THE STRUGGLE TO DICTATE CHINA’S
ADMINISTRATION:
THE CONFLICT OF BRANCHES vs AREAS vs REFORM

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Our past economic system was one of Branches (条条) and Areas (块块)... In weighing whether the direction of each reform measure is correct or not we have to see whether it succeeds in cracking and weakening the sway of the Branches and Areas or whether it reinforces them.

Zhao Ziyang,
15 March 1986

For three decades, China’s administrative organisation was dominated by two very different types of organisational framework: the Branches and Areas to which Zhao Ziyang refers. The Chinese system of government normally has utilised both administrative frameworks simultaneously. But in many respects, as we shall see, they comprised mutually incompatible organisational principles, and Chinese politics repeatedly revolved around the issue of which of them would predominate.

The first of these frameworks, in which the ministries held the decision-making powers and directives came down through the hierarchic chain of

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command, was encapsulated in a slogan, 'The Branches Dictate' (tiaotiao zhuanzheng). Tiaotiao suggests straight lines and thus, in the bureaucratic context, each branch of industry's top-down chain of command. Under the 'Branches Dictate' formula, the Party Politburo would make the broad policy decisions at the top, and the major planning, financing and supervisory responsibilities would be centred in the national ministries and their regional branch offices, with directives flowing downward and outward to the localities.

Alternatively, at the other extreme, administration could be implemented through the organisational formula called 'Areas Dictate' (kuaikuai zhuanzheng). While the Politburo at the top again made the broad decisions, the Party committee of each region would hold direct responsibility over the multifaceted activities within its boundaries; and in turn, each lower Party committee would be responsible for all the decisions affecting its own smaller regional area.

Different types of officials had always preferred one or the other of these administrative systems. Under the Branches Dictate system, the day-to-day decisions in a ministry or bureau or branch office would be made by people whose authority was based on their administrative or technical expertise. To oversee these 'experts', people with Party credentials were placed in each bureau as political supervisors, as 'reds'. But they were in a bureaucratic milieu where either they were out of their depth or where, frequently, they adjusted and adopted as their own the priorities and values pertinent to their bureau's work.

Mao distrusted these political personnel and the Branch bureaucracies in which they had been submerged. He felt, apparently, that they had begun to regard orderly administration as a goal, which in effect would place them in opposition to the continued transformations of the economy and society that Mao so grandly and dogmatically envisioned. Mao and his closest followers instead preferred the Areas Dictate model, partly because it brought into play the strengths of 'reds' as reds. The Party has always been strong as a geographically defined authority: as a provincial committee or a county, city, commune, or village (production brigade) committee. Relinquishing a comprehensive range of responsibilities to an area meant that a Party committee rather than professional ministry functionaries – the 'reds' rather than the 'experts' – would establish the priorities and set the tone, would promulgate the local policy decisions and control and allocate the financing.

A Party committee, because it incorporates the powerbrokers who control the various spheres of local activity, has the capacity to co-ordinate across branches

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2 Throughout the 1970s the various US government translation series such as Survey of China Mainland Press and Selections from China Mainland Magazines tended to erroneously translate the phrase tiaotiao zhuanzheng as 'the dictatorship of rules and regulations', which often seriously distorted the meaning of the translated articles. Caveat emptor.
inside each given geographic area. Moreover, because of its direct political command over the various grass-roots Party committees, an Area-based Party committee is well positioned to initiate mass mobilisation and to manage the upsurges of political campaigns. In all this the Areas Dictate model of government differs markedly from the Branches Dictate model which, as a complex multi-layered bureaucracy of a type more familiar to the West, assumes routine administration and bureaucratically planned economic development.

While the Branches Dictate structure could provide a nationwide co-ordination of effort within a given industry/branch through its centrally integrated top-to-bottom linkages, it proved cumbersome in co-ordinating economic activities across branch/industry lines.\textsuperscript{3} Partly for that reason, administrators under Branches Dictate preferred to invest heavily in enormous factories. It was easier for a ministry to tightly control, from above, a relatively small number of massive plants – factory complexes that were large enough to control resources and undertake industrial processes that ordinarily would have lain within the domain of the local Area or another ministry.

In almost all ways, Branches Dictate was better suited than Areas Dictate to the operation of such large modern factories. That was particularly so with plants which needed inputs brought in from a distance, supplied national markets, required high technology with exact specifications, and handled complex industrial processes of a type that necessitated reams of precise regulations.

The Areas Dictate framework, by contrast, implied economic decentralisation set by the boundaries of the various geographic areas controlled by regional and local Party committees – for Areas Dictate faced administrative difficulties co-ordinating economic activities that traversed Area boundaries.\textsuperscript{4} To compensate for this shortcoming, the proponents of Areas Dictate sought to develop local economic systems that were ‘small but complete’. In China’s hinterlands, this implied the generation of projects using resources from within the immediate area, based upon locally financed small and medium-sized factories that required only intermediate technologies.

\textsuperscript{3} A Chinese economist has written, e.g., ‘When under Branches (tiao tiao) management, the departments each devise their own plans, separately send down orders and institute controls, and have no means to obtain comprehensive balances within the local areas. The conflicts that arise between departments adversely affect their co-ordination. Each draws back from unwanted responsibilities, leaving unattended a lot of the things that need to be done’. Liao Jili, ‘On the Question of Reforming Our Country’s System of Economic Management’, \textit{Jingji yanjiu} [Economic research], December 1978, p.26.

\textsuperscript{4} As one consequence, ‘Management by Areas (kuai kuai guan) fragments the links between districts. Goods from this district are not allowed to go to that district, and goods from that district are not allowed to come to this district. Each side raises protective barriers, damaging the various districts’ ability to import and export’. ibid., pp.26-27.
Each administrative framework, in short, entailed different types of economic priorities and different routes to industrial development. Branches Dictate became identified with economic development spurred on by large modern relatively capital-intensive factories; Areas Dictate, by contrast, became identified with up-from-the-bottom labour-intensive plants, locally initiated.

This is not to say that Areas Dictate favoured the development of light industry, particularly consumer-goods industries. Both the Areas Dictate and Branches Dictate frameworks equally favoured forced industrialisation through high rates of accumulation and emphases upon heavy industry. Both strategies, in short, deliberately depressed current living standards in order to give priority to capital investment in basic industry. The distinction between them was that in the periods when Areas Dictate predominated, the heavy-industrial plants that were thrown up tended to be smaller and more dispersed, in conformity with the constricted capacities of the ‘self-reliant’ Areas. A clear illustration could be found in the ‘five small industries’ – heavy small industry – that each county individually was supposed to develop during the ‘Maoist’-dominated era of the 1970s: namely, small iron and steel mills, cement plants, chemical fertiliser plants, electric power plants, and farm machinery factories.

Areas Dictate and Branches Dictate were distinguished not just by the size, technical sophistication, and location of industrial plants. Each administrative framework also implied a different type of enterprise control. An enterprise employing a ‘pure’ Branches Dictate formula, as in the Soviet Union, would have concentrated a large proportion of the day-to-day administrative power in the hands of the enterprise director who, again on the pattern of the Soviet tradition, would preferably be an experienced engineer. By contrast, in the Areas Dictate schema the enterprise director became a mere assistant to the enterprise’s Party secretary. Whereas under a Soviet-style Branches Dictate program the enterprise director would have resorted to economic levers such as piece rates, bonuses and fines to ensure that a complex series of production quotas were fulfilled on target, under Areas Dictate the enterprise Party committee was judged less rigidly in terms of meeting a gamut of quarterly and annual quotas, and thus had the leeway to pursue the Maoist ideological demand that work be encouraged instead by political study sessions and by the political pressures that accompanied such sessions. The followers of Mao could point proudly to Areas Dictate as facilitating ‘Politics in Command’, while disparaging the Branches Dictate framework as mechanically putting ‘Economics in Command’.

