
China's Reforms: Economic Causes and Regional Effects

DOROTHY J. SOLINGER

Professor of Politics and Society at the University of
California, Irvine

An Interview by J. Peter Scoblic

Journal: What was the Communist Party trying to accomplish when it began economic reform in 1978? In other words, what were their underlying motivations? Were they trying to liberalize the country, or was this a way to reassert authority?

Solinger: I would say the overall objective was to speed up industrial growth and to create legitimacy for their rule. They realized that the population as a whole had become disenchanted with the Party after the Cultural Revolution, and they also felt the economy had stagnated. So I would say enhance growth and enhance legitimacy combined, rather than liberalization for its own sake. They certainly didn't see this as a way of phasing out their own control of the economy.

Journal: What have been the primary methods used to effect change?

Solinger: The major method has been to allow local levels of government to retain some portion of the revenues from enterprises under their control. They've devolved the control over a fair number of enterprises to local levels, firms that used to be controlled at the central government level. They've also relaxed the entry requirements into a lot of industrial sectors that used to be open only to state-controlled firms so that township enterprises and some urban, collective, and private enterprises can now

enter sectors of industry that used to be state controlled. Cotton is an important example.

Journal: Would you say that any of these shifts in economic policy represent acknowledgment of the past failures of communism, or can the Party still claim ideological purity? Do Party members still maintain that they strictly adhere to socialist tenets?

Solinger: Concerning past failures, I think what they might say is that the previously state-planned economy was less effective in stimulating the initiative for growth at lower levels because each level of government was

Instead of having policy dictated by ideology, it's more as if ideology has been dictated by policy.

directed to produce certain amounts of commodities at certain prices, and the only incentive present was to meet those quotas. So now that localities and enterprises have the right to retain larger portions of their revenue, there is a stimulus to greater growth. This is true despite the fact that it's often irrational

growth because the price structure hasn't been fully revamped and the tax structure is just in the midst of renovation. So, it's not as if great rationality has been introduced, but there has been more incentive for growth. As for whether socialism could still be said to be the philosophy or the ideology guiding the government, it could be said to be so only in the sense that the leadership has steadily reduced the content of what socialism is supposed to entail. Most recently it's been said by Deng Xiaoping to entail simply economic growth—that whatever enhances economic growth is socialism. It's certainly a lenient definition.

Journal: So they've just redefined socialism to suit their purposes, or to fit the reforms that they think will work.

Solinger: Right. Instead of having policy dictated by ideology, it's more as if ideology has been dictated by policy.

Journal: Let's talk about the amount of control that Beijing is asserting. The reforms have certainly spurred larger economic problems, such as high inflation, and the government has on occasion stepped in with economic austerity packages. I have three questions: how effective have the packages been, how committed is the Party to them, and does the efficacy of the packages, or lack thereof, shed any light on the current level of power that the Party still retains?

Solinger: Good questions. The austerity packages have been quite effective, especially the one from 1988 to early 1991. It slowed down growth remarkably, caused the bankruptcy of numerous small enterprises outside the state system, and even

The most productive areas have a fair amount of clout in holding their own against central demands.

began to effect losses seriously within the state sector. You began to see layoffs from state firms in the late 1980s. The present one, if we're still in one, began in July 1993. And it seems that it has had some effect too, although it's been diluted by demands from the provinces for let-up and also by concerns at the central level that growth might slow down too much. So re-injection of credit funds and as a result inflation, which was halted briefly in the late part of '93 have gone up again with the relaxations.

Journal: Let me expand on the second part of my question. You mentioned that when confronted with the stagnation that accompanies such packages, the regions have tried to get austerity measures relaxed. How seriously does the Party take such requests? How firm are they about controlling inflation and retaining macroeconomic control?

Solinger: Well, the central government is quite concerned. Yet at the same time it's reluctant to stop off growth in the most productive areas, and the very most productive areas do have a fair amount of clout in holding their own against central demands. And even some of the less developed areas sometimes claim that they don't have enough inflation in their area to justify going along with these demands from the central government. But the central government is also very worried about inflation and continues to bargain and negotiate with local levels to try to hold back inflation rates. There's even been some reimposition of price control which had been greatly relaxed by the late 1980s. I think you could say that the central government does still have some effectiveness in increasing and also in holding back growth.

