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Provincial Government and Regional Development: Xinjiang in China's Reform

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Jingyi Li

**A Thesis Submitted in Fulfilment of the Requirements for the Degree of
Doctor of Philosophy to the Department of Geography, University of
Durham, UK**

11 DEC 2006

2006



Declaration of Authenticity

To the best of my knowledge and belief, this thesis has not been submitted to any institute, except the Geography Department of Durham University, for the award of any other degree or diploma, and is less than 120,000 words in length, and this thesis contains all materials which are not my own work has been made reference.



Dedications

To my father who, with his belief and knowledge, makes contribution to the development of the region.

To my family: Mum, KeKe (Brothers) for their endless love and support.

Acknowledgments

Many thanks specially give to Dr. Peter Atkins, for his support, kindness and enormous help throughout the completion of the Ph.D.

Thanks also give to Prof. Ray Hudson and Prof. Joe Painter for their support and help.

Many thanks give to Bruce and Martha for their friendship, family-like support and encouragement to me in overcoming all difficulties.

Thanks give to Stephen and Julia, Rachel Sloan, Sarah King, Paul Hayman, Dr. Xiaoming Peng and Dr. Janet Townsend for their help, support and encouragement.

Special thanks give to the Royal Geographical Society, the Great Britain China Education Centre, Ustinov College, etc. which financially supported me to be able to complete the Ph.D.

Thanks give to people who took part in my data collection and helped with interviews in China.

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Abstract

This research uses a case study of Xinjiang to challenge China's reform by addressing the problems rooted in its partiality and regionalisation. The reform started in the field of political administration and toleration of decentralisation and marketisation in the economic sphere has generated economic prosperity in some regions. But economic reform was not necessarily accompanied by political transformation. Most characteristics of socialism have been retained, including political discretion and economic bailout. Both are regarded as major causes to economic weakness in some sectors and some provinces. The central argument for the continuation of the partial reform is decentralisation of decision-making to the local political state, enabling local government to give a "helping hand" in facilitating change. But the partiality of the reform drives local governments in those regions with political sensitivities to become a "political defender", holding back the progress of the reform there. Such unbalanced and unparalleled developments amongst the regions and institutions has create imbalances in provinces such as Xinjiang, challenging the success of China's reform overall. In politically sensitive regions, the Communist Party has retained an administrative stranglehold and development has stagnated, not only calling into question the sustainability the reforms but also potentially threatening China's unity and political stability. The thesis uses Xinjiang, which is politically very sensitive, because of its ethnicity and strategic resources, to argue this point.

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Glossary

Abbreviation and Acronyms

AGOV	Agricultural Gross Output Value
ASEAN	Association of South-East Asian Nation
AVI	Added Value of Industry
BC	Budget Constraint
BW(R)	One Black and One White (and One Red)
COE	Collective Ownership Enterprise
CCP	Chinese Communist Party
CEAC	Chinese Ethnic Autonomous Constitution
CNPC	China Petroleum Corporation
CNPCC	China Petroleum and Chemical Corporation
COC	Coastal Open City
CPC	Central People's Congress
CR	Cultural Revolution
DR	Dividing Revenue Refers to Local Sharing Income
DRS	Receiving Subsidies in the Dividing Revenue Arrangement
ETDD	Economic and Technologic Development Districts
FA	Field Army
FDI	Foreign Direct Investment
FYP	Five-Year Plan
GDP	Gross Domestic Product
GNP	Gross National Product
GIC	Great Islamic Circle
GIOV	Gross Industrial Output Value
GLF	Great Leap Forward
GMD	Guomindang: the Nationalist Party
GS	General Secretary
GTS	Golden Tian Shan (the Xinjiang Tian Shan Woollen Textile Limited Company)
HBC	Hard (Hardening) Budget Constraint
ICOR	Increasing Capital/Output Ratio
K-H-K	Kashigar-Hotan- KizilsuKirghiz Autonomous Region
MS	Receiving Subsidies with Various Rates of Funds from the Centre
NGO	Non-Government Organisation
NIC	Newly Industrial Country
NSB	National Statistical Bureau
PCC	Production and Construction Crop
PLA	People Liberation Army
POE	Private Ownership Enterprise
PRC	The People's Republic of China

