Holding China Together: Introduction

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During the 1980s, China experienced a steady decline in central government control over the economy, the political system, and society as a whole. Economic reforms emphasized decentralization of resources and decision-making authority, which empowered local governments and enterprises at the expense of the national government. Economic liberalization fostered the creation of literally millions of new economic entities, combined with new market rules and incentives. Rapid economic growth not only led to a much larger and more complex economy but also greatly expanded regional diversity. Government demands for conformity receded, allowing a more relaxed and diverse society to develop. Although conservatives sought to roll back some of these reformist changes after the Tiananmen massacre, they were unable to reverse the most fundamental changes. Indeed, there is universal agreement that the 1980s witnessed a historic retreat of the Chinese central government. Given breathing space by the rollback of the Chinese state, Chinese society and the Chinese economy came alive.

Nevertheless, the decline in the authority of the Chinese state was not a smooth or trouble-free process. Like governments in all transitional economies, China's leaders abandoned crude but powerful tools of government resource allocation before market-friendly indirect and regulatory institutions were available. Inevitably, government effectiveness declined and the central government's financial prowess steadily eroded. The Chinese government simply seemed ill equipped to carry out the tasks demanded of it in the new economic environment. Even more troubling, the Chinese government frequently seemed unable to override particularistic, regional, and sectional interests. While decentralizing reforms moved forward, other reforms that required an authoritative state to

impose uniform, equitable rules on many different groups – such as fiscal and tax restructuring, or administrative and regulatory reforms – consistently failed. Concerns began to be raised regarding the overdecentralization of power and the maladaption of the Chinese government to the new demands placed upon it.

At such a pivotal time in the process of economic restructuring came the Tiananmen crisis of 1989. The profound political crisis into which the Chinese regime was plunged revealed disarray at the center. Moreover, in the aftermath of the government's deployment of massive brutal force against unarmed civilians, the ruling elite seemed to have lost the ability to use remuneration or legitimacy to govern and was left only with raw coercive power. China seemed to be on the verge of unraveling. Following the Tiananmen crisis, the collapse of the Soviet Union, the fall of other communist governments, and the disintegration of Yugoslavia all highlighted the shaky ground on which China's ruling elite stood, lending plausibility to scenarios of collapse or disintegration in China.

In the wake of these events, and throughout the 1990s, an influential literature developed that saw China as being undermined by centrifugal forces, in danger of coming apart or collapsing in on itself. This "disintegration" literature was a reaction both to the trends of the 1980s and to the shock of Tiananmen. Focusing on the fissiparous forces that had developed in China following more than a decade of decentralizing reforms, this literature extrapolated from the trends of the 1980s in order to look into the future, and it predicted an increasingly decentralized, unregulated, and ultimately uncontrollable society. At the same time, under the influence of the harsh crackdown that occurred at Tiananmen, these authors tended to be profoundly pessimistic about the ability of the Chinese government to adapt to and cope with these trends. In this view, a series of increasingly complex social and economic problems were poised to overwhelm a government that was incapable of mobilizing the social resources or the political will necessary to confront them.

This disintegration view has had a remarkably broad and enduring influence. Authors ranging from political dissidents to Chinese neoconservatives suggested that China faced the prospect of fragmentation or collapse. Various scholars, particularly those with a Taiwan background, began to note parallels between the rise in regionalism in contemporary China and the dynamics of fragmentation in Chinese history. They contended that

rising regionalism would lead to the disintegration of the Party-State.[1] In Japan, Kenichi Ohmae went so far as to suggest that eleven Chinese republics might emerge out of China's breakup and then form a loose "Federal Republic of China."[2] The disintegration thesis gained special prominence within China in 1993, when two scholars noting parallels between China and Yugoslavia warned of China's possible disintegration. In their view, although the decentralizing reforms were enabling economic growth by devolving economic management authority and resources to enterprises and local levels of government, the reforms also served to undermine the fiscal foundations of the state. They foresaw that the fiscally enervated central government might not be able to hold the country together, and China might suffer the same fate as Yugoslavia.[3]