This is not to say that periods of Areas Dictate, such as the Great Leap Forward or the ‘ten years of Cultural Revolution’ were in any way periods of democratic ‘mass line’ or of mass participation in decision making (despite what some writers in the West would still have us believe). Quite to the contrary, the phrase ‘Politics in Command’ denoted, among other things, that top-down ideological and political controls were to be tightened, almost as if to offset the
degree of autonomy that the Areas were gaining in the economic sphere. The official demand during times of Areas Dictate was for ‘monolithic leadership’ (yiyuanhua lingdao), a term that connoted a more dictatorial political grip over both government bureaus and lower Party committees by Mao and the Party Central Committee in Beijing. In fact, one of the charges that the proponents of Areas Dictate levelled against the Branches Dictate system was that it was too decentralised, in the sense that ministries and bureaus normally had been too inclined to ignore the top Party commanders’ ‘monolithic leadership’ in pursuit of the ministries’ own interests and policies.5

All of the above is not simply my own interpretive gloss of the terms Areas Dictate and Branches Dictate. The Party leadership explicitly recognised that each of these two organisational frameworks comprised a ‘bundle’ of interrelated policies that meshed in the way that I have just outlined, and that each organisational bundle stood juxtaposed to the other in a fashion stark enough at times to conjure up that politically loaded term ‘a struggle between two lines’. Note, for example, the following criticism of the Branches Dictate administrative framework, drawn from a 1976 issue of Red Flag:

Branches Dictate resists the Party centre above it and suppresses the localities below it... Under Branches Dictate... we would only be concerned with economic expansion to the detriment of political advances; we would only pay attention to big enterprises and not to the medium-sized and small ones; we would be emphasising the foreign and slighting indigenous techniques; we would be stressing expertise and slighting the masses... With Branches Dictate, in order to make enterprises competitive, the enterprises internally would need to put ‘Profits in Command’ and to provide material incentives, necessitating a ‘single-director system’, ‘control of the enterprise by experts’, and systems of ‘controls, checks, and pressure’ over workers.6

The repeated clashes over industrial policy in China were, of course, much more complex than a simple ‘two-line struggle’ over which of the two frameworks would predominate. There were times, as shall be seen, when other

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5 An essay in the principal journal of the Gang of Four faction put these points explicitly: "Whether all work is united under the monolithic leadership of the Party or under the "unity" of Branches Dictate is essentially the key issue of whether we want Party leadership and the dictatorship of the proletariat... Each Branch forms a system on its own, monopolising the powers of command, and by doing so basically does away with the economic powers of the Party Central Committee and the local Party committees, pushing aside the monolithic leadership of the various levels of the Party... Vis à vis the Party centre, Branches Dictate practices "dispersionism", creating "many centres". See ‘Branches Dictate is Bourgeois Dictatorship’, Xuexi yu pipan [Study and criticism] (Shanghai), no.9 (September 1976), pp.10-11.

positions and other administrative frameworks were proposed and seriously debated. But there is considerable value in following China's own lead in viewing the sharp swings in Chinese administrative and economic policies in terms of a Branches/Areas dichotomy. It can, I think, help us to draw new insight into some of the basic patterns of Chinese economic and political affairs.

This paper will gallop through the early cycles of Branch and Area Dictation. It will more extensively examine the first half of the 1970s, pointing in particular to some of the constituencies that favoured the radical Maoist program of that period. The second half of the paper will be devoted to the present economic reform program, focusing in particular on the continuing role of Area and Branch interests. Taking Zhao Ziyang's lead, the paper will try to weigh the reforms in terms of their prospects for overcoming Area and Branch barriers.

Cyclic Shifts

If we are to view the history of the People's Republic under Mao's stewardship as a series of pendular swings between Branch and Area predominance, then the Branches quite clearly had dictated during the First Five-Year Plan of the 1950s. Subsequently, in the Great Leap Forward, power was decentralised into the hands of Party committees in an extreme form of Areas Dictate (as Franz Schurmann very clearly has shown, without labelling it as such).7 During the Great Leap Forward the provincial Party committees were given command over almost all facets of the regional economies, and in the process the central ministries' top-to-bottom Branch linkages were dramatically weakened. Moreover, under the command of the provincial Party committees, a system of rural communes was established that was quintessentially an Areas Dictate formulation: the communes were to co-ordinate all the activities of a local district under the direct, undivided, militarised control of a Party committee headquartered in the local market town.8


8 During the height of the Great Leap Forward, as G. William Skinner has shown, the commune's geographic expanse was extended far beyond the boundaries of a single local marketing district. But the Areas Dictate framework cannot operate effectively where the administrative Area does not conform geographically to logical economic contours. By 1960-61 the communes had, by necessity, been reduced in size to coincide with the boundaries of the local rural marketing community. G. William Skinner, 'Marketing and Social Structure in Rural China, Part III', Journal of Asian Studies, vol.24, no.3 (May 1965), pp.386-99. The communes would retain that shape throughout the next two decades.
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When the Great Leap Forward collapsed, the Branches regained many of their powers. It was not, however, a Branches Dictate administrative schema in any pure form: the enterprises' Party secretaries did not relinquish a substantial part of the power they had gained during the late 1950s and, moreover, many of the factories were left within the jurisdiction of the provincial and local authorities. But notwithstanding this, the Branches Dictate policy-making processes tended to predominate on matters that touched upon the core concerns of the ministries.

It was a situation that did not satisfy Liu Shaoqi and like-minded colleagues, however. The economic inefficiency of both Branches and Areas in co-ordinating across jurisdictional lines had, they felt, proven deleterious to development. Accordingly, Liu Shaoqi, Peng Zhen and others began engineering a major administrative shift that would have undermined the economic dictation of both Branches and Areas: trusts (tuolasi). The first significant effort in this direction commenced in 1964, when China's tractor industry was brought under a single trust,9 and plans were put in train to reshape another eleven industries into trusts.10

A trust is a merger of enterprises whose products are of the same type or a merger of companies which vertically feed each other with products. A tractor trust, for example, could control production and distribution from beginning to end, from the growing of rubber for the tyres through to the finished product and its marketing. In China, supplies normally have been cumbersome to produce, especially when they are produced under another economic ministry or region; and when the necessary parts do not arrive on time factories are forced to halt production. A signal advantage of trusts was their ability to control their own supplies. But quite unlike Areas Dictate, they would do so at the national level, and would put cost-efficiency managerial types in control of decisions, not Party reds and local apparatchiki.

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10 See Current Scene, op.cit., p.15. These industries included aluminium, automobiles, pharmaceuticals, salt and textiles. Preparations reportedly were under way to shift China's steel and petroleum sectors into trusts, too.
In this and other respects, the push toward trusts comprised a challenge to the gains that the Areas had made. The most obvious factor, of course, was that the various new trusts would be taking over the operations and revenues of a very large number of enterprises that had previously come under provincial and local control. Moreover, by controlling their own production and marketing systems from top to bottom, the trusts would be able to determine the destination of the finished products, thereby cutting the regions and local areas out of any say in the distribution of a range of vitally important commodities. A good example was Liu Shaoqi's plans to concentrate China's tractors in just a hundred conveniently located counties.\textsuperscript{11} To the proponents of Areas Dictate, the trusts of 1964-65 looked threateningly like a reassertion of centralised Branches Dictate-style controls.\textsuperscript{12}

Liu Shaoqi and the other advocates of trusts, however, were never able to fully implement their plans. The Cultural Revolution erupted in the first half of 1966 and swept away both them and their program. There is no evidence, however, that any disagreements over trusts helped spark the Cultural Revolution. But once underway, a radical momentum gathered that was devastating to both the trusts and Branches Dictate. A desire by Mao and those politically close to him to revert wholesale to an Areas Dictate strategy had become, by the end of the fighting in 1968, one of the larger issues settled by the Cultural Revolution.

That is to say, the Areas Dictate formula emerged triumphant from the upheaval, and China's frame of administration was very considerably revamped in 1969. The overall authority of the provincial level was increased, and most of the major factory complexes that had remained under the control of the ministries during the 1960s were transferred to the provinces or placed under 'dual control', which in the circumstances amounted to the same thing. In 1965, more than 10,000 factories, accounting for half of China's state-sector industrial output, had been under the direct and exclusive control of central ministries, but by 1971 only 140 of the very largest factory complexes remained in the ministries' hands.

Reinforcing this shift to Area control, within each and every urban work unit (in schools and hospitals as well as industrial enterprises) day-to-day administration was now centred in the so-called Revolutionary Committees. This mechanism displaced the work unit's director with a committee of 'reds', who now firmly occupied what previously had been predominantly the organisational sphere of the 'experts'. Moreover, as would be expected under Areas Dictate, the

\textsuperscript{11} See footnote 9.

\textsuperscript{12} A decade later, in 1976, articles in support of Areas Dictate explicitly referred to trusts as a tool of Branches Dictate, and accused Deng Xiaoping of looking kindly on trusts in the mid-1970s as a means to reassert central controls. See, e.g., \textit{RMRB}, 13 July 1976, p.2; \textit{RMRB}, 7 September 1976, p.2; and \textit{Xuexi yu pipan} no.9 (September 1976), p.11.
Revolutionary Committee was soon directly subordinated to the unit’s Party committee. With policy decisions determined by a Party committee that in turn looked to higher-level Area-based Party committees for guidance, the powers of many of the central ministries and planning bureaus were effectively crippled. Some, such as the national Ministry of Education, were abolished altogether and did not re-emerge until the mid-1970s.