RC	Revolutionary Committee
RG	Red Guard
RMB	ReMinBi: <i>yuan</i> , Chinese notes ¥14 ≈ £1 (2006)
SBC	Soft Budget Constraint
SBI	State's Budgetary Investment
SC	The State Council
SEOZ	Special Economic Open Zone
SEZ	Special Economic Zone
SOE	State-Owned Enterprise
SOR	Sharing Overall Revenue
T&C	Transportation and Communication
TFP	Third Front Program
TNSEZ	Tian Shan Northern Slope Special Economic Zone
T&M	Transportation and Communication
TM	Transport Ministry
TVE	Township and Village Enterprise
VAT	Value Added Tax
WDP	West Development Project (Programme)
XAPG	The Government of Xinjiang Uyghur Autonomous Region
XARPC	Xinjiang's Autonomous Regional Party Commission
XCPC	Xinjiang China Petroleum Corporation
XMD	Xinjiang Military District
XPCC	Xinjiang Production and Construction Corp
XPG	Xinjiang People's Government
XSB	Xinjiang Statistical Bureau
XSSA	Xinjiang's Social Science Academy
XTS	Xinjiang Tian Shan Woollen Textile Limited Company
XUAR	Xinjiang Uyghur Autonomous Region
YL	Youth League

Chinese Terms

<i>Bayi</i>	Xinjiang's Bayi Iron and Steel Co.
<i>Bianzhi</i>	Employees on Chinese state's payroll
<i>Bingtuan</i>	Xinjiang Production and Construction Corp
<i>Chantou</i>	"Turban": stubbornness
<i>De</i>	Integrity
<i>Ding e shang jie</i>	Fixed quota remittance without an annual adjustment
<i>Ding e feng chen</i>	Fixed rate of revenue remittance but rates varying regionally
<i>Ding e feng chen jia zeng</i>	Fixed rates of revenue remittance with growth adjustment
<i>zhang feng chen</i>	
<i>Ding e bu zhu</i>	Fixed central subsidies
<i>ErDOS</i>	Inner Mongolia's ErDOS Woollen Textile Limited Company
<i>Feng zhao zhi</i>	Eating in separate kitchens: separation of financial responsibilities
<i>Haier</i>	A manufacturer of Shandong local state's owned enterprise
<i>Ji</i>	Achievement
<i>Karez</i>	A ancient irrigation system in Xinjiang
<i>Kuangkuang</i>	Area refers to horizontal bureaucratic administration from region to region and from unit to unit
<i>Neng</i>	Competence
<i>Qing</i>	Diligence
<i>Qingdao</i>	A beer brand
<i>Qui tong cui yi</i>	Allowing differences for common good
<i>Renmin</i>	The people
<i>Shang jie e di zeng bao gan</i>	Fixed quota remittance with growth adjustment
<i>Shou ru di zeng bao gan</i>	Increasing revenue sharing with a certain growth rate
<i>Tiaotiao</i>	Line refers to vertical bureaucratic administration from upper-unit to sub-unit
<i>Yi zhao chi fan</i>	Eating in one kitchen, refers to: financial centralization
<i>Yuan (¥, RMB)</i>	Chinese currency ¥8.5 ≈ \$1; ¥14 ≈ £1
<i>Zili gengsheng</i>	Self-reliance
<i>Zhang Yu</i>	A wine company in Yantai, Shandong province

Chapter 1 Introduction

1.1 Significance of the Research

This research, using a case of Xinjiang, China's north-western province, tries to reveal the particular problems fostered by China's partial reform in which a restructuring of political institutions has not accompanied economic decentralisation. The shortcomings in China's reform have resulted in an unbalanced development between China's coastal and inland regions, especially those with large ethnic minorities, such as Xinjiang, in which the local political state could not act independently to facilitate economic reform. The inequality in regional development, combined with institutional uncooperativeness, challenges China's partial reform and her national stability. In this respect, the thesis attempts to address the problems that have emerged in the middle and recent period of reform in order to debate its fitness for purpose and its sustainability.

