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# The Territorial Politics of Economic Openness in China

## I.I INTRODUCTION

It could be the best of times; it could be the worst of times. Far away from Dickensian England or France, the tale of this book is set about two hundred years later in China. After a tumultuous century of foreign domination, dynastic cessation, Japanese occupation, Communist ascension, socialist transformation, and the Cultural Revolution, the ancient Middle Kingdom was finally on a path to economic modernization. In the late 1970s, the country's reformist leaders began to revamp an economy defined by rigid central planning. Shunning decades of self-imposed autarky, they also opened up to the international markets in a belated quest for foreign trade, investment, and advanced technology from the West.

Soon, the Chinese economy was booming, catapulting the country into the ranks of the world's fastest-growing club, where it has stayed for more than three decades. As living standards were rapidly soaring, the economic success might have breathed new life and legitimacy into the rule by the Chinese Communist Party (CCP). Not all, however, was going well. The litany of domestic troubles was long; by the late 1990s, some problems had reached crisis proportions. Periodic inflation and rampant official corruption fueled urban protests and eroded public faith in the government (Stavis 1989; Walder 1991). Hefty agricultural burdens led to mounting rural unrest (Bernstein and Lü 2003). The emergence and flourishing of pseudoreligious sects and a nationwide criminal underworld posed new problems of governance (Chung et al. 2006). An insolvent state sector threatened to drag down the entire economy in a financial

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meltdown (Lardy 1998). In the meantime, an equally potent menace to CCP national rule was arising along the territorial dimension.

The challenge was by no means new. Through the millennia, maintaining political and territorial unity had always been a daunting task for the national rulers presiding over a continent-sized country (Solinger 1977, 18–21). Since the late 1970s, however, the problem had been exacerbated by the downward devolution of economic policy-making powers. Despite constant central policy injunctions, public investment urges on the part of the economically empowered local governments fanned a cyclical economic overheating (Huang 1996).<sup>1</sup> For a time, regional blockades pursued by the provinces against each other threatened to fragment the domestic market the reformers had sought to build from scratch (Wedeman 2003). Above all, the CCP-led central government confronted growing difficulties in extracting revenues from the localities amid a general decline of government revenues at all levels (Wang Shaoguang and Hu Angang 1993).

The need for central government fiscal transfers, however, was only heightened as economic disparity among the provinces deteriorated with the opening to the world markets. Provinces fared differently in the global markets by virtue of their geography and natural resource endowments. Those provinces faring less well griped about inadequate assistance from the central government. The winner provinces, in contrast, grew increasingly assertive in demanding fiscal autonomy and in resisting fiscal centralization. Before long, the “waning” of central fiscal capacity worsened regional fissiparous tendencies and prompted a rising cacophony among pundits, journalists, and even scholars who prophesized China’s imminent disintegration (for example, M. H. Chang 1992; G. G. Chang 2001; Friedman 1993; Goldstone 1995; Waldron 1990).

There was little solace abroad for the Chinese national leadership. Communist rule was fast crumbling in Eastern Europe and the Soviet Union (Bunce 1999). Market reform, at least for a time, tended to aggravate the debts and deficits of local governments and undermined national macroeconomic stability in the developing world (Wibbels 2005). Most important, the centrifugal forces unleashed by ongoing economic globalization contributed to the recent “authority migration” away from central governments (Kahler and Lake 2003b). As global market integration

<sup>1</sup> Unless otherwise noted, in this book I follow the convention to use “local governments” generally to refer to both the provincial (subnational) and lower (subprovincial) levels of government in China.

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reduced the minimal size required for viable state survival, intergovernmental fiscal conflicts could brew in face of rising interregional inequality, and separatist movements would agitate for ever-greater fiscal and ultimately political autonomy. Indeed, along these lines, some prominent economists (for example, Alesina and Spolaore 2003) have predicted surging secessionism and the breakup of nation-states around the world.