Constituencies Favouring ‘Areas Dictate’, 1966-70

There were several important constituencies that benefited from the victory of Areas Dictate: various types of ‘reds’ who won out in their own units. Some of these ‘reds’ had taken an actively radical stance during the fighting of 1966-68: that is, had fought in a groping and half-conscious fashion to install an Area-style organisational environment conducive to Politics in Command. In particular, these had included cadres whose careers centred on ideological work and the running of campaigns. (This type of ‘red’ was exemplified by Wang Hongwen, later one of the Gang of Four, who had held a post, as of 1966, as a political-work and public-security cadre at a large Shanghai factory.)\(^\text{13}\) And it was not just in industry that such ‘reds’ were active in the Cultural Revolution. Other types of institutions were affected by parallel efforts to effect a shift from Branches Dictate to Areas Dictate. As one such example, an interviewee has described how, in the university department in which he taught, the political instructors (fudaoyuan) had always been somewhat at odds with the academic dean and the teaching staff. These political instructors were mostly demobilised political-indoctrination officers from the army. In the Cultural Revolution fighting of the mid- and late-1960s, they attacked and gained ascendancy over the academic deans, explicitly arguing that Branches Dictate had to be overthrown in favour of a system more attuned to ‘Politics in Command’. Within the university department, their rise to power meant a downgrading of expertise and the primacy of political studies (their own specialty) over academic studies.

A second group that generally gained from the victory of Areas Dictate were the blue-collar foremen and workshop chiefs. In factories around the world, blue-collar foremen and shop heads come into subtle and sometimes not so subtle friction with the white-collar engineers and technicians. Both of these groups – the foremen and the engineers/technicians – uncomfortably co-exist as the middle-level organisational linkages between top and bottom. But their

responsibilities, career patterns and priorities differ, as do their backgrounds, education, and social identities. In China's large factories, as is true elsewhere, the engineers had been the ones to give the orders when they were organised in special departments directly under the factory director. But in the late 1960s, after the Cultural Revolution, these technical departments were abolished in many factories. In marked contrast to the Branches Dictate system of one-person enterprise directorships, under which streams of directives had been transmitted downward through the branch-style chains-of-command of the firm's technical departments, the enterprise Party branch and Revolutionary Committee now instead sought to co-ordinate and mobilise the factory workshops. In most factories, in a 'flattening' of managerial channels, the so-called 'white bourgeois technicians' were placed under the management of the various workshops – under the control of the blue-collar shop heads and foremen. The bulk of the foremen and workshop heads had not allied themselves with the radicals in the Cultural Revolution fighting, but the Areas Dictate formula suited their interests. Interviews that I conducted in Hong Kong suggest that during the early 1970s they supported the strengthening of workshop powers and the subordination of the engineers and technicians.

It must be noted, though, that not all of the personnel with 'red' credentials had favoured the Areas Dictate framework, either during the Cultural Revolution fighting or afterwards. A vast number of administrative cadres were 'reds' in that they were Party members of good class backgrounds and had perhaps once served in the military; but a great many of them had gained branch-style administrative expertise through training and experience. They had, moreover, established old boys' networks inside their own units and within the bureaucracy above them, which would be threatened by any drastic shifts toward Areas Dictate. Large numbers of 'reds', in short, had been satisfied in their careers; had felt that their political credentials provided them with advantageous positions within the various levels of the Branches Dictate bureaucracy; and feared upsetting the apple cart.

In a great many work units during the Cultural Revolution conflict of 1966-68, this set of 'reds' came under attack from 'reds' who had been less well-served under Branches Dictate – in particular, as seen above, from 'reds' like Wang Hongwen and the university political instructors, who had been assigned to side-show functions in 'political work' and propaganda. These discontented 'political specialists' often were able to find allies within their own work unit among members of the younger generation of 'red' careerists. By the 1960s, with so many of the administrative positions already staffed by middle-aged 'reds' who had entered in the 1950s, many of the younger 'red' cadres were feeling frustrated by the paucity of new middle-level career openings. Their own chances for upward mobility would be furthered if a new administrative framework were introduced and if a great many of the 'reds' who had thrived under the Branches
Dictate framework were dismissed as politically retrograde. Just as the top Party leadership in Beijing was split between the ‘Maoists’ who desired a new Areas Dictate framework versus the leaders who had upheld the economic-political-administrative status quo, so too the lines became drawn (with less coherence and lower consciousness) in administrative organs and work units throughout the country.

The radical ‘Maoist’ leadership faction in Beijing was not able to find natural allies of Areas Dictate in every institutional sphere, however. To cite an example from the educational arena, in most of the urban primary schools, unlike the universities, there was no phalanx of political ‘reds’ wanting to capture authority. If in the wake of the national triumph of Areas Dictate in 1969, a straightforward Areas Dictate formula had been followed here, the same Party secretaries/school principals (usually one and the same person) who had carried out the pre-Cultural Revolution policies would simply have been placed back at the helm – with fewer administrative controls over them than before. The radical leadership’s initial solution of 1969-70, therefore, was to hold the ‘conservative’ professional proclivities of these school heads in check by placing the urban primary and secondary schools partly under the jurisdiction of the nearby factories. This was literally to be a policy of Areas Dictate; ‘red’ good-class workers would run the schools across branch lines, on the basis of a geographic/political jurisdiction defined by the industrial activity of each neighbourhood. (Since a single local factory was not normally large enough to take responsibility, control over a school often was shared by several small factories, or jointly by the factories and the local Neighbourhood Committee.) But by 1972-73, the system had proven unworkable; among other things, the factory managers and workers did not want the burden and were slowly withdrawing from active participation. Partly by default, the cities’ education offices had been able by the mid-1970s to move in and reassert branch-type controls over the schools, to the relief of a great many of the primary and secondary school Party secretaries–principals.14

Elite Leadership Struggles, 1970-76

The victors of the Cultural Revolution were less willing to concede the field in the various units or spheres of activity that were of any strategic political importance. The group around Mao – the group more recently dubbed the Gang of Four – was bound through factional ties to the tens of thousands of ambitious ‘reds’ who in their own work units had been catapulted into positions of

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influence by the Cultural Revolution and by the triumph of the new Areas Dictate order. In the struggle to succeed Mao, the Gang of Four faction needed at all costs to preserve the Areas Dictate administrative formula so as to safeguard the newly won power of their factional allies.

A competing group that in the late 1960s had gained from Areas Dictate was Lin Biao's military faction. Taking advantage of the vacuum that had been created by the temporary near-destruction of the ministries and civilian Party organs during the Cultural Revolution fighting, the military officers had been able, through Areas Dictate, to shift across Branch lines into the Party leadership and Revolutionary Committees of civilian units that were in the same geographic 'area' as a military headquarters or army camp. To be sure, not all of these officers were from the field-army units controlled by Lin Biao's faction within the PLA: some were from field armies or regional military commands whose loyalties lay elsewhere; and some, professional to the core, participated reluctantly and retreated back to the barracks when permitted. But the most politically ambitious of the military command networks, of which Lin Biao's was by far the most important, made concerted efforts to entrench themselves in the leadership of civilian organs throughout China. Through this effort, Lin Biao's followers ineluctably became caught in a contest for power against the civilian 'reds' at the factories and city governments, a contest that culminated in intense political jockeying during the selection of province-level Party Committees in 1970-71. This clash between the very different types of Area interests of the civilian beneficiaries of the Cultural Revolution and Lin Biao's faction in the military seems to have been one of the major reasons for the participation of the so-called Gang of Four in the coalition that blocked Lin Biao's ambitions at the Lushan conference of 1970, leading in turn to Lin Biao's untimely demise the following year.

In 1972 and again in 1975, as the veteran high-level Party cadres who were 'modernisers' returned to positions of power, they began pressing for a reversal in economic and administrative policies. They argued that the Areas Dictate scheme had been creating economic difficulties. Goods were no longer standardised across Area lines (and in fact, interviewees from the countryside complained in the mid-1970s that to obtain spare parts for their farm machinery peasants sometimes had to travel all the way to the manufacturer's factory gate). Just as bad, with the weakening of ministerial supervision and the destruction of the technical departments in factories the quality of products had declined. And with each Area going its own way, duplication of factories had become a severe problem. Demanding improved economic co-ordination through a reassertion of the Branch chains of command, the Branch system's advocates had begun pushing the slogan 'All of China is a single chessboard'.