China has undertaken major economic reforms for nearly three decades now since 1978 and her policies are usually seen by outside observers as flexible and gradual, with rapid economic growth generated by economic decentralisation but with political institutions that have not experienced such a rate of change. Therefore China's reform is rather different from the "shock therapy" of most of the former socialist countries in Eastern Europe, which relied on advice from prestigious western scholars, such as Kornai (1986, 1989, 1990, 1992, 1997, 2000, 2002). In fact China's reform has been constantly criticized as by no means "a transition strategy" (Kornai, 1990: p.130) in which "economic returns remain at the mercy of political predation" (Montinola, Qian and Weingast, 1996: p.50). It has been said that "the incompatibility of market allocation with state ownership" (Walder, 1996: p.5) will always allow the occurrence of soft budget constraints (SBCs), a familiar cause of failure in socialist economies (Montinola, Qian, and Weingast, 1996; North, 1990; Kornai, 2000).

Although there have been negative aspects, the experience of reform in China has been without too much social, economic and political disruption. Unlike those former East

European socialist countries which are struggling with economic recession and political unrest, China's reform is continuing through trial and error and is still making significant progress even with the deliberate delay of marketisation and privatisation of key sectors.

What factors led to the success of China's partial reform and its continuation, especially the rapid economic growth of the coastal regions? And how far can the reform go?

This ushers in a discussion led by Qian(1994, 1996, 2000); Montinola, Weingast and Qian (1995); Weingast and Qian (1996, 1997); Xu and Qian (1998); Che and Qian (1998); Qian and Roland (1998); Qian, Roland and Xu (1999); Jin, Qian and Weingast (2005) who, based on the theories of Douglas North's institutionalism and Kornai's SBCs, argued that China's successful reform can be explained as a restructuring of political governance – a vertical decentralisation that provides incentives for profound reform. This explanation is examined in a theory of 'Market Preserving Federalism, Chinese Style' by Qian, Weingast, Roland (1996, 1997, 1998, 1999, 2000). Because of this incentive restructuring, local government emerges to play an important role in local economic growth and has become a middle agent encouraging a continuing urge for China's further reform.

In the view of Qian and Weingast (1997), the Chinese state has made a clear commitment to economic growth. In order to meet her promise, China has had to adapt the institutions in terms of the economy as well as politics to some extent. Therefore, although the reform retains a largely unchanged political system, it undergoes a decentralisation of decision-making from the central to local governments. Unlike the approach of the Soviet Union, in which local political institutions were bypassed and decisions were directly transmitted down to the basic economic units, Chinese reform employs a form of vertical decentralization of power within its political regime, which empowers the local state to act as a "political middleman" (Goodman, 1994: p.4; Chueng, 1998b: p.13). On the one hand, local government is a policy guard acting for the centre to retain politically centralised control including the guidance of local economic growth, implementing central policy and maintaining the party line and social order. On the other hand, it is also a pioneer of reform

and a region's defender acting for the locality to protect local wealth, to tackle the restrictions of central policy and to pursue the economic interests of its particular region.

China's choice for the vertical decentralisation is especially important to China's reform, as the Chinese Communist Party (CCP) rejects other alternatives for the decentralisation and feels that it must retain the key features of the Maoist political system and maintains the domination of Marxist-Leninist ideological doctrine in order to guide economic liberalisation. At the early stage of Chinese partial reform, local government undertook the crucial role of reconciling conflicts between political conservatism and economic radicalism and of harmonising economic reform at a time of stagnation in the political environment. This represents the state's economic commitment within the rigid political system without paying high transaction costs.