In short, domestic economic reform; opening to the global markets; and the worldwide trends of democratization, market transition, and globalization all boded ill for continued Communist national rule in China. By the early 1990s, indeed, the very ability to keep the country's territory intact had been called into question. As Goodman (1994, 1) aptly summarizes such sentiments of the time in his introduction to a volume exploring whether China has already "deconstructed," "the capacity of the People's Republic of China (PRC) to remain united has become a matter of considerable concern and debate." However, for all the unpropitious odds, the CCP-led Chinese central government seems to have ushered in the twenty-first century while presiding over a rapidly expanding economy projected by many to become the world's largest by mid-century, if not earlier.<sup>2</sup> Despite popular, ominous predictions to the contrary, so far it has managed to "hold the country together" and oversee a relatively tranquil territorial front at home (Landry 2008; Naughton and Yang 2004b). The wildest fears of intransigent provincial governments along the rich coast rebelling *en masse* have yet to materialize.

Social scientists have not been particularly successful in predicting state or regime collapse; any attempt to prognosticate their perpetual longevity surely will turn out to be no less futile. The goal of this book is more modest. In the broadest terms, I seek to explain the resilience of CCP national rule through the turbulence of economic reform and opening to the global markets during the period of 1978–2005.<sup>3</sup> I tackle one specific slice of this complex puzzle by focusing on the territorial dimension of the

<sup>2</sup> For example, in 2003 the investment bank Goldman Sachs estimated that the size of China's economy could outgrow that of the United States by 2041, but its revised estimation in 2008 suggests that the overtaking may occur as early as 2028 (cited in Layne 2009, 163).

<sup>3</sup> In this book, I broadly define the political center (or simply "the center") as the top leaders of the executive branch of the central government and their affiliated political party (or parties). In China, the political center refers to the top national leaders of the central government and the ruling CCP. Sometimes, unless otherwise noted, I follow the convention to use simply Beijing, the capital city, and itself a provincial unit, to refer to the Chinese political center, as Moscow is often referred to as the Russian political center.

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tenacity of authoritarian single-party rule in China under rising economic globalization. Indeed, this territorial angle has mostly been neglected in a prominent literature that deals with the crucial question of the survival of CCP rule in China so far, largely through the lens of a state-society dichotomy (for recent important examples, see Dickson 2003, 2008; Tsai 2007). Why and how has the CCP-led central government in China so far managed to fend off the centrifugal forces from below predicted to undermine national-level political authority everywhere in the age of global market integration? Under what conditions are national political leaders better able to stave off the domestic territorial menace posed by economic globalization?

I argue that where they are institutionally empowered by centralized governing political parties, national politicians confronting the fissiparous challenge of economic openness will resort to exercising tighter political control over the subnational governments of the winner regions in the global markets in order to extract revenue, redress regional disparity, and prolong their national rule. The thrust of this logic is especially applicable to post-1978 China under the rule of one single political party, the most centralized party system that affords its national leadership the requisite political predominance and institutional wherewithal to wield territorially targeted political control. This book thus highlights the incentives of and the institutional resources available to national political leaders. In sharp contrast, prevailing economic theories on domestic territorial politics under economic globalization often privilege the demands for, above all, fiscal and, ultimately, political autonomy from subnational regions thriving in the global markets. They tend to predict sweeping national-level political decline and inevitable territorial disintegration (Alesina and Spolaore 1997, 2003; Alesina et al. 2000; Bolton et al. 1996; Bolton and Roland 1997).

Regionally targeted exercise of central political control, however, may engender mixed economic outcomes at the subnational level. In efforts to ensure greater policy compliance from below, tighter political control via the ruling CCP might facilitate central fiscal extraction from the provinces for interregional redistribution. It might also help remedy provincial-level “collective action” problems in providing national-level public goods such as macroeconomic stability. However, it could equally attenuate the center’s commitment to protecting local property rights, harm economic incentives, and dampen economic growth in those very provinces targeted for greater political control and fiscal extraction. The remainder of this chapter outlines my argument, introduces the research

design and data used in the book, summarizes the broader implications, and previews the chapters to follow.