By the mid-1990s, the disintegration thesis was making major inroads. *China Deconstructs*: This was the witty and evocative title Goodman and Segal gave their edited volume on national and regional trends.[4] In the United States, the Pentagon's Office of Net Assessment convened a thirteen-member panel to assess China's future and found that a majority predicted disintegration.[5] In the summer of 1995, the journal *Foreign Policy* printed a major article boldly titled "The Coming Chinese Collapse." In this article, Professor Jack Goldstone of the University of California drew on his formidable knowledge of comparative history and sociology to predict "a terminal crisis [for the Chinese ruling regime] within the next 10 to 15 years." According to Goldstone, "China shows every sign of a country approaching crisis: a burgeoning population and mass migration amid faltering agricultural production and worker and peasant discontent – and all this as the state rapidly loses its capacity to rule effectively"

1 Cheng Chu-yuan, *Behind the Tiananmen Massacre: Social, Political, and Economic Ferment in China* (Boulder, CO: Westview, 1990), pp. 196–7; Maria Hsia Chang, "China's Future: Regionalism, Federation, or Disintegration," *Studies in Comparative Communism*, 30, No. 3 (September 1992), pp. 226–7.

2 Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (New York: Harper Business, 1990).

3 Wang Shaoguang and Hu Angang, *Zhongguo guojia nengli baogao [Report on China's State Capacity]* (Shenyang: Liaoning renmin chubanshe, 1993). For an English version of the main arguments, see Wang Shaoguang and Hu Angang, *The Chinese Economy in Crisis: State Capacity and Tax Reform* (Armonk, NY: Sharpe, 2001).

4 David Goodman and Gerald Segal, eds., *China Deconstructs: Politics, Trade and Regionalism* (London: Routledge, 1994).

5 Eduardo Lachica, "Hedging Bets for China's Post-Deng Era," *Wall Street Journal*, February 21, 1995, p. A20.

because of leadership conflicts and fiscal weakness.[6] Other commentators highlighted the dramatic differences between a capitalist South and bureaucratic–authoritarian North or contended that the Indonesian collapse during the Asian financial crisis might be a harbinger of China's fate.[7] More recently, Gordon Chang, in his best-selling *The Coming Collapse of China*, bemoaned the weakness of China's economic institutions and claimed that China's entry into the World Trade Organization would prove to be the proverbial straw that broke the camel's back.[8]

Ironically, while the disintegration thesis spread broadly in the 1990s, an alternative assessment emerged that stressed China's irresistible emergence as a great power. Drawing on the other set of key trends in the 1980s – namely the early success of economic reform and the rapid growth of the economy – this literature discussed ways to deal with a rising China. Fueled by the International Monetary Fund and the World Bank's purchasing power parity estimates of the size of China's economy and sustained by China's ability to weather the Asian financial crisis relatively unscathed, this view has extrapolated growth into the future, assuming that no domestic problems or external shocks will seriously disrupt China's rise. This second image has been seized on both by boosters of China touting its economic and business importance and by Cold Warriors who see China replacing the former USSR as an emerging threat to the United States.[9]

These two contrasting assessments of China, despite their apparently opposite natures, are like twins separated at birth. Both draw on the distinctive experience of China in the 1980s and early 1990s and extrapolate

6 Jack Goldstone, "The Coming Chinese Collapse," *Foreign Policy*, No. 99 (Summer 1995), pp. 35–52, quotes on pp. 51–52.

7 Edward Friedman, "China's North–South Split and the Forces of Disintegration," *Current History* 92(525), (1993), pp. 270–4; Minxin Pei, "Will China Become Another Indonesia?" *Foreign Policy*, No. 116 (Fall 1999), pp. 94–109.