Repeatedly during the three decades from the 1950s through the 1970s, the Branches Dictate and Areas Dictate programs had each in turn been undermined
by their separate inherent economic and administrative problems. In 1980 a
Chinese economist, looking back at these several decades of pendular swings,
noted 'a recurring cycle in which centralisation leads to rigidity, rigidity leads to
complaints, complaints lead to decentralisation, decentralisation leads to disorder,
and disorder leads back to centralisation'.

By the mid-1970s, the 'disorder' in the economy was providing the enemies
of Areas Dictate with an increasingly broader political base. The various
constituencies that the radical Gang of Four faction had hoped to attract – be it
the workers, the factory foremen, or the peasantry – were turning against the
radicals' programs. With living standards stagnant, the bulk of the ordinary
people wanted more Economics in Command and less Politics.

In 1975, Deng Xiaoping felt that the time was politically ripe to demand a
revamping of the economy. When Mao's followers subsequently moved early the
following year to purg him, one of the principal charges that they lodged against
Deng was that he had been attempting to enforce a return to Branch dictatorship.
And from these published attacks, this latest round of political tussles over
Branch vs Area supremacy seems to have centred on several major new
petrochemical and specialty steel complexes that were then under construction.
Petroleum and specialty steel are industries that require vast expenditure,
large and technically advanced plants, international purchases and technology
transfers, nation-wide distribution, etc. – in short, everything that lends itself to
centralised Branch controls.

Short-term political factors, though, seem also to have been central to Deng's
efforts in 1975 to install centralised controls over these particular enterprises. If
we may go by the charges that were published in People's Daily during mid-
1976, most of the new plants that the radicals had been publicly fighting to retain
under Areas Dictate were located in Liaoning and Shanghai, the radical Gang of
Four faction's two major provincial strongholds. Whoever succeeded in

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15 Jiang Yiwei, 'The Theory of an Enterprise-Based Economy', Social Sciences in China,

16 Evidence in the case of workers is provided by the worker strikes of 1974; in the case of
foremen, by interviews that I conducted during the mid-1970s in Hong Kong with former
foremen; and in the case of peasants, by interviews in the mid-1970s with former peasants.
On the last, see e.g., Anita Chan, Richard Madsen and Jonathan Unger, Chen Village

17 For example, see RMRB, 22 July 1976, p.1; GMRB, 15 August 1976, p.2; RMRB, 21 August
1976, p.3, and 22 August 1976, p.1. It should be noted, parenthetically, that the phrase
'Branches Dictate' (tiaotiao zhuanzheng) appears in the title of all but one of these articles.

18 Every one of the citations listed in note 17 refers to projects in Liaoning or Shanghai. Also
Hongqi, September 1976, p.28.
‘dictating’ here would have a hand in determining the allocations of large quantities of high-grade steel, petrochemical fertilisers, plastics, etc., all of which were in very short supply. In China, controlling and strategically doing out scarce economic inputs has been a major administrative technique for erecting and reinforcing patronage linkages. In the coming showdown to succeed Mao, both sides apparently considered the control of such patronage networks valuable enough to warrant close attention.

In terms of political strategy it seems, however, that Deng Xiaoping’s concern was not just to capture control of strategic resources in the Gang of Four faction’s bailiwick. Since he could rely upon the support of most of the ‘veteran cadres’ in the leadership of the industrial ministries, any overall shifts in the power balance toward ministerial branch controls generally would strengthen his hand in the succession struggle. The Gang of Four faction seems to have been engaged in a parallel type of political manoeuvring. At the same time that they were resisting the efforts to reassert branch controls, there is evidence that they were doing so selectively – all the while supporting branch dictation by the ministries which their own allies controlled.19

This aspect of the Branches/Areas tussle is not unique to China, but is also common to the political infighting of other socialist states such as the Soviet Union. Top leaders in Russia, more so than in China, have manoeuvred to strengthen their own power base by variously favouring Branch or Area administration, and consequently Soviet political history, much as in China, has witnessed repeated ebbs and flows in the comparative strengths of Branch and Area organisational power.

The Party organisation in Russia, as in China, has been strongest at the regional level, where it was rather well prepared to intervene in economic administration. The regional Party organisations had accumulated additional powers during the Russian collectivisation campaigns of the late 1920s, and they subsequently employed this power at regional level to contest the emerging economic power of the central ministries, which were more firmly in Stalin’s grip. When Stalin carried out the Purge, he particularly decimated these regional

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19 In early 1977, shortly after the radicals were overthrown, China’s leading newspaper explicitly claimed that the Gang of Four faction had been seeking to bolster its political strongholds regardless of whether that entailed Branches Dictate or Areas Dictate. ‘Those central ministries that were under the control of the Gang of Four...disobeyed the Party Central Committee’s orders, never consulted with other departments, and refused to accept suggestions from local authorities. In these ministries they [the Gang of Four faction] pushed Branches Dictate (tiaotiao zhuansheng) quite ferociously. On the other hand, the regional areas under their control opposed the Party Central Committee over all possible issues, disregarded directives from the centre, and built up independent kingdoms’. *RMRB*, 23 January 1977, p.1.
Party organisations. By contrast, in the mid-1950s Khrushchev’s organisational strength centred on his post of Party secretary, and he accordingly moved to restrengthen the Party in 1957 by expanding regional control at the expense of the ministerial branch-of-industry organisations. When, having captured other sources of organisational backing, Khrushchev in 1962 sought to re-clip the Party’s wings, he did so by reconstituting branch-of-industry central state committees. Thereby:

- the critical obkom [provincial] level of the Party became essentially transmission belts devoid of truly significant policy-making or control powers... The centralisation of authority made the state bureaucracy more powerful at the expense of the Party... At the enterprise level the experts were typically likely to be victorious over the ideologists in disputes and conflicts.20

As in China, when provincial Party power declined, both the ministries and the professional managerial staff at enterprise level stood to gain.

**Local Power in the Reform Era, 1977-87**

When Mao died in the autumn of 1976 and the radicals were ousted, many of the constituent elements of the Areas Dictate program of the past decade began to be withdrawn. Revolutionary Committees were abandoned, and inside the factories the director’s authority was increased. Engineers and technicians were regrouped into technical departments and regained their administrative responsibilities. Throughout the economic system, intermediate administrative levels began to be re-established so as to strengthen the vertical chains of command. As just one example, it was announced in 1978 that the six economic regions into which China had been divided before the Cultural Revolution, interposed between the national capital and the provinces (that is, below the ministries in Beijing but beyond interference from provincial Party committees), would soon be re-established. In the end, however, the six regions were *not* re-established: for China did not continue the return toward a system of Branches Dictate.

In late 1978 China’s present leaders gained a majority in the Politburo – and rapidly began to seek alternatives to both Branches and Areas. They felt that if they genuinely wanted to give priority to economic development and modernisation, it would be necessary to grapple in dramatically new ways with the rigidities and inefficiencies that are built into all socialist command economies. To this end, though, they did not look back to the program of ‘trusts’ of the mid-1960s. For one thing, China’s new leadership was perturbed about the

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proverbial problem, in Eastern Europe and China alike, that an enterprise often produces shoddy goods at high cost because it is rewarded for fulfilling production quotas, not for getting its goods actually sold. In China it is a problem common to both Branch and Area management – and a problem that a bureaucratic ‘trust’ structure equally would encounter.

Instead, as is well known, the new reform leadership became inclined toward mildly market-socialist ideas – inclined toward letting the enterprise dictate, in the place of Area and Branch. China’s reformers have proposed making the enterprise responsible for its own profits and losses, so that it will have to worry about getting saleable goods produced efficiently. They have proposed letting the enterprise have greater powers over its own payroll and investments, with a right to fire workers so that it will use only the labour it really needs; giving the factory managers control of a wage incentive fund drawn in part from a share of the factory’s profits, so that the workers will have a greater reason to work harder and a vested interest in their plant’s profitability; and giving priority to the development of consumer-goods industries, so that both workers and peasants will have something on which to spend their earnings.

These proposals have been adequately discussed elsewhere. What is of concern here is how this reform program may have been affected in practice by the interplay of Area and Branch interests and strengths.