1.2 THE ARGUMENT

1.2.1 Terminology and Scope

The term “globalization” has become a linguistic cliché of our era. The phenomenon itself is not entirely new. A previous incarnation appeared between the 1870s and the eve of World War I, if not earlier (Bordo et al. 1999; Rothschild 1999). Its latest manifestation generally refers to “the rapid increase in cross-border economic, social, technological, and cultural exchange” facilitated by the “exogenous easing” of such enabling factors as advances in modern transportation and communications since the latter half of the twentieth century (Keohane and Milner 1996).<sup>4</sup> For the purposes of this study, I focus on economic globalization, broadly defined as the recent surges in trade and capital flows across national borders. I also use the terms “economic openness,” “global market integration,” and “economic integration” synonymously and interchangeably with “economic globalization” or simply “globalization.”<sup>5</sup>

To be sure, government policies liberalizing international trade and capital flows are fundamental to any aspect of the politics of globalization, as I demonstrate in Chapter 3 in the case of China. In this book, however, I am primarily concerned with understanding the *political* consequences of the more exogenous aspect of economic globalization. I focus on how differential success in competing in the global markets by different subnational regions, largely dictated by geography and their respective natural resource endowments that are not easily amenable to the short-term influence of government policies, might affect their political relations with the national-level political authority.

Conventional scholarship on the politics of domestic intergovernmental conflicts under rising economic openness is usually based in the settings of advanced industrial democracies. It tends to emphasize the demands for greater fiscal and political autonomy from the subnational

<sup>4</sup> Keohane and Nye (2000), for instance, also include the military and environmental aspects of globalization in their discussion.  
<sup>5</sup> For Berger (2000), “globalization” denotes the unstoppable global market forces. Keohane and Milner (1996) favor the term “internationalization,” which implies how lingering state power still largely defines the boundaries of market penetration.

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regions thriving in the global markets. The prevailing economic theories thus predict irreversible national political decline and territorial disintegration of nation-states, as noted earlier.<sup>6</sup> Although parsimonious, these theories have confronted a largely equivocal empirical record, as I discuss in [Chapter 2](#). More important, the preferences of national-level political actors as well as those of actors in subnational regions that are faring less well in international commerce and investment, and the specific institutional arrangements binding governments at the national and subnational levels, are seldom taken into account in these lopsided studies.

In some sense, the persistent lack of serious scholarly efforts, even from political scientists, to tackle such glaring neglect of the political center in the existing accounts seems almost a puzzle in itself. In the rest of [Chapter 2](#), therefore, I proceed to develop an argument that privileges the preferences of national-level politicians. Particularly in institutional settings imparting them the requisite political power, I argue, national political leaders have incentives to exert tighter political control over the subnational governments of the winner regions in the global markets. The primary goal would be to exact greater subnational compliance with central revenue extraction, to mitigate regional economic disparity through interregional redistribution, and, above all, to help maintain their national rule.

Throughout, I highlight the pivotal role played by centralized governing political parties in enabling such regionally targeted central political control. Following Riker (1964), I conceptualize the degree of centralization of a ruling political party along two dimensions. The first dimension revolves around the extent to which one governing political party rules both the national and subnational tiers of government. This, in essence, captures the ability of the central government to coordinate policy making with the subnational governments. The second dimension concerns the degree to which the national office of the political party of the national chief executive wields political control, for instance via personnel authority over its copartisans governing the subnational governments. It seeks to gauge the ability of the central government to elicit policy compliance from the subnational governments via the national governing political party.

<sup>6</sup> If this is any indication of their popularity or influence (and hence their “prevailing” nature), Alesina and Spolaore (1997) had already been cited 142 times in the Social Science Citation Index as of September 12, 2009. A Google Scholar search on the same day yields a citation count of 842 for the article and 501 for the book version of their argument (Alesina and Spolaore 2003).

Along these lines, in general, authoritarian single-party rule would epitomize the most centralized political party system. Countries under effective single-party rule should boast the most centralized political system where ideally one single political party capable of exerting considerable political power at the subnational level rules both the central government and all subnational governments. During the post-1978 era under study in this book, the CCP has been the sole national governing party in China, with a largely collective civilian leadership at the center. Chinese national leaders, via the ruling CCP, have been able to exercise substantial political control over the provincial governments through their exclusive personnel powers over the top provincial-level cadres. Amid deteriorating regional disparity and heightened needs for inter-regional fiscal transfers since its opening to international markets in the late 1970s, China has also witnessed growing fiscal intransigence from some of the wealthy coastal provinces. In short, reform-era China provides an ideal empirical setting for studying issues of domestic intergovernmental conflicts and central political control in the age of globalization.

