies decision-making power in critical functional areas. This includes foreign trade planning, under which come the major activities of exporting and importing. Foreign trade planning, by definition, involves the major elements of trade. These include what goods will be exported, what factories will manufacture those goods, and hence, the export licenses that will be issued. As well, planning involves prioritizing those projects (xiangmu) that require imported technology and, hence, those factories that will be issued an import license. These export and import activities require foreign exchange, so

use of foreign exchange use also is part of the annual foreign trade plan.

Below is a chart of the various paths a factory's plan to export or import must follow. There are at least nine separate paths, some of which overlap. They all offer the factory and each level in the hierarchy multiple opportunities to lobby for, or bargain for, the request. Standing behind these specific offices, of course, are other government and Party offices and their personalities, all of whom might have the capability of entering into the bargaining that goes on about the factory's request.

SHASHI
FACTORY

LOCAL (SHASHI)	FTC SHASHI	FERT SHASHI	PECs SHASHI	I.B.
PROVINCE (HUBEI)	FTC HUBEI	FERT HUBEI	PECs	HUBEI I.B.
		B/C HANKOU		
CENTER (BEIJING)	FTC MoFERT		STATE PECs	MINISTRY
		B/C		

Abbreviations: Foreign Trade Corporation (FTC)
Foreign Economic Relations and Trade (FERT)
Planning/Economics Commissions (PECs)
Industrial Bureau (I. B.)
Ministry of Foreign Trade (MoFERT)
Bank of China (B/C)

Figure 6.3

THE EXPORT AND IMPORT PLANNING PROCESS

In Chapter II, I briefly described the foreign trade planning system to highlight the bureaucratic behavior exhibited in pursuing organizational goals. This system should now be elaborated. The cross-cutting influence of _tiao-kuai_ power is visible in this mapping, pointing out those organizations which have some measure of influence in this complex system. Each foreign trade activity impacts the other, making overall planning a difficult task. To gain an understanding of the many elements involved in planning and how they affect one another, it is necessary to consider each element separately.

EXPORT CONTROLS

China's export controls include planning which commodities will be exported and who will produce them. The export plan is implemented through export licenses, documents which are required for each transaction. Other export control activities include dispensing quotas on items controlled by foreign counties, e.g. textiles, use of letters of credit to control deposit and use of foreign exchange earnings, export commodity inspection and Customs. The export licensing system, together with the import licensing system discussed in the next section, was designed to give MoFERT greater control over the quantities and prices of export commodities. The

licensing system potentially leaves considerable control in MoFERT's hands, or at the _tiao-tiao_ level. But it is implemented at the local level, thereby giving _kuai-kuai_ authorities the opportunity to enhance their power over enterprises in their jurisdiction.

From September 20, 1985, export licenses for China's 18 major export commodities were to be issued by MoFERT.[27] Export licenses for another 40 commodities were to be issued by MoFERT representatives in various ports. Established in 1983, MoFERT's port commissioners were stationed in Shanghai, Tianjin, Guangzhou and Dalian.[28] Export licenses for another 93 commodities were to be issued by provincial or municipal foreign trade departments.

There are two ways to get an export license. While the major commodities require _tiao-tiao_ approval, local factories hoping to export such commodities must rely either on export plans or, for exports outside-the-plan, upon requests channeled to MoFERT through the provincial trade department. Both avenues, then, require the sanction of _kuai-kuai_ authorities before an enterprise can make such a request.[29]

To get an export license through the annual plan, a local enterprise must first discuss the issue with its governmental industrial bureau, e.g. the Hubei Textile

Bureau, before asking the local foreign trade corporation for an export license. Local FTCs are part of the municipal or county Foreign Economic Relations and Trade bureau, a branch of the provincial Foreign Economic Relations and Trade Department.

For example, the Shashi Textile Import and Export Corporation answers both to the Shashi City foreign trade department and the China National Textiles Import and Export Corporation, Hubei Branch, located in Wuhan. In the highly competitive textile trade, where export quotas are difficult to obtain but where export sales are assured if they are obtained, many enterprises request export licenses from their local FTCs.

These requests are done annually as the local FTC makes a foreign trade plan for enterprises under its jurisdiction. Thus in Shashi the various FTCs prepare plans for export (and import) licenses and forward them to Shashi's trade bureau, which compiles them into a general foreign trade plan that is sent to the municipal planning and economic commissions and to the provincial foreign trade department. The individual FTC plans made by Shashi's trade bureau are also sent to the appropriate provincial FTC offices in Wuhan.

This means that the Shashi Bed Sheet General Factory, the Shashi Fashionable Clothes Knitting Mill, the Shashi No. 3 Knitting Mill, the Shashi Silk Mill, the Shashi No. 5 Weaving Mill and the Shashi Woolen Mill all rely on their foreign trade <u>kuai-kuai</u> authorities, the Shashi Bureau of Textile Industry, which gives the factories permission to request an export license, and the Shashi bureau of the provincial textile FTC, to lobby higher levels to obtain the desired export licenses. This process is long and complex. The initial target is the local FTC, which has been given a limited number of foreign trade textile quotas to spread around Shashi's factories. This procedure resembles the budget process in American legislatures. The planners must be aware of, and are often the cause of, export licenses being used for repaying or accruing political or personal IOUs.

> The foreign trade company and the city bureaus quarrel over which factory gets to export how much. Often each side has a favorite factory they wish to promote.[30]

This process is repeated in Shashi for each FTC, the many enterprises under their jurisdiction and their respective industrial or commercial bureaus.

Once Shashi's foreign trade bureau determines a general plan, which includes export licneses, the plan, or portions of it, is forwarded to three agencies for further consideration. First, it is sent to Shashi's planning and economic commissions, which include it in deliberating the city's overall annual plan. It also goes to the provincial trade department, which will begin the process of compiling similar plans from each of Hubei's counties and cities into a single provincial foreign trade plan. The textile portion of the plan is also sent to the provincial textile FTC, which receives similar plans from other Hubei counties and cities involved in textile production. As well, each of Hubei's FTCs received the plans from other counties and cities involved in their respective product lines.

After this step, the number of avenues opened for lobbying and bargaining increases exponentially. The provincial FTC is potentially exposed to these efforts from the Shashi foreign trade bureau, the Shashi planning and economic commissions, and, perhaps, the Shashi municipal government as well as the Shashi FTC.

> Often someone goes to this branch and taps the table and asks 'why aren't you giving me more, or why are you cutting me down.' ...they go in person or through their county or city offices in Wuhan.[31]

While FTC planning divisions are theoretically supposed to consider all manufacturers in their jurisdictions and assign export licenses to those enterprises which have the production capacity, speed and product quality to assure foreign sales, they are often subject to continual pressure from below to "pad" the plans and must be ready to change carefully made plans when word comes from local leaders, through what the Chinese term "shirt-sleeve policy" (xiuxi zhengzi) or local policy (tu zhengzi), to do so.