As of 1978-79, the advocates of reform were faced with an all-important fact: that despite the rebuilding of Branch structures, regional and local authorities retained considerable control over much of China’s industry (especially light industry) and over most marketing transactions. As Christine Wong, who has done considerable research on this, notes, ‘by 1978 the decentralisation of the Chinese economy was virtually irreversible. Having given up major portions of material and financial resources to local control, the central government’s options for reforming the economy were limited to programs acceptable to local governments.’

It appears that the local authorities did eventually support most of the reforms that have been implemented thus far – for a very good reason. They have been well positioned to turn the new rules of the game to their own advantage. As central reins were loosened under the reforms, as will be seen, power has flowed not so much into the hands of enterprise directors per se but rather into the grasp of the local governments.


22 Several of the most informative English-language secondary sources that have a bearing on this topic are Christine Wong, op.cit.; Susan Shirk, 'The Politics of Industrial Reform', Barry Naughton, 'Financial Reforms in China’s Industrial System', and Christine Wong,
In several important respects, however, this is not simply some new variety of Areas Dictate. For one thing, from the late 1970s onward, the central authorities have made a concerted effort to separate Party committees from direct government administration. This has been witnessed, for example, in the dissolution of the rural communes, which combined government and Party organisations, and their displacement by local xiang (township) administrations. The Party is supposed to take a back seat, unlike the previous periods in which Areas Dictate had prevailed, when the national Party leadership had pressured local Party committees to act assertively. In reality, local Party leaders have not willingly relinquished their power, and they remain almost everywhere in positions of control; but nonetheless there is a palpable difference between the 1970s and today in the local Party leaderships' exercise of power. Bending to the new political climate, local leaders currently are inclined to accentuate their roles as government administrators rather than flaunt their Party hats. They are inclined to gauge success more strictly in terms of economic growth, no longer preoccupied with trying to mount political campaigns to the satisfaction of Party superiors.

The new administrative balance also differs from that of Areas Dictate in that it has been the city and county-town administrations which have gained in power, more so than the provincial level. This was partly a deliberate outcome of the national leadership's promulgation in 1979 of a Local Organic Law that at once was supposed to broaden the authority of local administrations and weaken the next-higher levels' ability to interfere. But there was also a much more important reason for the growth in the clout of local administrations. It is at the level of the cities, counties and townships that most of China's light industry is owned, and this sector of industry has profited most from the reforms. Centrally administered prices are skewed in China in a fashion that has tended to provide high profits to light industry, in particular the consumer-goods industries (at least during the early years of the reforms), and low profits to most heavy industry. It is precisely this low-profit heavy industry that comprises the bulk of the enterprises owned and controlled by the national ministries and provincial

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24 Jingji guanli [Economic management], no.7, 1987, pp.4-6, shows a steady decline in light industrial profits over the past half decade.
administrations; these latter levels have been disadvantaged compared to the localities.

More than that, from the very start of the reform programs the city and county-town administrators established effective mechanisms to retain control over the bulk of the funds generated under the new systems of profit retention and of profit contracts for enterprises (introduced in 1979 and 1981 respectively). Just one of the means by which they kept a grip on these revenues was by transforming sections of the municipal industrial bureaus into new 'corporations' (gongsì) that sat directly above the factories,25 on the premise that production and investments needed to be co-ordinated and rationalised. In many cases these municipal 'corporations', not the factories per se, were designated as the 'enterprises' that would retain the profits. In these circumstances the localities, which were given the responsibility to oversee the apportioning of profits between the enterprises and the central government, held a vested interest in conniving to let the enterprises retain more than their due share.

The net effect of the profit-retention scheme, thus, was to fill the coffers of the local administrations at the very same time that the higher levels of government (in particular the national budget) were becoming strapped for funds. By 1983, the national government had responded by imposing a direct profits tax on enterprises. But with the skewed price system, the new tax package had to provide room for firm-specific adjustments to the tax. This, in turn, left the door open for localities and enterprises to continue to manoeuvre to protect the bulk of their profits.

With so much revenue retained in the hands of local governments, from the early stages of the reforms onward the centre began losing its hold over capital investments. The planners in Beijing had stressed that the crucial sectors for new capital investments were to be rail transport and energy production. Neither of those sectors has received the funding promised. Instead, the local areas, eager to tap the high profits that light industry can generate, have used the funds that they have captured to establish new industrial plants without regard for the investment

25 In 1982 the reformers foolishly encouraged the cities to do this, hoping to create an instrument for controlling enterprises that would be a step away from both Branches Dictate and Areas Dictate. But in actual practice the local Area governments ensured that these 'corporations' served the same ends as the municipal industrial bureaus they displaced. To quote a recent Chinese article, 'in the cities bureaus have been transformed into corporations, but this amounts to no more than hanging up an extra signboard, and economic activity is still controlled by the [local] governments according to long-established habits'. Xinhua wenzhai [New China digest], no.4, 1986, in Inside China Mainland, September 1986, p.2.
activities of other localities. 26 This splurge in new local investments was a major contributor to a run-away upward surge in industrial production of 23.4 per cent in 1985. One consequence of this hyper-investment has been an incredible duplication of plants, many of them abysmally inefficient. 27

Economic balkanisation somewhat reminiscent of the Areas Dictate era of the 1970s has resulted. With excess capacity, the profitability of the local plants has been put at risk; accordingly, many of the local areas have sought to guarantee a market for their plants' goods by establishing protectionist barriers against the import of consumer items from other Areas. 28 At the very same time, some of the local Areas have sought to assure that their own plants are supplied with the inputs they need by keeping within their own area's borders any local raw materials that might be in short supply, rather than let them fall into the hands of nationally owned enterprises or the enterprises of other areas. Thus, inefficient local plants have often been procuring their supplies at the expense of the larger, more modern and more efficient plants.

These problems have been exacerbated by the central government's efforts to decentralise banking operations, with a consequent loss of control over bank loans. Alongside this, reform measures have been enacted to allow market demand to determine the prices of an increasing number of commodities, which under conditions of scarcity and hyper-investment simply drove prices sharply

26 Even early in the reform era, Xue Muqiao, one of the major engineers of China's economic reforms, was observing: 'With financial power delegated to the various levels of government, they want to increase their revenue. To this end, they have to set up and run more factories. Thus, while the higher authorities want to narrow the economic construction front, the lower levels are trying to expand it. There are almost 1,000 municipalities and counties wishing to produce refrigerators, electric fans, washing machines, recorders and many other products this year... To obtain higher revenues the administrative units are bound to interfere with the enterprises' economic activities, not only to make the enterprise realize more profits but also to gain a greater share of the profits for themselves. Whether this interference damages the organic linkage and balance of the national economy is not their concern'. RMRB, 10 June 1980, p.5; in English in FBIS, 25 June 1980, p.L13. See also FBIS, 28 May 1986, p.K27.

27 For some startling examples see GMRB, 25 October 1980, p.4.

28 There have even been murmurs of support for this economic 'localisation' among some economists at the centre, who have expressed concern that if a unified national market were forced through from above, enterprises in the less developed regions of China, which produce lower quality products using less efficient methods of production, would quickly be forced out of business by the more modern enterprises of cities like Shanghai; ergo 'the division of markets in many areas and the regional barriers contain elements of "justified defense"'. Jingji yanjiu, no.2, 20 February 1986, pp.3-11; in English in US Joint Publication Research Service, China Report: Economic Affairs (hereafter JPRS), 86-068, 9 June 1986, p.14.
upward. The adverse effects of this easing of loan and pricing policies, coupled to the difficulties directly caused by Area control, have placed the more 'conservative' leaders in Beijing in a strong position to demand a reassertion of 'guided planning' from above and a restrengthening of Branch controls. Beginning in 1981-82, the speeches of such leaders revived the slogan 'All of China is a single chessboard'.

It should be noted, however, that these so-called economic conservatives – top leaders such as Chen Yun, Hu Qiaomu, Li Xiannian and Li Peng – do not favour a return to Branches Dictate. The present-day 'conservatives' and the reformers have been largely in agreement on economic policy. They agree that the economy should, in the long term, be restructured in a manner that allows enterprises the freedom to operate on a more competitive and cost-conscious basis. They agree that consumer-goods industries should be promoted, and that crass 'consumeristic' attitudes should not. But the more conservative leaders have shown greater concern than the reformers about national budget deficits and about 'chaos' in the economy. They have shown greater concern, too, about the opportunities for corruption that have accompanied economic liberalisation. Whatever their agreements with the reformers over long-term goals, their prescriptions for policy in the short term have repeatedly diverged. In worried tones, they have emphasised the immediate need for recapturing command over a wayward economy by temporarily restrengthening top-down central controls over investment plans, over raw material supplies, over bank loans, and over the behaviour of industrial management.