### 1.2.2 Economic Globalization and Central Political Control

Much prominent research on China's political economy since 1978 has focused on economic decentralization – the devolution of economic policy-making authority from Beijing to lower-tier governments (for instance, Huang 1996; Landry 2008; Shirk 1993). However, the embrace of the global markets, an equally potent driver of China's impressive economic growth in this period, has been no less integral to the process of reform and opening. A small number of book-length studies have shed light on the importance of a linkage to the global markets in the dynamics of contemporary Chinese politics. For instance, Pearson (1991) has examined state control over the jointly owned enterprises in perhaps the first study of foreign direct investment (FDI) in China in the field of comparative politics. Zheng (2004a) argues that the new exposure to the world markets has actually helped the national leaders transform and rebuild the Chinese regulatory state. Gallagher (2005) notes how inflows of FDI have delayed political liberalization in China. Zweig (2002) has shown what the actual process of the Chinese localities opening up to the global markets could look like “on the ground.”<sup>7</sup>

<sup>7</sup> Still others are primarily interested in understanding why there has been so much economic globalization in China in recent years in the first place. For example, both Huang (2003) and Wang (2001) investigate the political and institutional determinants of China's huge inflows of FDI during the reform era.

By tackling the territorial dimension, in contrast, this book probes how economic globalization has shaped intergovernmental political relations in post-1978 China. As such, I only briefly survey the phases of the country's opening to the world markets. I am more interested in understanding how the embrace of the global markets (largely assumed as an exogenous policy move initiated by the center) and the different provincial resource endowments for competing in international commerce (essentially exogenous, geographically determined attributes of the provinces) have contoured the political ties binding the central and individual provincial governments (endogenous political consequences) in China. Throughout, I focus on the role played by the Chinese political center – their incentives, institutional resources, and how they responded to the regional challenges in the age of economic openness.<sup>8</sup>

As I elaborate in [Chapter 3](#), the striking provincial-level variation in the ability to participate gainfully in the global markets was partly responsible for a growing gap in provincial economic growth and wealth over the years. Consistent with the predictions of the prevailing economic theories, fiscal intransigence from provinces thriving in the global markets toward the central government had been on the rise. With more resources to spare, these winner provinces along the coast were seeking greater fiscal autonomy from the central government. In contrast, provinces faring less well grew more vociferous in their discontent over the worsening regional disparity and in their clamor for more assistance from the central government. For a time, the center confronted mounting strains on its capacity to raise adequate revenues and to perform interregional fiscal transfers. In the face of all these fissiparous pressures unleashed by the country's widening door to the outside, how did China's national leaders manage, for the most part, to preside over calmness and stability along the domestic territorial front in this period?

<sup>8</sup> Some scholars, such as Shirk (1994, 1996) and Yang (1991), do adopt a territorial angle, but they also mostly focus on the process of opening to the global markets, rather than the impact of a window to the international markets on the political ties between the Chinese central and provincial governments. There are some exceptions. An earlier study by Zheng (1994) examines how provincial participation in the global markets might enhance the de facto autonomy of the provincial governments. A few chapters in a volume edited by Goodman and Segal (1994) may also be pertinent. For example, Womack and Zhao (1994) briefly speculate on the implications for central-provincial political ties after surveying provincial-level variation in exposure to the world markets for the year 1990; Goodman and Feng Chongyi (1994) and Long (1994) discuss the possible consequences of a global economic linkage for regionalism in Guangdong and Fujian, respectively. None of these studies, however, explicitly or systematically addresses the political response of the Chinese political center, the focus of this book.