Journal: So how in the larger scheme of things does this answer the question of how much power the Party still retains over the country? How much control does Beijing have?

Solinger: Well, I think that's really a debatable question because we read a great deal about local government resistance, but you also can find

reports of localities that are trying to lobby with the central government or trying to curry favor with the central government. I wouldn't think that would be necessary if the center had truly lost all of its power. Also at the recent Party meeting this fall, three central leaders were promoted to top Central Party bodies—one to the Politburo, two to the Secretariat—but they're all from East Coast developed regions. This has made even Guangdong, which is supposedly the most wealthy and powerful of the provinces, worried and disgruntled that it won't have an equivalent representative in the top councils. It does have a member on the Politburo, but it felt shortchanged because it didn't get somebody on the Secretariat. The whole rest of the country also felt disgruntled, and this should be a sign that being at the central government level is important and that these central organs have a lot of clout.

Journal: Let's talk about things on the regional level for a minute. The Party has tried to replace the vertical ties that traditionally characterized the Chinese economy with horizontal ones that stress the principals of comparative advantage. In light of this liberalizing goal, what is causing the current protectionism? I suppose I should first ask if you think we're seeing protectionism on a regional level, and then if so, what is causing it.

Solinger: Well, definitely there is some protectionism, and I think what we've seen with the rice wars also happens with other raw materials, like silk cocoons and wool. The reason for it is something I mentioned earlier, which is that local governments are now able to retain the profits from industries that they own and that they set up themselves. Also combined with something else I said earlier that the entry to certain sectors has now been expanded beyond the state level. So local governments can both set up new enterprises and new industries on their own and also reap the profits from them.

Journal: Is this where the analogy of the local governments serving as both player and referee in this economic game would apply?

Solinger: Yes, I suppose. They're referees of what goes on within their own economies, and they have an incentive to protect home markets because they get the revenues from them which they didn't used to. They also have an incentive to hold onto local raw materials and to charge higher prices if they send out something that they have produced at home because they have more control over these commodities and these materials than they did before.

Journal: So how serious have the regional protectionist conflicts been? Are there some notable examples that you could discuss?

Solinger: Well, rice was being withheld from Guangdong province for a long time by its neighbor Hunan because even though Hunan peasants would like to see their grain reaching further areas and being able to reap the rewards from it, the city officials of the capital of Hunan province were concerned about inflation rates and supplies within their province; so they were preventing the rice from going out. This has caused shortages in Guangdong where population has really been exploding mainly because of immigrants from other provinces. This is a widespread phenomenon. Also in manufactured goods you see a lot of cities, city stores for example, being told by their urban leaderships not to "import" products from other cities or from other provinces.

Journal: What could be done to establish more horizontal ties and reduce protectionism?

Solinger: Well, I suppose the main thing would be to really allow profits and prices to be unobstructed by governmental regulations so that they truly respond to market signals instead of bureaucratic interference. There's still a lot of profit levels that are set at the government level. There are still prices that are partly state-set for part of the market in that good and partly set by markets

Journal: Do you have to separate the role of local governments from being both player and referee? Does their personal stake of local officials in the well-being of their region have to be taken away?

Solinger: That's a good question. You might have heard about the tax reform that was established January 1 of this year, which is aiming at rationalizing the tax structure more than it has been. But it's still in the very early stages, and it's hard to say so far if it will have a more rationalizing effect. It's aiming to equalize tax burdens across all types of enterprises. Previously, there were different tax rates for state-owned enterprises and non-state and foreign enterprises, so that's one of the distorting factors that they're now trying to clean up. So they have to get rid of a lot of these types of distortions.

Journal: Before the reforms of 1978, a lot of central government investment was poured into the interior regions, and this had the effect of keeping the regions at somewhat of an equal level of growth although the

coastal provinces still seemed to excel even with the smaller share of investment. With the reforms are greater regional inequalities developing, and if so, why?

Solinger: Definitely. For one thing, a much smaller proportion of national income is going to the central government. The central government right now only controls about 19 percent of GNP, so it's much less able to redistribute. This is in addition to the fact that the reforms themselves have had a disequalizing effect because local governments can reap the profits of the economic activity in their areas and also because of preferential policies essentially for the whole east coast designed to attract foreign investment. So those two things combined, first the localization of revenues and secondly the preferential policies, have grossly imbalanced the economic returns to local areas. At the same time, since the central government has fewer funds at its control, it can't do much about this.