8 Gordon Chang, *The Coming Collapse of China* (New York: Random House, 2001).

9 For one side, see William Overholt, *The Rise of China: How Economic Reform Is Creating a New Superpower* (New York: Norton, 1994); for the other side, see Richard Bernstein and Russ Munro, *The Coming Conflict with China* (New York: Knopf, 1997). For an anthology of debate on China as a strategic threat, see Michael Brown, Owen Coté, Jr., Sean Lynn-Jones, and Steven Miller, eds., *The Rise of China* (Cambridge, MA: MIT Press, 2000). The rise of China has even become the preoccupation of fiction writers, who produced titles such as *The Bear and the Dragon,* by Tom Clancy, *China Attacks,* by Chuck Devore and Steven Mosher, and *Dragon Strike,* by Humphrey Hawksley and Simon Holberton.

from there into the future. Both raise important questions but do so in an alarmist and one-sided fashion. One sees only the problems and assumes the achievements are fragile; the other sees only the achievements and assumes the problems will be overcome. Neither takes adequate account of the extent to which the achievements and problems are intertwined, with the achievements possible only because certain problems could be left unaddressed, deferred to an uncertain future. Neither perspective seems to appreciate the extent to which its own conclusions should be modified by the insights of the other perspective. China is indisputably becoming a more diverse society, with a much larger economy, greater regional diversity, and many areas of social life slipping out of government control. At the same time, China has thus far managed to sustain national unity, and the government has proven itself remarkably resilient while its counterparts in many other transitional countries have fallen apart. What are the forces holding China together? Which institutions are most important and most likely to reinforce national unity? Can we expect Chinese leaders to formulate effective policies and maintain national unity as the country undergoes massive social, economic, and political transitions?

FRAMEWORK OF THE VOLUME

The present volume is the result of a multidisciplinary, collective effort to examine some of these questions. It was initially conceived in 1996, as an effort to analyze more carefully the impact of greater regional diversity and openness on national unity, national integration, and the capacity of the national government to adopt policies in the national interest. It was begun with an attitude of skepticism toward some of the more extreme claims of the "deconstruction" literature. At that time, it appeared to us that the "fragmentation" view of China was mistaken because advocates of this view failed to take into consideration the strength of some of the essential institutions holding China together, and they misunderstood the key adaptive processes in which economic transition reshaped state and society relations.[10] Since that time, as China has continued to change and evolve and as our knowledge has deepened, some of the deeper flaws

[10] Dali Yang and Houkai Wei, "Rising Sectionalism in China?" *Journal of International Affairs*, 49, No. 2 (Winter 1996), pp. 456–76; Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978–1993* (New York: Cambridge University Press, 1995).

of the fragmentation perspective have become obvious. Not only has China not blown apart, it has in many respects succeeded in remaking institutions and reshaping policies in ways that enhance institutional integrity and strengthen national unity. However, few observers have taken note of the breadth and depth of the Chinese response. Since 1994, important changes in the administrative and political system have become increasingly manifest in the policy arena. In that sense, institutions fostering national unity existed in the 1980s, but their impact was obscured by problems of economic transition and a breakdown of political cooperation within the Communist Party elite. The potential effectiveness of those national institutions, which have also undergone adaptations and transformations, has become more evident during the 1990s.

The volume addresses questions of national unity and diversity from a variety of different vantage points, and from each it shows that the fragmentation thesis is inadequate to encompass China's development. The chapters in Part One examine the national political and administrative system. The authors analyze the manner in which political elites are rewarded and monitored, and the way government has been reorganized to perform new functions and strengthen regulatory capacity. The common finding is that the political system has made significant adaptations to the challenges of an increasingly diverse and marketized society. These adaptations, on balance, have tended to shore up political authority and national unity, even as they have created new problems for the future. The chapters in Part Two are case studies of the implementation of central government policies. In four different issue areas – birth control, internal migration and urban employment, coal production, and regional development – the authors analyze the way in which central government mandates are shaped to local conditions. Elucidating the interaction between central and local authorities, and between state and society, the authors show that a diversity of policy outcomes is not equivalent to political fragmentation.