> Sometimes the Hubei government leader asks an FTC to give a certain county or city a greater share of exports and the company has to listen to this. This adds to the quarreling among the lower levels. This is where politics and economics merge in our socialist system. This procedure is political as well as economic.[32]

When the provincial Textile FTC finishes its plan, usually in October, it is sent to the provincial trade department. Here Shashi gains more opportunities to press its export licensing hopes. Hubei's trade bureau, after compiling a general plan for all its FTCs, sends this to the provincial planning and economic commissions. At this point, the individual FTC plans are also sent to the central FTC office in Beijing.

> Here the quarreling starts again, only now it's between provinces instead of the counties and cities. The company manager and its planning division manager go to Beijing for a meeting for all provincial company branches to present their plans. This is a struggle.[33]

A similar effort is made by Hubei government personnel, who submit the provinces's annual plan to the State Planning Commission. Meanwhile, each national-level FTC submits its annual plan, which now includes a digested Shashi plan, to MoFERT. The ministry then compiles its annual plan and forwards it to the State Planning Commission as part of China's national plan. When this plan is approved, the export licenses are issued.

This quarrelling, tapping on the table, utilizing county or city offices in the provincial capital of Wuhan or provincial offices in Beijing, all indicate a high degree of bargaining going on in the formulation phase of the policy process in the People's Republic of China. This is compoundedby the fact that provincial-level FTCs and Economic Commissions may well have different policy priorities, resulting in provinces speaking to central planners in more than one voice.

This bargaining occurs in functional bureaucracies as the many factories within one industry and the industrial bureaus at each level of the system argue which factory will be chosen for export production. The bargaining also goes on between the numerous _kuai-kuai_ authorities comprising the provincial fishnet holding Hubei's foreign trade system in place. Because this fishnet system is comprised of multiple lines of _kuai-kuai_ authority, the possible avenues for bargaining go beyond the functional and hierarchical systems, or _xitongs_, which typically comprise the arena for bargaining.[34]

That bargaining goes on between other numerous _kuai-kuai_ authorities involved in any policy is seen in the inability of Hubei's government to force implementation of enterprise reform as late as 1987, nearly three years after the policy was formulated and announced by the Center.

At a March 1987 meeting in Wuhan, 32 enterprise managers and Party committee secretaries complained to Hubei government and Party leaders that enterprise reform was not being implemented by some of the _kuai-kuai_ powers in the province.

> There are some problems in ...deepening the reform of enterprises. ...it is imperative to continue making great efforts to truly [sic] enable the grass-roots to implement the policies.... There are still cases of certain powers enjoyed by enterprises being cut off or cancelled [and] ...the problem of enterprises being overburdened with all kinds of arbitrary levies has not yet been solved.[35]

This was especially true for setting of "arbitrary levies" on enterprises in Hubei, something the central government deemed was of increasing seriousness throughout China. Here again, protection against such "extortion" was provided for in law and policy, but governments at the local levels were not enforcing them.[36]

Hubei First Party Secretary Guan Guangfu told the group of 32 enterprise officials "the key lies in reaching a common understanding among <u>all quarters</u> and in implementing the policies," strongly indicating that each case would have to be settled through bargaining for a common understanding.

In obtaining an export license then, these Shashi textile factories are dependent upon several <u>kuai-kuai</u> authorities: the Shashi Textile Import and Export Corporation, the Shashi planning and economic commissions, and the Shashi Textile Industry Bureau. Provincial agencies involved in this process, the Hubei Textile FTC,

the Hubei Foreign Economic Relations and Trade Department, the Hubei economic and planning commissions and, perhaps, higher level Hubei government officials, are also considered _kuai-kuai_ authorities.

> This industry or that belongs to the economy and can help each other. This help isn't willing sometimes. So these problems must be decided by a common top organ. In Hubei Province, the top organ is the Hubei government. In every place, the provincial government is the top organ, our kin. It is imperial. It acts like Huangdi. If it uses the whip, the whole mountain must move. We consider this our kuai-kuai leader.[37]

Often, these carefully constructed and long-fought over plans are not ready by their theoretically starting date of January 1. And, just as often, they are changed before they can be fully understood and implemented by the lower levels.[38]

When plans are changed, the second avenue for obtaining permission to sell abroad, outside-the-plan export licenses, opens up. Should one of Shashi's textile factories want an additional license, it must request it from the provincial textile FTC. In general, such licenses are granted or denied by the provincial foreign trade dpeartment, even though formal permission comes from

MoFERT. A local enterprise cannot go directly to MoFERT but instead must ask its provincial trade department or FTC to act on its behalf.[39]

This was a common complaint of enterprise managers prior to foreign trade system reforms that were to commence in 1985. Managers were not confident about their local and provincial-level FTC's ability to understand their product, prouduction methods and international market requirements.

For example, Ye Hengfu, director of the Wuhan Cotton Mill Number 4, said many of his factory's export troubles would be solved "once we have the right to contact foreigners directly" without going through the provincial textile FTC.

Mr. Ye complained that the factory's exports had fallen from 60 percent to 14 percent of total production between 1966 and 1984. He attributed this decline to the many small factories which "cropped up" in Hubei during the Cutlural Revolution and to his unit's inability "to meet the needs of foreign markets because we lack a direct connection. The textile import and export company controls this now and this presents problems."

He cited as an example the FTC ordering cloth from the factory in sizes that simply did not match what foreign buyers ordered.

> One U.S. buyer wanted cloth for dolls but the textile corporation ordered cloth too long and of too high quality. We didn't make the sale. If we had direct contact [with the buyer] we could have delivered what the buyer wanted. Quantity, size, quality and pricing would be much easier.[40] This is a general problem for us now.

By 1987 enterprise managers could mkae direct contact with foreign customers, buttheir ability to negotiate sales still depended on kuai-kuai authorities which continued to dispense export licenses. This is especially the case for items which require quotas, such as textiles.

Thus enterprises are not free to deal directly with foreign buyers, despite the increasing contacts they have with visiting business executives. The extent to which this kuai-kuai power is overtly exerted in this politically-charged process is not clear.

Efforts to obtain statistics regarding the number of export licenses sought, the number granted and the number rejected, both within the plan and outside the plan, were unsuccessful. Nevertheless, the power to control the export activity of local enterprises held by these several kuai-kuai government agencies is evident. It is just as evident that these same kuai-kuai authorities hold sway over enterprises seeking imported technology.

IMPORT CONTROLS

Licensing was the first of a growing number of administrative controls the Center has instituted to recapture some measure of control over import activity to stem the growth of China's trade deficit.