Journal: The government theoretically might have thought that the localization of revenues would not generate great inequalities, but the establishment of the Special Economic Zones and the Coastal Cities clearly gave certain regions a push. Did the central government not think that regional inequalities might promote local conflict?

Solinger: No, they realized that it would. I don't know that they were aware of the extent to which this would occur, but from the beginning there was a slogan that it was all right to let some places get rich first. At the present, there's been far greater tensions over this than I think were anticipated, partly regional and partly urban versus rural because cities by now have benefited more than the countryside has. During the last couple of years there's been a greatly enhanced effort to try to do something for the central and western parts of the country. One big first step in this was to open up the whole Yangtze river to foreign investment in May 1992 so that cities in the interior could start to attract a lot more foreign investment. Preferential policies for foreign investors were simultaneously instituted. Although most foreign investors are staying along the coast, there has been somewhat more economic activity inland. I think the central government also hoped the initial measures would have a trickle-down effect to the countryside where the real problems are, but in addition the central government is now trying to get foreign investors to invest inland and in the west. They're also beginning more seriously to transfer funds.

Journal: Other than central economic policy, there seem to be a lot of factors particular to China that could serve to augment regional conflicts—for example historical precedent, or cultural differences, geographical barriers, infrastructural problems. Do you think any of these things will serve to augment conflict in the future, or have they already?

Solinger: When you talk about regional differences of the sort you're mentioning, I think in some ways they would be less in China than in a lot of other countries because such a huge proportion of the population is ethnic Chinese, and minorities represent at most 9

There's been too much emphasis in writing on China in recent years about the center versus the localities.

percent of the whole population. Furthermore, these minorities are distributed among some sixty different groupings; granted, some of them are much larger, but they're all around the borders. Among the provinces I think the major source of friction is economic. You're right that there are infrastructural...well, I guess you could say blockages, and there are also some areas where the soil just isn't good enough for productive agricultural growth. But I think the serious problem is the difference in economic growth largely spurred by changing central policies.

Journal: Are there any other sources of conflict among the localities?

Solinger: Well, one issue, which I've been working on for the past several years, is the flow of people. Some places that have been attracting more farmers than others are trying to get the places where the farmers are leaving to hold onto their farmers. Conversely, the places where farmers are leaving are trying to get the other places to accept them.

Journal: Do you think any parallels can be drawn between the current situation in China and what happened in Eastern Europe and the former Soviet Union when the central governments relaxed their controls? Are we going to see the conflict or the fragmentation similar to that of 1989?

Solinger: I think not for several reasons. One is what I just mentioned about the essential ethnic homogeneity. Another is that the political system has not been liberalized, so there aren't any institutions in place or even any associations that span more than very small areas, and the voluntary associations that do exist are largely underground, illicit. We don't know much about them, but they don't seem to be very active. There

isn't either the formal infrastructure or the informal infrastructure in place for any kind of organized, coherent political break-off. And the third factor, apart from ethnicity and institutional factors, is the army which as far as we can tell is very concerned about instability and probably would not split up among its ranks. Furthermore, the President of the country, Jiang Zemin, who is also the head of the army and the Party, has spent the last couple of years purging the army of people who aren't close to or loyal to him, and so by far the overwhelming majority of the army now is composed of people who are loyal to him and to the central government.

Journal: Do you see the provinces as united in their demands of the central government?

Solinger: I think there's been too much of an emphasis in writing on China in recent years, especially journalistic writing, about the center versus the localities. The reason that's a distortion is the localities themselves are quite split up in terms of their needs, their demands, their resources, the privileges they've already got, the privileges they still need to get. A lot of the provinces in the center and west have been relatively dissatisfied with the very reforms that those along the east coast have been benefiting from. We shouldn't talk about center versus localities because there are thirty provinces; there may be as many as five or six different stances that provinces take toward the central government. Some of them, like I said before, are still lobbying; some of them feel things are unfair; some of them are pleading for more funds; others are saying we have enough funds, please leave us alone. So there's probably some kind of informal alliance building or coalition formation among provinces for certain types of policies, but in no sense is it all the localities against the central government. 