Beijing seeks to rein in the provinces

by Mary M. Burdman

Press accounts have hailed the Oct. 17-18 statements of Chinese President Yang Shangkun and Communist Party head Jiang Zemin that China will "stick to" and "speed up the policies of reform and opening to the outside world" of Deng Xiaoping, as signals that the so-called economic reformers are gaining ground against the hardliners.

But there is good reason to think that changes in slogans are actually diversionary cover for the real brawl in China—over how the Beijing regime is going to hang on to power. The real issue of the Deng Xiaoping "reforms" is that they opened the way for regions and even individual cities to assert decentralized control of their own economic affairs; by early 1989, the result was armed guards on the borders between China's provinces, enforcing regional trade bans.

Regionalism is an ancient problem in China, whose spoken language is so different between north and south, that it is mutually incomprehensible. Only the written language unifies the country—barely, given China's officially acknowledged 25% illiteracy rate. This is a critical military as well as economic issue: A soldier from Guangdong province cannot understand orders given by an officer from Beijing.

According to the Hong Kong newsletter *China News Analysis* of Sept. 15, some analysts say that "the bloody repression of June 1989 was primarily meant as a warning against provincial separatism." Measures are being taken to attenuate the powers of local governments, but policy is lacking. "One may cogently argue that for years to come, the top leadership will lack the unity and the vision" to retake control.

Economic splintering

Deng's reforms may have allowed the current economic decentralization, but the rigid austerity policy imposed by Prime Minister Li Peng in autumn 1988 pushed the situation to the present point of crisis. Local governments and enterprises had been allowed to borrow heavily from abroad, and regional authorities retained all profits from their firms for local use, cutting off tax payments to Beijing. The central government is nearly bankrupt, owing tens of billions in foreign and domestic debt, and spending over 30% of all revenues on subsidies to keep the bankrupt state sector industries going.

Li Peng's crackdown has only reinforced the barriers, as regions and cities attempt to foster local production—and local power—in defiance of Beijing. The official *Economic Daily* reported in July 1990 the extent of the trade barriers, mostly imposed through administrative schemes and "well-concealed tricks," including heavy fines and levies on goods at borders. Sale of industrial products or commodities from other provinces are banned or strictly limited; for commodities that are in high demand, the local government limits exports, to guarantee local supplies. Such measures are a key reason for the sluggish market the regime is so worried about. People are refusing to buy the few, often inferior local products available.

One province in southwest China declared protective measures for 19 goods in November 1989. Other provinces followed, especially Xinjiang, the central Asian province where Turkic Muslims staged a rebellion in April in which hundreds were reportedly killed by Chinese troops. On Aug. 24, official Xinjiang television proclaimed that "national splittism is Xinjiang's main danger."

"Local protectionism has brought serious damage to the Chinese economy," *Tangtai* reported. "The unified market has disintegrated; circulation of commodities is restricted and rational distribution curtailed, posing an obstacle to development."

Urban manufacturing centers such as Shanghai and Tianjin now face a severe cotton shortage, due to an almost 50% production collapse. This was caused by the state's low procurement price, to which the cotton-producing regions reacted by setting up their own small, inefficient mills and procurement operations, which effectively sabotage state management of textiles, one of China's key industries. Xinjiang province, which has imposed the most trade barriers, froze wool sales to other provinces last year, with the result that the coastal provinces now import from Australia.

Grain distribution is one of the main victims of these regional barriers. Hunan province wasted 8% of its rice crop last year because of barriers against selling the grain to other provinces, and Guangdong imports rice from Thailand as a result. In October, the Chicago Board of Trade helped China set up its first commodity exchange in Henan province, but the issue is not "market reform." Beijing wanted the exchange to encourage sales and internal mobility of grain. About 70 million tons of grain a year are currently traded outside the state price-fixing system. But, International Wheat Council economist Richard Woodhams said, China's transport system is so bad that the market can accomplish little.

Beijing is striking back. A purge of provincial leaders has been under way since the June 4, 1989 Tiananmen Square massacre, and provincial Communist Party secretaries, governors, and vice-governors of at least 13 provinces have been ousted. On July 10, Minister of Personnel Zhao Dongwan proclaimed that "the full-scale structural reform of local governments is a must. It is only a question of time."