Because China wants to encourage export production and limit imports as much as possible, import controls are much more numerous and complex and, for foreign business, quite onerous.[41] The many administrative controls, though formulated by the Center, are implemented by provincial governments, thereby giving _kuai-kuai_ authorities opportunities to expand their power. In many cases, these local authorities freely interpret their role as implementors of central regulations. For example, in October 1986 Guangdong Province established its own import controls by adding to the Center's list items requiring import licenses.[42] While many administrative controls exist, I deal with import licensing procedures, foreign exchange use and contract approval and supervision regulations.

IMPORT LICENSING

The procedures for importing finished goods and technology are different and show the Center's interest in maintaining some control over these activities. Despite this, the power of kuai-kuai authorities, which the Center has charged with controlling the foreign exchange spending required for imports, is quite evident.[43]

For example, if an enterprise needs to import a truck not available on the domestic market, it must first obtain the foreign exchange necessary to make the purchase. This involves the provincial branch of the Bank of China, an actor I discuss in greater detail in the next section. If foreign exchange is available, either in the enterprise plan or held by the enterprise in a deposit account, the enterprise sends its request to the Hubei Import Corporation, which forwards it to the provincial foreign trade department and the provincial planning commission. Both must approve the request before it is sent to the National Materials General Bureau in Beijing. Approval by this central agency is often pro-forma as it relies on provincial authorities for direct oversight of such spending. If it approves, this bureau then issues the import license which is used to obtain official documents from the provincial foreign trade department needed for Customs clearance.

By late 1984, it was clear this system was being abused as China was on a "spending-spree" that cut deeply into its foreign exchange reserves.[44]

The key element here is that requests for import licenses, like those for export licenses, cannot be forwarded to Beijing without the initial review and approval of key provincial government, kuai-kuai authorities.

The criss-crossing power of the involved kuai-kuai authorities becomes clearer in a map of decision-making power in planning technology import licensing procedures. For example, if the Shashi General Bedsheet Factory wants to import an automatic flat screen printer, as it did in 1985,[45] it must follow strict procedures requiring the input of several kuai-kuai organizations. First, the factory must request its government bureau to put the project into its annual plan, a process similar to that described for export plans.[46] In this case, this would involve the Hubei Province Textile Bureau.

Other provincial-level bureaus with such power over enterprises in their product areas are the Hubei Department of Machine Building, the Hubei Department of Petrochemical Industry, the Hubei Province Complete Sets of Machinery Equipment Bureau, and the First and Second Light Industry bureaus. Each has an import division that

helps plan, and thus approve, technology import projects.

These plans are lobbied for and fought over at each step of the planning process. The difference between import and export licensing plans is the resource involved. In the latter it is quotas or shares in export commodity production. In the former it is scarce foreign exchange.

Given this, a major difference between the two licensing procedures is Hubei's ability to circumvent Beijing's approval it if has the requisite foreign exchange to cover the purchase.

By far the most important actor in this process is the provincial Economic Commission. In the case of Wuhan, which now has provincial-level status in economic planning and foreign trade, this is the Wuhan Economic Commission. This organization is entrusted with overseeing technology imports, helping eneterprises design new products and gather information about the technology available to produce them. In addition, economic commissions conduct market surveys to determine where and how local products can best be sold.

The role these organizations play in Hubei and Wuhan is duplicated elsewhere. Alice Davenport found the Nanjing Economic Commission to be crucial in providing guidance and review of that city's technical imports.[47]

Unlike Nanjing, where Davenport said the economic commission acts only as an adviser, the Hubei and Wuhan economic commissions are critical decision-makers in the import licensing approval process. Licenses and the foreign exchange needed to import technology must be approved by the provincial or municipal economic commissions.

In Wuhan, this role rests largely with the Economic Commission's Technology Transformation Department, which is staffed by engineers and other technical experts.

> This is the unit that controls things in Wuhan. This is where you need to go if you want to push your technology here. Without this unit's approval, nothing is done.[48]

Li Tianran, a member of Wuhan's Economic Commission and head of the city's Technology Transformation Department, said the economic commission made the final decisions about importing technology based upon recommendations from the department he managed.

> Import decisions are made by the economic commission. [Wuhan's] foreign trade commission just handles the paperwork.[49]

This is the case with Hubei Province as well. The provincial foreign trade department lacks the background to fully understand the technology foreigners discuss with them. In this case, the specific technology bureau, e.g. the Hubei Machine Building Bureau, and the Economic Commission's Technology Transformation Department, become much more important. [50]

For example, in 1986 and 1987 my discussions of technical details of proposed joint ventures or co-production involve the import division of the Hubei Province Machine Building Bureau or the supervising industry corporation's engineers. Discussions concerning financing imports usually bring in officials from the provincial trade department, the economic commission or other organs controlled by them.

As one Wuhan Economic Commission engineer told me, "you've connected with the right place. The Economic Commission owns everything."[51].

Thus, contract negotiations are two-fold: technical and financial. The technical negotiations involve engineers and technicians at the factory and industrial bureau level plus those at the local economic commission. The financial negotiations involve officials from the local economic commission, the foreign investment and Import Division of the provincial foreign trade

department, or other organs under their control. The decisions that shape how these negotiations progress are made by the econonmic commissions and its engineering and financial experts. American business executives frequently mention that different visitors sit in on contract negotiations and take detailed notes but say nothing. Typically these visitors represent the local economic commission: they are charged with making sure the discussions proceed as planned.[52]

Thus kuai-kuai authorities in foreign trade have the power to control the technological development of enterprises in their jurisdiction, a power enhanced by their control of foreign exchange.

FOREIGN EXCHANGE USE

Money is an essential ingredient in trade. In China, currencies with any value are foreign: the Renminbi is useless outside China's borders and so cannot be used in foreign trade. China's foreign exchange, like its export licenses, is also utilized in two ways, through annual plans and outside-the-plan loans or investments.[53] In either case, control of foreign exchange, even that earned by enterprises and retained by them, is a major element of kuai-kuai power. Foreign exchange use brings into play

the provincial branch of the Bank of China, a seemingly _tiao-tiao_ authority that in actuality is one more _kuai-kuai_ element in the fishnet holding Hubei's foreign trade activity.

Foreign exchange use is planned each year by the provincial Bank of China branch, the provincial Economic Commission and Planning Commission and the foreign trade department. Typically, the plan is based on the previous year's level, which creates year-end spending in order to maintain that level. The annual plans run the same process as export and import licenses, often with lower-levels "pading" their requests. These plans specify how much and for what purpose the foreign exchange is to be used. Officially, the money cannot be used until the State Council approves the national plan for foreign exchange use.