In the Chinese case, fiscal reform provides a decentralisation mechanism that allows vital power to be gained by the local state via fiscal independence, and some local governments have been able to act with real agency to lead local economic units successfully. Economic reform was initiated in the regions because political restrictions to economic reform were, firstly, easy to be relaxed and, secondly, where large numbers of non-state-directly-controlled enterprises were presented. Both conditions are equally important and especially the latter one can foster the authority of local state over property rights in the regions to utilise the local resource to serve economic growth.

Oi (1995: p.1132) in particular claimed that China's economic growth is led by "local state corporatism". In her view, the key feature of the economic success presented in China's coast is the rapid growth of township-village enterprises (TVEs), which have a "fake collective" (Oi, 1995: p.1135) ownership to foster property rights for the region. Therefore "the state is responsible for much of this growth, as local governments treat enterprises within their administrative purview as one component of a large corporate whole. Local officials act as the equivalent of a board of directors and sometimes more directly act as the chief executive officers" (Oi, 1995: p.1132). For example, the role of making decisions for local enterprises

at the country village level is specifically taken by the party General Secretary (GS) of the village.

In Montinola, Qian and Weingast's argument (1995), local government's involvement has effectively put a stop to phenomena predicted theoretically by Kornai and North – the potential problems of SBC and political discretion. Both are regarded as key dangers in relation to political constraints on economic liberalisation, eventually crystallising into a cause for reversing the reform. China's reform started in the rural economy, a sector that was administrative weak. The strategy implies low transactional costs to the current polity, but the economic success achieved by the local enterprises is not secure, as there is no legal system outside the party-state regime to protect their success or foster the mobilisation of economic factors such as property rights. Therefore economic success will always be "at the mercy of political predation" (North, 1990). However, as the local governments have been made in effect the representatives of local economic units, they therefore hold responsibility for the locality to act against central predation in terms of wealth confiscation, property mobilization and state financial misbehaviour. This provides political protection and incentives for the continuation of local economic success as well as the continuation of the reform. On top of this, as the semi-leader of local economic units of the regions with large non-state economic sectors, local governments have realised that vital power can be gained from their financial authority. China's fiscal reform ensures that the power gained by the local leaders in return disciplines local government financial behaviour and preserves marketisation, and it effectively stops the phenomenon of SBCs, which has been a common feature in socialist countries and directly results in the failure of partial reform.

The local political state's involvement in economic growth, especially for localities, is significant in two ways. Firstly, according to Hayek's (1945) theory, economic efficiency depends on local actors who can utilise local information to provide the services and goods better than the central state. That requires the decentralisation of decision power from the centre. The decentralisation authorizes the local government to steer the local economy. Therefore a region's economic growth depends on the competence of its local leaders and the unity of the government in understanding the regional conditions to take action in terms of

involving in the local economic performance and making effective and efficient policies for the region and regional economy toward harmonious development and prosperity. This can be examined in two discussions: first, local-orientation to producing effective and sufficient development policies in terms of cultural preservation and evolution, social justice and well-being, and economic development efficiency. These policies include macro-political control and administration in tune with the state's requirement for national unity, political stability and economic growth; justified planning for local economies in resource utilisation and wealth gain in market economy; and compensation to the region for unfair treatment in the central plans.

Secondly, local state-enterprise cooperates in pursuit of local economic efficiency. This requires local government to be flexible and managerial in handling its relationship with local enterprises. On the one hand, local government has to represent its enterprises in order to recruit funds from non-state and state sources, bargain with the centre for more economic advantages, including the decentralisation of property rights and decision-making powers and for increased resource allocations. On the other hand, local government needs to guide local enterprises for their performance in China's transitional economy in terms of marketising operation, productivity promotion and financial discipline, that all give local governments greater scope for entrepreneurship and make them in China "fully fledged economic actors" operating for the benefit of the region (Oi, 1995: p.1137).