In their demand that local prerogatives be cut back, they have been able to count on the backing of several of the most powerful of the central bureaus. The Finance Ministry, responsible for annually balancing the national budget, has been openly anxious from the early 1980s onward to recapture more direct controls over enterprise profits. So too, for obvious reasons, the State Bureau of Materials Supply has wanted to recapture greater central control over the allocations of key industrial inputs. Likewise, some of the heavy industrial ministries have been persistent advocates of recentralised administrative controls: their own enterprises, after all, have been caught short by the diversion of raw materials to local plants; and the shortfalls in national revenues have been cutting into their investment plans. At the beginning of the reform period, the interests of heavy industry had been articulated by the so-called 'petroleum faction' headed by Yu Qiuli; and when that group of leaders faded in influence in 1980, the heavy industrial ministries largely threw their weight behind Chen Yun and the other

present-day ‘conservatives’. In the face of runaway investment and mounting threats of inflation in 1980, this coalition of leaders and organisations won a temporary pull-back in 1981-82 from the deregulatory and decentralising aspects of the reforms, and have won more muted ‘readjustments’ to the reforms several times in the years since.

Whilst the impulse of the conservatives has been to re-tighten administrative controls, the leading proponents of continued economic reform, including Deng Xiaoping, Zhao Ziyang and (until his ouster in early 1987) Hu Yaobang, have tended to argue, by contrast, for further decentralisation to remedy the economy’s troubles. Their hope is that, by advancing rather than sounding a retreat in the face of the economic difficulties, and by gradually putting enough of the reforms’ props into place, they can eventually create a network of mechanisms strong enough on its own to control economic behaviour. Their hope, in short, is eventually to shape a market-regulated socialism that largely would require government intervention only at the macro-level, through fiscal and monetary levers (rather than, as at present, through direct administrative controls over enterprises).

The reform leaders do not want to give too much independence to the enterprises, however, for fear that the firms will pursue the narrow self-interests of their staff to the detriment of national interests. (Such fears seem well-grounded; to date, when given the chance, enterprise managers have shown themselves paternalistically prone to award bulging bonus packages to workers and staff, far in excess of any rises in their firm’s productivity.) What the reform leadership wants is to grant just enough autonomy to the enterprises to enable them to face the market as competitive economic actors, and absolutely no more autonomy than that.

After each period of retrenchment the reform leadership has been able to inch forward again in its effort to somehow reach that goal. But whilst very sizeable constituencies in the government variously favour either greater central administrative controls or the status quo of partial economic decentralisation into the hands of local authorities, there do not appear to be any sizeable blocs or interest groups that could be relied upon to support the reformers’ plans to give the enterprises greater, albeit limited, independence.

30 Heavy industry’s support of the ‘conservatives’ is largely a marriage of convenience, however: for as has been noted, the top conservative leaders generally agree with the reformers in favouring light industrial development over heavy industry. For more on this, see Dorothy J. Solinger, 'The Fifth National People’s Congress and the Process of Policy Making: Reform, Readjustment, and the Opposition', Asian Survey, vol.22, no.12 (December 1982), pp.1238-75.

31 In English see, e.g., Liu Guoguang (a leading representative of the older generation of pro-reform Establishment economists) in Beijing Review, no.19 (12 May 1986), p.21.
One might have expected, for instance, that a very substantial number of the managers of urban firms would look favourably upon proposals to loosen the thums of the local authorities and ministries. There are obviously some managers who would prefer greater freedom of operation; the Chinese news media in 1986 carried a rash of articles defending energetic reform-minded managers who had been wrongly punished by the bureaus above them for insubordination and 'cutting corners'. But the evidence from China clearly suggests that such managers are the exception – that in fact, the majority of plant managers fear having to operate more independently as manufacturers, and instead would far prefer to continue to rely on negotiating with their superiors in the bureaucracy. Joseph Berliner finds this same preference in Russia, where factory managers are trained engineers; all the more so in China, where most factory directors are wai hang: lacking the training for their positions. To cite just one example, a foreman from a Tianjin clothing factory has described to me the performance and background of his own enterprise's manager. The man knows little about garment manufacturing and does not care to know. He spends much of his time outside the plant shuttling between meetings within the buildings of the city's clothing bureau/corporation, where he is well-connected with his superiors. He is, in fact, part of an old boys' network of men who were recruited into Tianjin's clothing bureau out of the same army corps. The reforms that threw greater authority into the city government's hands have been to the benefit of this manager. The more discretion that his local superiors enjoy, the more comfortably positioned he is to bargain for favourable terms on the levels of production and profits that will be deemed a 'success' for his enterprise. His ability to obtain advantageous rulings on such matters has remained as important as, or even more important than, increasing the enterprise's internal efficiency in production. Whilst such enterprise managers and the local Area authorities alike have favoured the bulk of the economic reforms to date, it can be presumed that they would adamantly oppose most forms of further decentralisation.

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32 To quote Berliner, Soviet enterprise managers 'are quite content in principle with a system in which they are told by someone else what to produce and where someone else has the responsibility for providing them with the inputs they require. It is doubtful that they would see much virtue in a system that required them to take the risks of guessing what unspecified customers would be willing to buy from them and that permitted other enterprises to steal away their customers'. J. Berliner, 'Planning and Management', in Abram Bergson and Herbert S. Levine (eds), The Soviet Economy: Toward the Year 2000 (George Allen & Unwin, London, 1983), p.382.
Reform Stratagems and Core Cities

The leading political proponents of further economic reform appear reluctant to push proposals that would arouse the open opposition of all of China’s local administrations. As seen earlier regarding both the USSR and China, top leaders in the past have played regions off against ministries and vice versa; but it has never been politically strategic to play directly against the interests of both Branches and Areas simultaneously.

Instead, China’s reformers have tried to restructure the size and shape of local Areas in a way that would make more sense economically and would garner the support of the most important local Area administrations – the major cities. Their idea has been to strengthen the economic and administrative influence of the big cities vis-à-vis the rest of China. In exchange for boosting the major urban governments in this way, the reformers hope to win their cooperation in revamping, in turn, the cities’ administrative hold over enterprises.

In keeping with this new tack, in the mid-1980s the top reform leadership saw to it that a fair number of the large urban industrial plants that remained in upper-level hands were transferred to the major urban administrations.\(^\text{33}\) Zhao Ziyang has been explicit in laying out the reformers’ strategy:

...the original thinking for reform is to hand over the centrally and provincially-owned enterprises to the core cities [zhongxin chengshi], and then solve the question of how the core cities should exercise leadership over the enterprises.\(^\text{34}\)

The sway of the core cities has been expanded not just through the transfer of enterprises but also – and perhaps more importantly – by redrawing Area administrative boundaries so as to bring adjoining rural counties and prefectures within the economic orbits of the metropolises. Industrialised Liaoning Province provides a dramatic example of this effort: by 1983, 33 of the province’s 48 counties had been brought directly under the jurisdiction of ten cities.\(^\text{35}\) By the end of 1985, fully 27 per cent of China’s counties, accounting for 44 per cent of the nation’s agricultural production, had been placed under the administrative

\(^{33}\) I have not been able to discover the extent of the handovers, but the available evidence suggests that this shift began in 1984 and is ongoing. For example, as of mid-1986 in Shanxi Province, "Two years ago we transferred a number of enterprises to core cities; and another group of enterprises will be transferred down there before too long". Shanxi ribao [Shanxi Daily], 22 August 1986, in JPRS, 86-116, 4 November 1986, p.34.

\(^{34}\) Wenzhai bao [Digest news], 4 September 1986, p.1. Also see a long speech by Zhao Ziyang on this subject, translated in JPRS, 86-111, 17 October 1986, pp.13-21.

direction of cities.\textsuperscript{36} The idea has been to erase the miniature rural Area satrapies that had previously interfered with free commerce; under the new arrangement, the industrial cities were to become the hubs of regional development, unimpeded by the skeins of local administrative barriers. This weakening of county-level Area boundaries could be accomplished without arousing much political opposition because the major urban administrations are the clear beneficiaries—and they count far more on the political scene than do rural county cadres.