This latter aspect often prompts Chinese negotiators to break off contract talks for reasons not apparent to the foreign party. If the prices under discussion push the Chinese side over its planned foreign exchange use limits, Chinese negotiators prefer to walk out of the talks rather than tell the foreign side about their limitations.[54] Negotiators can continue in the absence of an approved plan if the price involved does not push the enterprise above the amount being considered by

planning agencies. In this case, use is approved post facto.

> Sometimes an organization can't sign a contract with foreigners because there is no plan and they don't know how much foreign exchange they can use--not because they don't want to do business. The firm won't tell the foreign business why they can't sign and will just break off discussions. This is not very good.[55]

<u>Kuai-kuai</u> authorities control foreign exchange use in two other ways beyond planned requirements. First, whenever exports are sold, the Center typically gets 80 percent of the foreign exchange earned, the province typically 15 percent, and the manufacturing enterprise 5 percent. The enterprise must deposit its foreign exchange earnings in the local Bank of China branch. It cannot withdraw the money at will: before the local Bank of China branch approves use of foreign exchange, the project in question must have the <u>unanimous</u> approval of the enterprise's industrial bureau, the Hubei Planning Commission, the Hubei Economic Commission and the Hubei Foreign Economic Relations and Trade Department. If any one of them objects, the money is not released.

For example, in 1980 the Wuhan Cotton Mill No, 4 had long-term foreign exchange credits in its account totalling RMB 4 billion. The mill applied to use U.S.

$200,000 to purchase two combers. The request was initially rejected by Wuhan's Planning Commission and the provincial foreign trade bureau. It wasn't until the mill pledged to repay the money from future export earnings that approval was finally granted. "Foreign exchange enters the hand, but its use isn't in the hand.[56]

This situation existed before 1984, when factories earning foreign exchange applied for its use to its government bureau. In 1984 the cotton mill's share of foreign exchange jumped to 25 percent of that earned. Also, <u>kuai-kuai</u> control over its use eased just enough that Director Ye could feel confident about his ability to get what the mill needed. Still, <u>kuai-kuai</u> authorities maintained control.

> These difficulties are gone now. We can use foreign exchange more freely. If we need to import we make the request to the Bank of China. The local authorities only control the amount and limit the kinds of items that can be imported.[57]

Second, the enterprise must obtain approval from the bank through a bank creditor assigned to handle this particular account, a system that lends itself to considerable abuse.

> All banks control firms very tightly. A factory has little right about money. To use their money, they must pass the bank. The bank controls them by creditors. If he isn't happy he can cause the firm problems. Thus they must obey him and sometimes present him with gifts. They don't dare ignore him. If the firm doesn't provide him with eat and drink or more, sometimes the creditor makes trouble.[58]

In short, an enterprise wishing to import technology must first obtain permission to use foreign exchange from a variety of provincial authorities, either that in its own account or that granted it through loans or the annual plan. But before the Bank of China will release the money, each of the enterprise's kuai-kuai authorities must approve the project. By necessity, this cuts into the flexibility needed to take advantage of lower prices sometimes asked by foreign technology suppliers.

In addition to controlling imports through licenses and foreign exchanmge use, kuai-kuai authorities must supervise and approve contract negotiations. Begun in 1985, local-level importers must now obtain from their central ministry an "Approval Certificate for Technology Import Contract." An importer can obtain this needed document only if it has approval of its ministry to conduct the negotiations. Here too, the requests for such approval must be made by the kuai-kuai industrial bureau

representing the ministry in the locality.[59]

This was a problem for one of Wuhan's plastics factories. It had agreed to a contract with an American trading company and incurred debt to that company. Ultimately, the plastics factory refused to sign the contract and pay the debt because it did not have prior permission from its industrial bureau to negotiate any kind of arrangements, even barter, to import a paste extruder needed to upgrade its production of teflon.[60]

CONCLUSION

It is clear that administrative controls of foreign trade activity are in the hands of _kuai-kuai_ authorities. In each case, enterprises needed centrally-approved and issued documents must rely on their _kuai-kuai_ authorities to forward their requests to Beijing. Except for those very few factories granted provincial-level foreign trade rights, no enterprise can obtain these documents without the approval of their local power-holders.

> In this way the _tiao-tiao_ is managing business through the plan, but the _kuai-kuai_ is managing the policy of how and when foreign exchange will be used.[61]

Other activities involved in foreign trade, such as commodity inspection and customs, are also seemingly controlled by *tiao-tiao* authorities. However, *kuai-kuai* authorities have considerable leverage with these agencies because they hold organizational control over them, especially *nomenklatura*.

Ultimately, all foreign trade organizations in Hubei, the FTCs, other trading companies, commodity inspections departments, Customs *and* the local branch of the Bank of China, are under control of the Hubei government and Party. In the absence of free labor mobility, economic competition, expecially in banking and export finance, these ultimate *kuai-kuai* agencies control the personnel, planning, salary and promotion, budget and contracts of all agencies involved in foreign trade.[62]

Prior to full implementation of reforms designed to separate government from business activity (full meaning price reform and enactment of labor contract and enterprise manager legislation), a *kuai-kuai* map of foreign trade decision-making in Hubei is as follows:

HPGOVT/PARTY controls **HPPECs**	controls **ENTERPRISES**
--personnel	--exports
--budget	--imports
--planning	--planning
--FeX use	--FeX use
	--technical data
	--contracts

HPGOVT/PARTY controls **HPFERT**	controls **HPFTCs**
--personnel	--personnel
--planning	--planning
--budget	--budget
--FeX use	--FeX use
	--contracts

HPGOVT/PARTY controls **BANK/CHINA/HANKOU**	controls **HPFTCs**
--personnel	--financing
--planning	--FeX use
--budget	

HPFTCs control **ENTERPRISES**

--export licenses
--technical data
--agency system

HPGOVT/PARTY controls **HPCUSTOMS**

--personnel
--planning
--budget

HPGOVT/PARTY controls **HPINSURANCE**

--personnel
--planning
--budget
--FeX use

Figure 6.4

KUAI-KUAI POWER IN HUBEI'S FOREIGN TRADE SYSTEM

It is clear from this that the major tasks in foreign trade are controlled by several organizations. These multiple lines of kuai-kuai authority are the units which bargain for the scare resources of export licenses and foreign exchange. These kuai-kuai authorities are the ones which, after appropriate bargains are struck, have a lot to say in determining the scope of policy implementation and, therefore, the scope of policy that is pursued in the People's Republic of China.