Two avenues of action seemed open. Since exposure to the global markets is endogenous to the adoption of an opening policy, an obvious remedy would be to reverse gears and close the door again. As the country scales back its participation in the international markets, regional inequality might abate and the need for fiscal transfers would lessen. Disgruntlement by the loser provinces would also quiet down. The central government would not have to increase its fiscal extractions from the richer provinces that might become less fiscally assertive. The centrifugal pressures unleashed by economic globalization consequently would fade. The option of a policy reversal, however, seemed to have long been foreclosed. After all, it was the rising “opportunity costs of closure” – continuing economic stagnation and the threat to the legitimacy of Communist rule under pre-reform autarky versus the potential efficiency gains from an alternative strategy – that could have prompted the turn to the international markets in the first place. Despite setbacks at times, indeed, the Chinese central government had unswervingly pursued economic opening, culminating in the country’s accession to the World Trade Organization (WTO) in 2001 (Sheng 2002).<sup>9</sup>

A more appealing option might be for the Chinese national leadership, like central governments similarly confronting the centrifugal forces of globalization elsewhere, to engage in more active fiscal extraction (from the winner provinces) and redistribution (to the loser provinces), as I suggest in [Chapter 2](#). This seemed to be what the Chinese political center pursued in the period under study. As I discuss at length in [Chapter 3](#), the fiscal capacity of the Chinese central government in this era might have been generally underestimated. Furthermore, interprovincial fiscal redistribution in favor of the inland provinces faring less well in global markets was being implemented by the center throughout this period. The extractive and redistributive capability of the central government in this era, however, cannot be understood in isolation from the resilient political strength of the Chinese national leadership imparted by the ruling CCP. In this book, I study how the Chinese political center took

<sup>9</sup> In retrospect, such “opportunity costs of closure” could indeed have been quite high, as the chastening comparison with North Korea that has so far persistently refused to open up amply attests. A recent assessment of North Korea’s economic performance during 1950–89 by Kim et al. (2007) links the dismal record of the country’s basic economic indicators since the 1960s to its low or even negative total factor productivity (TFP). In contrast, opening to the global markets seems to have been a major driver of China’s TFP gains and economic growth in the post-1978 era (Hu and Khan 1997).

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advantage of the institutions within the ruling CCP to exercise regionally differential political control over the provincial governments in the age of economic globalization.

I focus on the nomenklatura system whereby the national leaders wield the authority to appoint, transfer, and dismiss top provincial officials (Manion 1985). Specifically, I examine their deliberate choice of different types of leading provincial officials who are predisposed to varying likelihoods of compliance with central government policy preferences to exercise varying degrees of political control over the provincial governments. In Chapter 4, I sketch the workings of China's CCP-dominated political system and the related institutions within the single ruling party that endow the center with political predominance over the provincial governments. I conjecture that the Chinese national leaders would seek to exert tighter political control over the subnational governments in the winner regions in the global markets in order to extract their fiscal resources for redistribution, pursue balanced regional development, and prolong their own national rule. I systematically assess this hypothesis with provincial-level data in Chapter 5.

To be sure, the integrative role of the central nomenklatura powers imparted by the ruling CCP has been noted in a number of astute studies on reform-era China that question the "imminent disintegration and collapse" thesis. Debunking the notion that China was already drifting toward "regionalism" and "deconstruction" under reform and opening, for instance, both Goodman (1994, 4) and Yang (1994, 86) pinpoint such personnel authority as a key institutional mainstay of CCP national rule. Likewise, in explaining "why China will not collapse," Huang (1995b, 1996) attributes the country's overall macroeconomic and political stability to the center's monopoly personnel powers over the provincial governments. For Naughton and Yang (2004a, 11), the "very existence" of central nomenklatura powers has contributed to China's "national unity" in this period. Studying the promotion patterns of cadres below the provincial level, Landry (2008), likewise, argues that China's brand of "decentralized authoritarianism" has so far been held together precisely by the CCP's nomenklatura powers at the local levels even though the center exercises mostly indirect personnel authority beyond the provinces. Nevertheless, none of these scholars has shown exactly *how* the Chinese political center utilized such personnel powers to exercise direct but regionally selective political control over the different provincial governments, the primary task of this book.