In early 1983, in a separate important effort to strengthen the economic role of the core cities, the reformers pushed through the State Council a measure granting ‘province-level economic management jurisdiction’ to seven core cities—namely, Chongqing, Wuhan, Shenyang, Dalian, Canton, Harbin, and Xian.\textsuperscript{37} That is, the industrial and commercial sectors of these seven cities have been removed from the oversight and interference of the economic bureaus of the provinces. But it remains to be seen what actual effect this measure will have. On the face of it the State Council seems to have evolved an unstable compromise measure, given that these seven cities remain politically under the umbrella of the provinces. In the past, the cities that were given province-level powers—Beijing, Shanghai and Tianjin—were granted these in both the political and economic arenas, a much more administratively coherent arrangement.

The moves to grant greater economic independence to the core cities are related to an effort to have them serve as the hubs of commercial systems that transcend provincial boundaries. Beijing in 1983 announced a program to create massive regional economic zones. As just one example, the establishment of a Yangtze Delta zone centring on Shanghai was to incorporate 10 cities and 57 counties in Jiangsu and Zhejiang Provinces.\textsuperscript{38} Similar economic zones were promoted for other parts of China, likewise centred on core cities.\textsuperscript{39} The scheme


\textsuperscript{37} \textit{RMRB}, 21 September 1985, p.1. As of 1987, two additional cities—Qingdao and Ningbo—have been granted the same status.

\textsuperscript{38} \textit{Beijing Review}, no.41 (10 October 1983), p.26. The zone subsequently was expanded to include all of Jiangsu, Zhejiang, Anhui and Jiangxi Provinces, centred as before on Shanghai. To strengthen the economic zones, they come directly under the jurisdiction of the State Council.

\textsuperscript{39} These are to include (the following is an incomplete list) a North-eastern Economic Zone centring on Dalian and Shenyang; a zone centring on the energy production bases of Shanxi; a Beijing-Tianjin-Tangshan economic zone; an overlapping Bohai Gulf zone centred on a ‘city group’ comprising Tianjin, Dalian, Qingdao and a half-dozen lesser cities; a middle-Yangtze commercial zone centring on Wuhan; a small Pearl River Delta zone centring on Canton; a Huaihai zone covering parts of Jiangsu, Anhui, Henan and Shandong Provinces; and a rather odd South-western Economic Zone that is somehow supposed to incorporate
eminently makes sense; its intent is to reorganise China’s current structure of Area jurisdictions into one of super-Areas that would loosely correspond to the commercial macro-regions that G. William Skinner has charted for late imperial China. The hope was that these several macro-regions would serve as the natural building blocks for the creation of a nationally integrated ‘commodity economy’. But the government was quickly disappointed in its plans to grant important co-ordinating functions to such economic zones. The crux of the problem (if I am correct in reading between the lines of Chinese media reports) is that the scheme ultimately has pitted the expansionist interests of the core cities against the proprietary administrative interests of the provinces and medium-sized cities – without first adequately weakening the latter units’ powers and prerogatives.

The effort to establish these economic zones is still under way. But perhaps in light of the constraints that have already been encountered against the effective development of the zones, the reformers have begun to put far greater stress on a more modest mechanism called ‘lateral linkages’ (hengxiang lianxii). These are supposed to be ‘voluntarily’ implemented at the level of enterprises rather than between Area administrations. The reform faction had been pushing such ‘linkages’ since 1979, but first started giving the idea major play in late 1985. Premier Zhao Ziyang in January 1986 formally declared the expansion of ‘lateral linkages’ one of the four major goals for 1986, and in March 1986 he devoted the bulk of his speech at the first National Conference on Urban Economic Reforms (from which this paper’s opening quote by Zhao was drawn) to arguing the vital importance of ‘lateral linkages’ as a means of circumventing the commercial barriers set by Area and Branch power.

In particular, under these ‘lateral linkages’ large modern concerns in the core industrial cities are supposed to ‘link up’ with smaller, less modern enterprises in the hinterlands, providing the latter with technical know-how, etc. They are to do so in a way that normally would tie the smaller firm to the large core firm’s own industrial production – say, as sub-contractors. Through this indirect means, the

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core cities are supposed to be able to shape new economic networks that transcend Area boundaries\textsuperscript{43} – at times, across the breadth of China.

The potential advantages to the governments of the major cities are obvious: by entering into such linkages with units that extract and process raw materials, the cities can assure their own sources of supply; for labour-intensive manufacturing processes they gain access, at a distance, to cheaper labour than their own enterprises can provide; and they increase the centrality of their city’s economic and administrative importance by incorporating enterprises in the hinterlands within their city’s own industrial orbit.

At the same time, according to the reformers’ speeches and essays, the ‘lateral linkages’ program is supposed to provide a payoff for the administrative organs of the outlying districts. Through the scheme, their relatively backward and inefficient enterprises are granted an opportunity to obtain improved product designs from the more advanced urban plants; as part of the urban plants’ production chain, the local plants are supposed to gain a secure market for their products outside their own Area’s limited boundaries; and through all this, the profits that the local Areas are supposed to gain for their own use are supposed to grow. This last became the main selling point of the ‘linkages’ scheme. In exchange for a loss in their economic autonomy and in their control over enterprises, the local authorities were to secure an even better flow of revenues.

One of China’s national dailies recently put this point bluntly:

So far as the departments or local governments are concerned, so long as the enterprises that belong to them can guarantee that they will pass the expected revenues upward to them, it does not matter to them with whom they [the enterprises] create linkages... If we want to push a high degree of linkage, it becomes necessary to find a path that will be in the mutual interests of both the enterprise and the locality.\textsuperscript{44}

In short, the new program would have to contain sufficient inducements to buy off the local administrations.

The State Council therefore sweetened the terms for ‘linkages’ in 1986. In addition to the vague promises of greater profits, it was decreed that bank loans would more easily be made available to ‘linked’ firms, that tax reductions would be granted for five years on profits earned through partnerships reaching out to

\textsuperscript{43} The city of Tianjin, for example, claims that in a recent push to establish ‘lateral linkages’ it has ‘strengthened Tianjin’s power of absorption and its radiating influence in a way beneficial to its function as a core city; it has broken through the lack of separation of administrative organs and enterprises [zheng qi bufen] and has broken through, too, the [economic/administrative] divisions engendered by the Area and Branch systems of management [tiao kuai fenge de guanli tizhi]’. RMRB, 19 March 1986, p.1.

\textsuperscript{44} GMRB, 26 April 1986, p.3.
the poorer parts of China’s hinterlands, and finally, that outright subsidies would be made available to the enterprises involved in such linkages.

The hope of the leading reformers (and the State Planning Commission) is to create new nexes of control by way of the new linked-enterprise groupings; and then to get a strong handle on the behaviour of the new large conglomerations from the very top through fiscal levers. The reformers want to use the core-city governments as a loose check against excessive enterprise autonomy, but not as an administrative stranglehold that would undermine the central use of such fiscal controls. As an editorial in People’s Daily noted in mid-1986, ‘The core cities shoulder a responsibility to liberate their enterprises... [Otherwise] the transfer downward of enterprises from the possession of higher-level government bodies [into the core cities’ hands] will only be a transfer from Branches Dictate to Areas Dictate.’

Accordingly, in exchange for allowing the core cities to expand their economic influence on favourable terms, the central authorities strongly pressed them in 1986 to disband the bureaucratic ‘corporations’ that have been sitting atop the enterprises. Various cities have announced that they have complied; Shanghai, for example, supposedly had abolished most of its corporations by the end of 1986. But it remains an open question whether direct administrative and financial control of the factories has actually been relinquished or whether, instead, it strongly persists in many cities under a different guise. Some of the cities, for instance, have been accused of concocting systems of ‘lateral linkages’ among city-owned enterprises that are nothing but the old bureaucratic ‘corporations’ under a new title.