> The tiao-tiao relation sets the overall goal and policy, but the kuai-kuai relation is charged with implementing this. Often, kuai-kuai organs have a major say in determining the outcome. Foreigners do not understand this situation and they often make a mistake. The government and Party can manage everything. Every place you can see this point.[63]

This is the at the heart of all functional areas in China, be it banking, education, commodity distribution, industrial production or foreign trade. Where one or more unit is engaged in one or more of these functional areas, policy choices of one area impact on policy choices of another. Chinese units are, therefore, tied together for their mutual security but it means that one cannot move without affecting an entire range of others. Replacing this fishnet with purely economic ties is the

challenge for China's economic reformers, a task I think is too great because the _tiao-kuai_ system, although different in shape, is wholely part of the Chinese propensity to base decisions on personal criteria rather than impersonal, objective economic criteria. This is a key element to traditional Chinese political culture, giving contemporary China continuity with its past.

ENDNOTES Chapter VI

1. Officially, this branch is called Bank of China, Hankou branch. The bank branch handling business for Wuhan City is called Bank of China, Jianghan branch, which broke off from the Hankou branch in March 1987. Wuhan City had been under provincial jurisdiction in economic planning and foreign trade until June 1984, when it joined Chongqing as having provincial-level status in these matters. In other administrative affairs, education, for example, or non-commercial exchanges with foreign countries, Wuhan remains under Hubei's jurisdiction. As I discuss later, this new status for Wuhan was costly for Hubei, which lost nearly one-third of its foreign trade revenue to the municipal government.

2. Many of the details in this discussion were provided by several interview sources, some named and some unnamed. There were two key sources. The first, labeled only Interview File A, involved more than 25 hours in 21 interviews in Wuhan in 1984. The second, identified only as Interview file E, involved 10 hours in five interviews in Wuhan in 1986.

3. David M. Lampton, "Chinese Politics: The Bargaining Treadmill," Issues and Studies, 23, No. 3, (March 1987), 11-41.

4. I personally was involved in two efforts by Ohio businesses to approach Chinese enterprises directly without the assistance of appropriate Chinese government agencies. The Wuhan Boiler Plant was interested in underfeed coal stokers manufactured by an Ohio company. These stokers could easily be included in new boilers being manufactured in Wuhan and be adapted to existing boilers already in use. The Boiler Plant was interested in the stokers' ability to cut particulate matter released into Wuhan's heavily polluted air. Plant technicians continued a lengthy correspondence with the Ohio company. On April 21, 1986, I discussed with the boiler plant manager and engineer whether it would be appropriate for representatives of the Ohio company to visit Wuhan. Both said they had no authority to discuss the matter without permission from municipal authorities. Because this project was not included in Wuhan's annual project list, efforts to solicit an invitation from municipal authorities were unsuccessful. In a second case, an Ohio

trading company agreed to find machinery for a Wuhan plastics factory which is not designated by Wuhan City to produce for export or conduct foreign trade. Nevertheless, factory representatives agreed to sign a contract with the trading company. When the company forwarded a standard agreement to Wuhan for signing, however, the factory refused to sign and refused to pay a $500 fee for services the trading company had rendered. Factory representatives said they had no authority to sign such a contract.

5. This is especially true for such sensitive areas as capital construction, which includes the building of new facilities to house imported technology and equipment. In 1983, Hubei's government made it clear to all levels that they had to adher to central *and* provincial plans, that "authority is with the Center and the province for going beyond the scope of the plan." See "Tigao jingji xiaoyi yange kongzhi jijian guimo baozheng wancheng he chao e wancheng jinnian guojia jihua," *Hubei Ribao* June 10, 1983, 1.

6. *Statistical Yearbook of China 1981*, compiled by the State Statistical Bureau, (Hong Kong: Economic Information and Agency, 1981), 357.

7. Before decentralization of foreign trade the basic foreign trade corporations were the China National Cereals, Oils and Foodstuffs; Native Produce and Animal By-Products; Textiles; Light Industrial Products; Arts and Crafts; Chemicals; Machinery; Metals and Minerals; Machinery and Equipment; and Instruments Import and Export corporations. There was also a China Nation Technical Import Corporation and three service organizations in the China National Foreign Trade Transportation Corporation, China National Chjartering Corporation and the china National Packaging Import and Export Corporation. Leo Welt and Mark Ford, ed., *China Directory*, (Chicago: Rand McNally, 1981), 65-75.

8. Jim Hoagland; "Communism's Century-Long March Slows Down," *International Herald Tribune*, April 6, 1987, 2.

9. These statistics are taken from *China Business Review*, May-June 1987, 32. China's foreign trade values for 1980 in Tables 6.1 and 6.2 differ slightly. While both are originally from the State Statistical Bureau, they were reported by different sources. There is no apparent explanation for the discrepancy.

10. Zheng Tabin, "Problems in the Reform of China's Foreign Trade Structure," Jingji Yanjiu No. 11, (20 November 1984), 27-33 translated in JPRS--CEA-85-009 January 28, 1985, 100.

11. As part of the experiments in foreign trade decentralization, the Center permitted provincial governments full authority to conduct foreign trade with foreign companies located in states or provinces with which it had friendly relations. Thus, in January 1979, Hubei leaders requested the Center to have then-Ohio Governor James A. Rhodes visit Wuhan when he came to China in July. During that trade mission, Hubei's then-First Party Secretary Chen Pixian sought an invitation to Ohio, which Rhodes promptly issued. Chen arrived in Columbus in August bearing a draft agreement on friendly relations between Hubei and Ohio. A final draft was initialed before Chen's departure and signed in Wuhan in October, becoming the model on which numerous other Chinese provinces and cities would base their "sister" relationships with foreign sub-national governments. See Paul E. Schroeder, "The Ohio-Hubei Agreement: Clues to Chinese Negotiating Practices," China Quarterly, No. 92, September 1982, 486-491. This tactic continued into the mid-1980s as foreign trade reforms that were begin in 1985 would permit Chinese cities that have friendly ties with foreign cities to conduct their own trade with them "within prescribed limits." See FBIS 15 November 1984, K15.

12. Interview with Song Yisan, May 31, 1980, Wuhan.

13. See, for example, "Fazhan chukou shangpin, qianfang-baiji chuang hui," Hubei Ribao Feb. 6, 1979, 2; "Yao zhongshi fazhan shanyang shengchan," Hubei Ribao March 3, 1979, 3; "Chongfen liyong bende ziyuan, fazhan chukou shangpin shengchan," Hubei Ribao March 17, 1979, 2; "Sheng wei caiqu youli cuoshi jianjui ba qingfang gongye gao shangqu," Hubei Ribao June 9, 1979, 1; and "Wosheng dui wai maoyi qu de kexi chengji," Hubei Ribao September 2, 1982, 3.

14. This information is from the name list of new Hubei Provincial government officers provided by Hubei Ribao Aug. 2, 1983, 2.

15. Interview with Sun Yiran, June 24, 1984, Wuhan.

16. Figures provided by both the Hubei Statistical Bureau and my source in Interview File A for the years 1979, 1980, 1981 and 1982 were identical.