The contributors to this book approach diverse subjects by using a variety of analytic methods; their chapters also reflect their own individual viewpoints. Nevertheless, a common view emerges from this volume. Without doubt, increasing diversity and a larger society create centrifugal forces in China that undermine the traditional monolithic state structure. However, there are also important political, economic, and cultural forces that tend to reinforce national unity and integration. These "centripetal

forces" imply that diversity and integration in China develop in a kind of dynamic tension. The fragmentation literature on China is misleading – and ultimately simply wrong – because it examines only one side of this tension and fails to see the forces working against fragmentation. In fact, many of the examples of increasing diversity pointed out by the fragmentation literature are simply that – examples of increasing diversity. There is no evidence that this diversity cannot be accommodated within the framework of a growing and developing China. At the same time, the "China threat" literature seems to willfully ignore the evidence of increasing diversity in China and the enormous domestic challenges China still faces. These challenges significantly constrain the Chinese leadership, making it extremely difficult for them to simply impose solutions on a complex domestic society, and limit their ability to project influence internationally. A dynamic tension between increasing diversity and national unity may not be a bad thing: at a minimum, it is preferable to either of the twin extremes of an all-powerful central government or a society in disintegration. Indeed, it is even possible that this tension may provide just the kind of creative pressure that helps keep China's social and economic transformation moving forward.

In this volume, we seek to provide a more coherent and realistic account of the resilience of the Chinese state. The authors represented herein share a conviction that the fragmentation view of China was mistaken. It was mistaken *at the time* because those observers failed to understand the strength of some of the key institutions holding China together, and they misunderstood the crucial processes of economic transition reshaping state and society relations. Moreover, in the years since 1990, Chinese leaders have undertaken an impressive effort to rebuild central government authority in the wake of further stages of economic transition. Therefore, the fragmentation literature was additionally mistaken because it *failed to predict* the ability of the Chinese government to reformulate power relationships and rebuild institutions on an altered basis. This failure to predict also rests on a failure to appreciate the Chinese leadership's command of crucial institutional resources.

Finally, the contributors to this book describe policies and implementation in their areas of specialization by using the language of principal-agent analysis. However, the "principal" in almost all cases refers to the top leadership of the Communist Party and government of China; it almost never refers to the people of China. The people of China lack

institutions to exercise their choice, or even a modest oversight over the top leadership. In this respect, China in the twenty-first century is not further advanced than it was in 1989, and, indeed, it may have slipped backward. Thus, despite the relatively positive appraisal of the strength and resilience of Chinese national unity, the authors in this volume share a realistic assessment of the defeat of, and retreat from, the potentially democratizing reforms of the 1980s. The 1980s policies of separating Communist Party from administration and reducing the scope of Party interference in management died during the 1990s. Despite its increasing diversity and the growing scope for civil society, China remains autocratic. This autocracy, in turn, influences the perspective of the volume, which tends to be from the top down, because many of the changes we describe have been driven from the top down.

Indeed, during the 1990s, rather than the Communist Party being removed from other administrative hierarchies, the reality was that the Communist Party was more tightly integrated into other chains of command. The hierarchical relationships in the government and Communist Party were more clearly specified, monitored more effectively, and tied more closely to material rewards. Administrative capability was increased, and there was a general trend toward professionalization. At the same time, the Communist Party also stepped up its involvement with the other administrative hierarchies. These changes are described in Part One of this volume; it is apparent at the outset that change of this type creates tensions and conflicts that must be resolved in the future. Meanwhile, the trend of change has shifted dramatically away from continuous decentralization and weakening of government power and toward a clearer division of responsibilities among governmental levels, with a tendency toward moderate recentralization in certain areas.

PART ONE. THE INSTITUTIONS FOR POLITICAL AND ECONOMIC CONTROL: ADAPTATION OF A HIERARCHICAL SYSTEM

The first part of the book analyzes the Chinese political and administrative structure. The first three chapters give primary attention to the vertical dimension of the political structure. They examine the incentives at work in the hierarchy through the patterns of promotion and reward, and the rules that govern this process. Because these processes ultimately determine who exercises power, these "vertical" analyses include the stuff of

daily politics, the competition among different factions, and the tensions between center and province and between institutionalization and arbitrary power. Chapter 4 gives primary attention to what we might term the "horizontal" dimension of the political and administrative structure. As the government develops more professional capabilities, it develops new functions and abandons some old issue areas. This reorientation is essential to the movement in the direction of a regulatory state, and the issues are also central to the argument in Chapter 3. Together, these vertical and horizontal approaches permit us to draw a comprehensive picture of the evolution of China's political and administrative hierarchy since the beginning of the 1990s.