It remains questionable, too, whether most of the authorities of the peripheral Areas are amenable to the expansion of the ‘lateral linkages’. Distinctions must be drawn here. The impression that I gain from the Chinese press is that the officialdom of the most remote and poorest districts of China generally are well

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47 A 1986 editorial in People’s Daily has described the scheme in precisely this way: ‘With large enterprises as the backbone of the linkages, and utilising the large enterprises’ technological strengths and managerial experience to carry along the ordinary enterprises, it will become possible to create large enterprise groupings on a national scale... The state, by controlling this limited number of large enterprise groupings, will basically be able to control the economic situation – achieving an invigorated micro [enterprise] level coupled to macro-level controls’. RMRB, 19 May 1986, p.1.
48 RMRB, 8 August 1986, p.1. Zhao Ziyang has personally pushed this point: ‘It is essential to change the former method of administrative bureaus running enterprises; the enterprises that are handed over must not be put under managerial bureaus in a way that just perpetuates Area and Branch divisions (tiao kuai fenge)’. Wenzhai bao, 4 September 1986, p.1.
disposed toward such ties (such districts, after all, are in desperate need of investment capital, and moreover do not have industrial bases already in place to jealously protect). So, too, the authorities of areas next door to industrial cities apparently are well disposed. This should not surprise us, since the industrial development of such peri-urban districts has largely depended upon sub-contracting ties to urban firms for the past two decades and more. But the authorities of a great many other locales (and of the branch administrations as well) thus far have tended to resist any 'lateral linkages' that would put their own firms under the influence of more powerful areas. Notwithstanding the arguments of the central government about voluntary participation, mutual benefits and the safeguarding of profits, Chinese newspapers admit today that very large numbers of local administrators believe (probably correctly) that local interests would be eroded and the local grip on profits irredeemably weakened.49 Yet again, a reform program is foundering on the shoals of administrative resistance.

Branches, Areas and Political Reform

The leading economic reformers have been discouraged by the succession of failed economic reform plans. Among other things, they are convinced that the reforms have been set back repeatedly by the obstructive administrative responses of middle-level authorities. Accordingly, within the past couple of years the reform camp has begun stressing, in tones of frustration, that 'Economic reform depends upon political reform'. Different members of the reform camp have had very different solutions in mind, however. Most of the leaders who are identified with economic reform have argued for modest reforms to the political system: further measures to separate local Party guidance from local government; the installation of younger and better-trained administrative cadres; etc. Others in the reform camp have argued, quite differently, in favour of a more pluralist political system, with attendant individual freedoms.

This latter group, most heavily represented by Party intellectuals in the Academy of Social Sciences, generally has been more concerned with political liberties *per se* than with improvements in economic efficiency; for them, the real

49 For example, 'Some areas and departments, accustomed to old management methods, only allow the enterprises to forge ties within their own area or department; they are afraid that linkages spanning different areas, departments, and trades will result in taking the enterprises away, while their own powers are diminished and their own interests are uncared for'. From 'Some Provincial Party Committee Secretaries and Governors Point Out that There are Great Obstacles to Lateral Linkages', *Xi’an xibei xinzibao* [Xian north-west news], 16 June 1986, in FBIS, 27 June 1986, p.K30. See also FBIS, 21 July 1986, p.T4. On this topic, also see *Gongren ribao* [Workers’ Daily], 23 November 1987, p.3.
issue is that **genuine political reform will depend upon economic decentralisation**, not the other way round.

These political liberals are profoundly antagonistic to both the Branch and Area forms of administrative control – for good reason. An invention of the Stalinist era, Branches Dictate ultimately had depended on top-down threats of bureaucratic and criminal sanctions to keep the lower levels obediently in line. Within China's own recent historical experience, Areas Dictate under Mao had proven just as conducive to authoritarian rule. Under it, economic co-ordination had depended upon the Visible Hand of Party control, with obedience to Party dictates reinforced by way of the punishments meted out during repeated rectification and 'struggle' campaigns. Stalinism and Maoism had witnessed the most malignant forms of Branch and Area power, but even in a benign form both administrative frameworks entailed – necessitated – a vast concentration of power in leadership hands. It was no mere coincidence that the phrases 'Branches Dictate' and 'Areas Dictate' each contain the word 'Dictate': in both cases the word has had a literal ring to it. The liberals’ reasons for full-throatedly supporting a decentralised administration of the economy should be seen in this context – nicely summed up in the following quote:

If we do not win economic freedom through economic reform, we shall have no political freedom at all... Separating government functions from those of enterprises means separating economic and political powers, so as to attain economic freedom by letting the enterprises independently function in market competition... This can keep economic power in the hands of the people divorced from political power, so as to make them a kind of check on the political power, weaken the restrictions posed by concentrated power, and expand freedom from the economic sphere into the political sphere.\(^5^0\)

This 'liberal' grouping in the Party provided allies, albeit politically weak allies, for the economic reformers. It was perhaps for this very reason that they were tolerated, even though their views are anathema to top leaders of the reform camp such as Deng Xiaoping. When university student demonstrations erupted in December 1986, however, that fragile alliance was shattered. The content of the liberals' heresy – their desire to weaken the Party’s political autocracy – became more salient to Deng & Co. than the mere fact of their support for continued economic decentralisation. When Deng joined the Party conservatives in repressing 'bourgeois' liberals, the split in the reform camp presented the Party conservatives with renewed hopes of tipping the balance against new economic reform experimentation.

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In the year since, it has become obvious that they have not succeeded in their effort. This was demonstrated all too clearly at the 13th Party Congress in late 1987, at which the economic reform camp triumphed.

Zhao Ziyang’s opening speech to the Congress, formally laying out the Party’s program, reaffirmed in strong terms the reformers’ goal of marching forward toward market socialism. More than that, the specifics of Zhao’s speech indicated that the reformers’ core-city strategy has not been dented. To quote the Party program, as proclaimed by Zhao:

In order to invigorate the enterprises and better release the potential of the cities to develop a socialist commodity economy, it becomes essential to decentralise by expanding the powers of the core cities and enterprise units. And wherever it is stipulated that power should be decentralised to the cities, enterprises and institutes, without exception the intermediate administrative levels will not be permitted to intervene. This is an important measure for breaking down Branch and Area barriers.51

Of considerable political importance, the deal that has been struck to this effect between the top reform leadership and the core cities remains demonstrably in place. The composition of the new Politburo bears out this reform alliance. Of the 17 Politburo members, four are Party secretaries from the provinces, and it seems no mere coincidence that three of these four are the Party secretaries of core cities: namely, the Party secretaries of Shanghai, Tianjin, and Beijing. The new Central Party Secretariat that was announced at the Congress contains six members, and Shanghai’s mayor is the only one from the provinces among these anointed few.

If the core-city leadership has gained substantially from the results of the Congress, so too have China’s liberals. In particular, their hopes for a weakening of Party and bureaucratic controls over the administration of the economy have been considerably encouraged. In his speech Zhao Ziyang stipulated, among other things, that the functions of the Party organisations in enterprises are to be considerably constricted and that Party organs which overlap with administrative departments are to be abolished. Once put into effect, the tight organisational reins that the Party centre and the Areas have held over most facets of the economy and of daily life would, by dint of this deliberate weakening of Party linkages, be relaxed.

However, whilst the liberals can, for the moment, take heart in the fact that the reform alliance holds the balance of power and that the Party’s grip is being relaxed, it nevertheless seems likely that the voices of the conservatives will again be heard loudly and forcefully during the years to come: for the urban economy continues to face perturbing and intractable problems. These boil down to a fundamental fact: it is supremely difficult to reshape an administratively

51 For this section of Zhao’s speech see RMRB, 4 November 1987, p.3.
organised socialist economy into a self-regulating structure of market-socialist mechanisms. The incremental and piecemeal efforts in China to cross over toward this second type of system (and China is not capable of more than an incremental transition, at best) has produced a hybrid economic structure. By its very nature, as we have seen, this hybrid structure has given rise to distortions in the economy. As we have observed, too, the stop-start effort at economic transformation has provided the various vested interests in China with opportunities to get in the way of further change. In such circumstances, the economic conservatives in the leadership have had good grounds for their worried insistence that stricter regulatory controls be installed to protect the economy in the short term. But such regulatory structures always run risks of becoming permanent administrative alternatives to the decentralised reform mechanisms.

It seems unlikely that the economic reformers will ever succeed in surmounting the multiple difficulties that stand in their way. Vice-Premier Wan Li, one of the leading lights of the reform camp, put the point with painful honesty when he despondently told Chinese students in Canberra in September 1986 that ‘As for our domestic reforms, I don’t see any way out’.52 Certainly, the example of Hungary (which initially faced fewer difficult problems in installing its New Economic Mechanism than China now faces) provides little room for encouragement.

My own surmise would be that, like Hungary, China will end up, for the foreseeable future, with a jerry-built economic structure that will incorporate various elements of the present mix: a broader but still limited range of market mechanisms, some Area control (increasingly centred, through the reformers’ sponsorship, on core cities), some Branch supervision, and perhaps greater Branch allocation of resources. Through trial-and-error stopgap measures and fine-tuning it may even operate reasonably efficiently. But such a system would, of necessity, be held together by the centre’s ability to apply sanctions and penalties to keep the various economic sectors in line. The future does not seem promising to those of us who share the concerns of China’s political liberals.

Canberra
November 1987