17. "Reverse for full ahead," Far Eastern Economic Review (11 October 1984): 84, and "Peking Exerts Control in Foreign Trade," Asian Wall Street Journal, (March 16-17, 1984).

18. China Business Review March-April 1984.

19. FBIS 20 June 1984, K9.

20. FBIS 4 September 1984, p. K15.

21. Ibid., p. K16.

22. Ibid., p. K17.

23. FBIS 24 September 1984, p. K13.

24. Ibid.

25. FBIS 30 October 1984, p. K8.

26. Ibid., pp. K13-14.

27. These 18 were corn, canned mushrooms, mushroom in brine, cotton yarn, cotton grey cloths, cotton-polyester grey cloths, cotton-polyester yarn, raw cotton, angora, cashmere, crude oil, refined oil, tungsten and tungsten products, coal, silk products, farm internal combustion engines and parts, workers' leather gloves, and satins. See Intertrade, December 1985, pp. 68-71.

28. Ibid and Christopher M. Clarke, "Decentralization," China Business Review, (March-April 1984). The duties of these officials, while limited to foreign trade, resemble those of 19th century Taotais, direct representatives of the Center who oversaw the activities of local officials on behalf of the Court. See William T. Rowe; Hankow, Stanford University Press, 1984, p. 34.

29. Interview File A, Interview Number 15, November 20, 1984, Wuhan.

30. Interview File A, Interview No. 18, December 11, 1984, Wuhan.

31. Ibid.

32. Interview File A, Interview No. 9, October 21, and No. 18, December 11, 1984, Wuhan.

33. Interview file A., Interview No. 18, December 11, 1984, Wuhan.

34. Lampton, "The Bargaining Treadmill," 32-34.

35. FBIS 16 March 1987, P3.

36. FBIS 19 March 1987, K19-20.

37. Interview File A, Interview No. 20, December 23, 1984, Wuhan.

38. Interview File H, Interview No. 1, April 1, 1987, Wuhan.

39. Interview File A, Interview No. 19, December 16, 1984, Wuhan.

40. Interview with Ye Hengfu, director, Wuhan Cotton Mill No. 4, December 10, 1984, Wuhan.

41. In 1986, the American Chamber of Commerce in Hong Kong established a Fair Trade Subcommittee to examine and document Chinese practices deemed unfair under terms of membership in the General Agreement on Tariffs and Trade (GATT) which China is seeking to enter.

42. "Import Controls in China," working paper prepared by the Fair Trade Subcommittee of the American Chamber of Commerce in Hong Kong, The China Business Review, January-February 1987, 42-45.

43. Interview File A, Interview No. 14, November 18, 1984, Wuhan.

44. Between September 1984 and June 1985 China incurred a $7.83 billion trade deficit, resulting in a drop of foreign exchange reserves from $16.3 billion to $11.3 billion between September 1984 and March 1985. The money was used for purchasing consumers goods and industrial products at a record pace. The spending spree prompted China to impose harsh measures to hold spending to a minimum, including import duties, delaying projects and foreign exchange payments. See Louise do Rosario, "Time to pay the piper," Far Eastern Economic Review, 22 August 1985, 100-102.

45. From Hubei's 1985 list of 238 projects for foreign economic cooperation and investment, project number 124, p. 37.

46. Interview File A, Interview No. 15, November 20, 1984, Wuhan.

47. Alice Davenport, "Local Technology Import Decisions," in The China Business Review, May-June 1987, 40-43.

48. Interview File E, October 17, 1986, Wuhan.

49. Interview with Li Tianran, November 11, 1986, Wuhan.

50. Interview File A, Interview No. 20, November 20, 1984, Wuhan.

51. Interview File H, February 16, 1987, Wuhan.

52. Interview File E, October 17, 1986, Wuhan.

53. This section is based on Interview File A, Interview No. 6, October 7, 1984, Interview No. 7, October 9, 1984, and Interview No. 10, October 28, 1984, Wuhan.

54. Interview File A, Interview No. 6, October 7, 1984, Wuhan.

55. Ibid.

56. "Qiye gaige kunnan zhong zhong, lingdao jiguan kuaikai ludeng." [Difficulties of enterprise reform serious, leading organs given the green light], Changjiang Ribao, October 14, 1980, 1.

57. Interview with Ye Hengfu, December 10, 1984, Wuhan.

58. Interview File A, Interview No. 7, October 9, 1984, Wuhan.

59. "Import Controls in China," China Business Review, January February 1987, 42-45.

60. Interview with plastics factory assistant manager, October 30, 1986, Wuhan.

61. Interview File A, Interview No. 8, October 14, 1984, Wuhan.

62. Interview File A, Interview No. 12, November 4, 1984, and Interview No. 20, December 23, 1984, Wuhan.

63. Interview File A, Interview No. 20, December 23, 1984, Wuhan.

CHAPTER VII

CONCLUSION

The problems China has had and continues to have in finding an appropriate balance of power between Center and region result, I think, from the lack of a regular, legal and peaceful method for challenging power-holders. There is no institutionalized, regular method for handing over power from one faction to another without jeopardizing the continuity of public policy. Any change, or anticipated change in leadership brings on great debates about whether the basic political line will continue. Thus, in anticipation of Deng Xiaoping's passing, China wonders whether the reforms Deng has instituted will continue. In brief, the Chinese political system has never been institutionalized as are the systems of Western Europe and North America.

Lampton called the Chinese system weakly institutionalized, meaning that "power and authority still reside substantially in persons rather than offices, stable procedures and institutions."[1] Thus the appropriate balance of power between Center and region either cannot be determined or, if determined, cannot be maintained without considerable bargaining between

competitors for power. Ultimately, the reach for power threatens the regime itself.

As in any other country, then, power is at the heart of Chinese politics. Its maintenance, use and limits become focused on the issue of control and autonomy which confront every political system. The ability to attain, maintain and use power are shaped by the parameters of the specific regime _and_ political culture in the nation or people under study.

Thus, in the People's Republic of China, power is structured, or organized, into _tiao-tiao_ and _kuai-kuai_ relationships. Any unit in any local setting is tied to a multitude of _kuai-kuai_ authorities which have some measure of decision-making power and control over its activities and range of choices. A unit's _tiao-tiao_ authorities are comparatively fewer and further away. An examination of these _tiao-tiao_ and _kuai-kuai_ authorities reveals who has decision-making power in any functional setting. The dimensions of this power and its use can be determined by rigorous study of the _tiao-kuai_ authorities' interaction with one another, typically a bargaining relationship.