An important factor in the evolution of the Chinese administration is that decentralization in China was never what it became in the former Soviet Union – a disintegration of central power and the seizure of power "lying in the streets" by the local authorities.[11] In contrast to Yeltsin's Russia, where regional governors gained power and autonomy at the expense of the center, China has retained a core element of central control: the *nomenklatura* system of personnel management. Under this system, higher-level leaders determine the appointment of lower-level officials, and they also structure the incentive systems that apply to the entire hierarchy. In short, unlike in Russia, China has retained a personnel system that gives the central leadership enormous power vis-à-vis local authorities.[12] This nomenklatura personnel system is the most important institution reinforcing national unity.

The fact of a unified national personnel hierarchy is at the core of the analysis in each of the first three chapters. The central government has much greater control over local decision makers than is initially apparent, simply because personnel power is hierarchically organized. Personnel officials at the central level have the authority to appoint and remove officials at local levels: Even when not actually utilized, this power remains

[11] Steven Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge, MA: Harvard University Press, 1998).

[12] John P. Burns, "China's Nomenklatura System," *Problems of Communism*, 36 (September 1987), pp. 36–51; idem., *The Chinese Communist Party Nomenklatura System: A Documentary Study of Party Control of Leadership Selection* (Armonk, NY: Sharpe, 1989). Yasheng Huang has emphasized the importance of the nomenklatura system in understanding central-local relations. See his *Inflation and Investment Controls in China* (Cambridge, England: Cambridge University Press, 1996).

latently available to central officials, making the Chinese political system far more unitary than it might otherwise appear.[13] Moreover, the personnel function is a monopoly of the Communist Party. It is one of the most important bases – perhaps the ultimate foundation – of Communist Party power. But Party decision making is not exposed to public scrutiny, and it is forbidden to publicly discuss personnel decisions or decision making.[14] Therefore, it is easy to underestimate the degree of hierarchical control and overemphasize the degree of effective local autonomy.

The era of economic reform has fundamentally altered the environment in which government officials operate. Economic changes – and especially state enterprise restructuring – have created massive opportunities for private gain. Officials have numerous alternatives to commitment to government-mandated tasks. They can neglect government duties and go into business; they can become corrupt; and they can mix public and private interests through complicated intermediate strategies. With the sources of wealth diversifying, it is now impossible to monitor consumption and simply insist that officials live frugal lifestyles. In and of themselves, these changes tend to undermine the authoritativeness of the government and Party hierarchy: With the onset of economic reforms, the party lost its monopoly over reward and remuneration.

If central policy makers did nothing in response to these trends, they would inevitably watch the commitment to national goals of local officials gradually erode. If they act, they must increase the rewards given to government officials for compliance with their objectives (personal or programmatic) and increase the monitoring of officials to restrain their desire to deviate from central goals. In fact, steadily throughout the reform period, the Chinese government has increased both rewards and monitoring. It has responded and adapted to the challenges of the reform environment by altering the incentive environment that cadres face. The general theory of incentives proposes that, in designing optimal incentives for an agent with multiple tasks, one must consider both rewards for

[13] This criticism applies not only to proponents of the disintegration view, but also to theories of "market-preserving federalism" in China. See Barry Weingast, Gabriela Montinola, and Yingyi Qian, "Federalism, Chinese Style: The Political Basis of Economic Success in China," *World Politics*, 48, (October 1995), pp. 50–81.

[14] Yan Huai, "Organizational Hierarchy and the Cadre Management System," in Carol Lee Hamrin and Suisheng Zhao, eds., *Decision-Making in Deng's China: Perspectives from Insiders*. (Armonk, NY: Sharpe, 1995).