Much has been written about the social revolution in China that culminated in the Communist take-over in 1949, about Mao Zedong's efforts to install a new political system to extricate China from the malaise of its

traditional culture.[2] His method was to use Marxism-Leninism, plus his own Thought, to implement this great change. Did he succeed? Were the Communists able to destroy a traditional social system generally viewed as unable to meet the challenge of modernization? Or have things stayed the same, with China's basic social system unchanged and, therefore, still unable to meet the challenges of modernization?

Because _tiao-tiao Kuai-kuai_ is the framework in which the People's Republic must address the questions of centralization and decentralization, of the proper balance between central and local governments, the nature of power between _tiao-kuai_ authorities provides us with an organizational framework with which to answer these basic questions. It is this issue that cuts across the pages of Chinese history and unites Qin Shihuangdi, Wang Anshi and Deng Xiaoping into a common political culture. Because it does, the _tiao-kuai_ framework helps to raise broader questions about the continuity of Chinese political culture through the centuries.

For example, what is the relationship between organizations which exercise power? What is the relationship between these organizations and the people they govern? Other than emotional feelings of nationalism, what ties the Center to the people, the

people to the Center? How is the system integrated, if at all? How is the system institutionalized, if at all? What are the range and limits of control? What are the range and limits of autonomy? Indeed, can the Center have control without giving its localities some measure of autonomy? Where does Marxism-Leninism fit into this?

I contend that the Communist revolution did little to change traditional Chinese political culture. To be sure, the Communists changed economic relations and thereby narrowed the wide gap between rich and poor. They also changed the framework in which power-holders are selected. But the basic relationships between Center and people, and the glue that holds them together, have changed virtually not at all.

It is this traditional political culture which impedes full implementation of Deng's reforms. Indeed, the reforms are a combined overt attack on the Communist Party's control mechanisms and on the traditional political culture, a combination that dooms the reforms to failure without some change in the Party's control and the political culture. To implement the reforms, i.e. to build purely economic ties between units and between Center and locality, is to tamper with the tenuous balance between control and autonomy that gives the People's Republic some measure of stability and unity. How is this

so?

At root in the distribution of decision-making power are the issues of control and autonomy. In general, how can one best control subordinates? How much autonomy can be granted without impairing ultimate control? In China, these questions have been and continue to be phrased in this manner: How best can the Center control the disparate localities without stiffling their vitality and incurring their rebellion? How much local autonomy can be granted without losing control?

Philip Kuhn's examination of the control--autonomy relationship in the late Qing Dynasty and early Republican periods provides insights into this problem as China grapples with the same issue in the late 20th century.[3] Kuhn defines control as "the efforts of the state bureaucracy to secure its share of society's resources and to insure that its conception of social order is maintained." He defines autonomy "not as independence from the larger polity in any sovereign sense, but rather the ability of a social unit to govern certain spheres of its internal affairs according to its own procedures and using its own people."[4]

In the period he studied, Kuhn found that the means of control, the _pao chia_ and _li chia_ systems, were not uniformly implemented but conformed to the local

situation, thereby giving the local leaders a measure of autonomy to ensure their allegiance to the Center.

> The realities of the local scene dictated that administrators often had to rely on indigenous forms of coordination as the basis for their control systems if those systems were to stand any chance of performing their functions.[5]

The result was a system of control that could not be separated from autonomy. Both elements were required if central policies were to be implemented in some fashion. This fits well with Dahl and Lindblom's contention that control and autonomy are on a continuum, with the best system permitting autonomous actions that accord with the Center's goal of coordination.[6]

The goal of any regime is to achieve this balance because control can be costly. Dahl and Linblom identify four types of control techniques which are present in all systems.[7] Systemic differences, they claim, lie in the combination of techniques used. The four control techniques they identify are:

--spontaneous field control, in which one acts on another without intending to do so. Thus control is achieved without it being obvious. Actors respond to stimuli out of consideration of rewards or punishments.

--manipulated field control, in which one deliberately attempts to manipulate the actions of others by means other than command.

--command, in which subordinate responses are controlled exclusively by prescribed penalties.

--reciprocity, in which those in any setting can command or manipulate the actions of others, both subordinate and superior.

The People's Republic of China has attempted different combinations of these four types at different times. Thus, the highly centralized model of the 1950s relied on command and manipulation. Punishments for failing to fulfill the state's plan were known to all and, not surprisingly, subordinates devised ways to "avoid commands and escape penalties.[8] Consequently, China's central leaders complained about local statistics proclaiming over-fulfilled plans which were untrue.

Later, China attempted a decentralized system, especially in the 1980s, in an effort to promote a combination of maniupulation and spontaneous field command, both of which are less costly than a command system. Thus the Deng regime reinstituted a system of rewards, either higher pay or bonuses, for work well done and plans over-fulfilled. This effort, termed the responsibility system (be it for farmers, enterprise

managers, foreign trade corporations or individual laborers) varies from place to place to fit local conditions and so as to not unduely antagonize local elites. This is not new to China.

The Qing Dynasty also looked at individual localities to determine the best means of control. In most instances, Kuhn said, this meant promoting active support from the locality by adopting local lineage systems as control systems. In short, making lineage an ideology so it "would become a bastion of conservative social doctrine and a major element in the system of local control."[9] Success, Kuhn added, depended on how well local elite could be made amenable to central goals.

The local elite, then, becomes the glue that holds the top and bottom of Chinese society together, whether that is traditional imperial China or the People's Republic. The local gentry, or the variety of degree holders and non-degree holders who potentially might become local or central officials, acted as go-between for the Center and the masses. He spoke to central policy-makers on behalf of the people in his district, and also implemented central policy on behalf of the Emperor.

In the People's Republic, the local gentry, those acting as the glue holding the top and bottom of society together, are the Party cadres. If we apply what Kuhn

said about local gentry to local Party cadres, we get a clear picture of the bargaining nature of both traditional and contemporary Chinese societies:

> ...he was both an object and an agent of control. As agent, he was counted on to perform services that were essential to the economic and political stability of local society: ...As object, he ...could use his considerable local influence in opposition to the state, either in his own or in his community's interest. In no other area...was the success of local government as dependent on a fruitful relationship between control and autonomy.[10]

When the legitimacy of this local elite, either gentry or cadre, begins to wane, the balance, or tension between control and autonomy is skewed. Political problems, crises and, perhaps, rebellion are inevitable, their degree dependent upon the degree to which the balance is upset. That the legitimacy of the current regime is being questioned is not in doubt. I have spoken to numerous Chinese, both Party members and non-members, who profess little faith in Marxism and even less in the Chinese Communist Party. This is especially so for Chinese born after 1949, from whom I have heard such statements as "before 1949 we were free," and, bluntly, "the Nationalists should have won." Such discontent may

not be so widespread as to threaten the Communist Party's hold on the reigns of power, but it does indicate a serious questioning of legitimacy.

In the People's Republic, the disparate local and regional elements are to be controlled and integrated by the Communist Party, theoretically a unified elite group disciplined by Leninist dogma of democratic-centralism and holding ultimate power. In practice, as I have shown, this is not always the case. Local Party cadres do identify with local interests and, therefore, become responsible for the haphazard implementation of national policies. Consequently, the People's Republic continues to fit well with Confucian doctrine that dictates a tension between ruler and ruled, between center and region, between public and private interest, between control and autonomy, between service to the Emperor and rebellion.[11]

The <u>tiao-kuai</u> organization installed by the Communists merely perpetuates this cosmology, making comparisons between the centralization and decentralization efforts of different Chinese dynasties and regimes possible. There is tension between <u>tiao-tiao</u> and <u>kuai-kuai</u> authorities, in both policy formulation and implementation. Despite the achievements in economic growth since 1949, the People's Republic continues to grapple with the same anomoly that earlier regimes

confronted: how to enlist the energy and support of local elites for the purpose of modernization without upsetting the balance between control and autonomy. In each Chinese dynasty, this ultimately was impossible because modernization required the destruction of the control-autonomy balance that permitted stability and unity. In the Peoples' Republic, modernization needed to compete in the rapidly changing technological world of the late 20th century likewise becomes an overt attack on the _tiao-kuai_ fishnet that maintains the delicate balance between Party control and local autonomy.

What does this mean for the Communist regime? What does it mean for the economic reforms as outlined by leaders of the Communist Party? A major goal of urban economic reforms, as they have developed since the early 1980s, is to replace the _tiao-kuai_ organization with purely economic relationships that permit growth and expansion.

If the _tiao-kuai_ system is merely a form of organization, then reforms might be salvaged through reorganization. But is the _tiao-kuai_ structure merely organization, or has it become part and parcel of the Chinese social system?

Schurmann differentiates between the social system and social organization.[12] He defines a social system as having "core elements" which are "self-regulating." The core of any social system are the social elements from which authority flows. On the other hand, he defines organization as "a conscious contrivance with defined roles. Far from being self-regulating, it demands constant effort to maintain it."[13] Thus he writes

> ...[If] power is exercised as leadership in organization and status is embedded in a social system, one can say that a true elite occupies a firm position both in organization and in system. It has roots in the system and acts in organization.[14]

When system and organization are "functionally interlocked by a true elite," Schurmann writes, society enjoys unity and stability.

These social systems are held together by "an ethos from which values and norms derive." Organizations, he adds, are held together by laws and regulations or by ideology. Thus he idenitifes the trinity of ethos, status group and "modal personality" as being able to exercise authority when each retains legitimacy.

My research indicates that the <u>tiao-kuai</u> organization established by the Communists has become self-regulating. It quickly defends itself whenever its hold on power is

threatened. It has become a core element of China's social system. The _tiao-kuai_ system has become habitual for many Chinese. My respondents in China stated their surprise at foreigners knowing much about it and expressed the view that it had become such a part of their lives they felt no need to discuss it. The control mechanisms wrought by their many _tiao-kuai_ authorities had become part of their world view. Many of my respondents found it difficult to conceive of the American system in which control mechanisms are not so obvious. For them, their personal _tiao-kuai_ relationships are a natural condition which can be overcome only through great effort, risk and finality.

What, then, is the Communist regime to do? Clearly any reorganization envisioned by the reforms must contend with the networks of power and interests embedded in the current system. Or do the leaders of the People's Republic really mean to reorganize through reform? James March and Johan Olson state that reorganization often

> "becomes an alternative to action, a way to express concern about a program for which no resources are available. ...Reorganization becomes a tactic for creating the illusion of progress where none exists.[15]

Whether China's leaders are serious about reform and reorganization or not, the reforms of the 1980s and the debate about them become a double-edged attack on the Communist regime. First, efforts to replace <u>tiao-tiao kuai-kuai</u> with economic relations constitutes an attack on the system itself. Second, the continuing debate as to the validity of Marxist-Leninist ideology constitutes an attack on the glue that holds <u>tiao-tiao</u> <u>kuai-kuai</u> together as an organization. In both cases, the legitimacy of the new local gentry comes into question.

Schurmann said that Communist China was able to supplant the "passive compliance deriving from the traditional authority of the social system" with "active organizational controls," or <u>tiao-tiao</u> <u>kuai-kuai</u> lines of authority.[16] But daily behavior which has become so habitual that Chinese react without conscious knowledge of why they do so strongly indicates that <u>tiao-tiao</u> <u>kuai-kuai</u> has become an ingrained, passively-complied-to social system.

An issue for the 1980s and 1990s is whether Chinese society is questioning the legitimacy it granted the Communist system. Are the modal personalities of ideological-pure Party cadres being replaced by innovative entrepreneurs and enterprise managers? The public press in China is full of stories about successful entrepreneurs

and blandishments that Party cadres must be patient and self-sacrificing for the sake of China's economic development.

Kuhn said the balance between control and autonomy that provides stability and unity is often skewed by modernization and economic development. Clearly, economic development is the major goal of the People's Republic and the Party has gone to great lengths to mobilize the public to this cause. This economic development, however, requires mobilization to change. But when the organization becomes both the actor <u>and</u> the target of change and is, in fact, part of the social system, the elite mobilization required to implement the changes will not be forth coming.

ENDNOTES Chapter VII

1. David M. Lampton, "Chinese Politics: The Bargaining Treadmill" in *Issues and Studies*, 23, No. 3 (March 1987), 11-41.

2. Richard H. Solomon, *Mao's Revolution and the Chinese Political Culture*, (Berkeley: University of California Press, 1971), especially 1-23.

3. Philip Kuhn, "Local Self-Government Underthe Republic" in *Conflict and Control in Late Imperial China*, ed. Frederic Wakeman, Jr. and Carolyn Grant, (Berkeley: University of California Press, 1975), 257-298.

4. Ibid., 258.

5. Ibid., 259.

6. Robert Dahl and Charles E. Lindblom, *Politics, Economic, and Welfare*, (Chicago: University of Chicago Press, 2d ed., 1976), 96-97.

7. Ibid., 93-126.

8. Ibid., 107.

9. Ibid., 260.

10. Ibid.

11. Ira M. Lapidus, "Hierarchies and Networks" in Frederic Wakeman, Jr. and Carolyn Grant, *Conflict and Control*, 27-29.

12. Franz Schurmann, *Ideology and Organization in Communist China* (Berkeley: University of California Press, 1968) 2-7.

13. Ibid., 4.

14. Ibid., 5.

15. James G. March and Johan P. Olson, "Organizing Political Life: What Administrative Reorganization Tells Us About Government" in *American Political Science Review*, 77, No. 2 (June, 1983), 290.

16. Ibid., 10.

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