The local state not only has better information than most small enterprises but also has privileges in adapting the current political system for cooperation with local enterprises without generating too much political resistance. Especially at the beginning of the reform, those Chinese provincial officers who had been trained in Mao's era were highly disciplined in handling central policy through the hierarchy of governmental bureaucracy and were therefore now experienced in applying certain political principles. They also had the talent, competence and skills to adapt Mao's institutions to the new reality, for the sake of themselves and their respective regions, and to exploit the bureaucratic networks to lobby the upper leaders for the policy modifications (Oi, 1995). They were different from the bureaucrats of Africa and Latin America, who are mired in swamps of bureaucratic

corruption and lack economic and organisational capability and experience (Qian and Weingast, 1996; Walder, 1996; Oi, 1995). As discussed by Cheung (1998b: p.14), the initial policy was recommended by the top leaders in Beijing, but it still needs to be supported, justified and implemented by the local leaders and governments, who opened up opportunities for experiments in the “policy window”. Provincial leaders take up and even expand the opportunity to influence the policy-making process “by acting as ‘policy entrepreneurs’” (Cheung, 1998b: p14) on behalf of their regions and themselves, which in return benefits regional development. According to Lieberthal and Oksenberg (1988: p.344), “the provincial level is a gatekeeper guarding and providing access to the local levels.” It provides an effective and efficient “system” of incentives to adjust institutional faults and to control the reforms. Therefore, local state involvement in regional economic growth can be seen as the starting point of China’s political institutional change.

In this way, the CCP in fact turns some of its components at local level into economic institutions in order to participate in the economic transition and to undertake decision-making decentralisation against the grain of the established politico-centralised system. This proves China’s reform is Path Dependence and to some extent appeals to North’s requirement for political institutional adjustments to economic liberalisation (Oi, 1995; Qian and Weingast, 1997). During economic decentralisation, the CCP also participates itself in the political administrative liberalisation, the ultimate success of which requires a reduction of political intervention and an increase in governmental administrative integrity, rationality and efficiency, thereby inculcating a desire for reduction in political guidance by the CCP itself and for further political administrative efficiency, which appeals to Weber’s ideal rationality of bureaucratic administration. According to Max Weber’s theory (Mhammad, 2004)(see chapter 2), under certain circumstances a reduction of intervention by politicians may provide scope for greater efficiency in governmental administration and discipline of bureaucratic behaviour, which together make the government cohesive, task-focused and flexible.

China has a vast territory which not only provides geographical variations in many respects within and between her provinces, but also shapes the geo-politics and requires specific

political administration for each individual province. So, determining the degree of partial-transition undertaken by each province depends on the geo-political position of the region in China's framework and depends on the impact of its particular economic transition on the country's political unity. It is the local government and provincial leaders who, in understanding the special characteristics of the region, and also the principle of survival in China's political struggles, accordingly and willingly shape their bureaucratic behaviour and administrative methods, and, by balancing their dual roles as both political administrator and economic director, skilfully steer the region through the rough waters of Beijing's prejudices and whims. The discretion of local government plays a substantial part in determining the depth of partial-reform in their region and its economic outcomes.

However, China's vastness and variation also determines that some regions have political sensitivities, as major factor, such as ethnicity, or alternatively large key sectors run by state owned enterprises (SOEs), that could not undergo the same decentralisation as the others. The degree of decentralisation in these regions will differ from those with fewer political problems and large numbers of TVEs, such as the coastal regions. Firstly, Beijing would not allow itself to commit to a political institutional relaxation in cooperation with economic decentralisation in those regions. The unchanged political institutions hold back the fostering of a dynamic economic role by local government in its bureaucratic administration. Secondly, large numbers of SOEs remain in such regions and their weak performance under state ownership meant no power to be gained by the local state but in fact greater incentives for SBC. Without the vital power combined with the state's financial protection, these local governments are not able to act as a real economic agency to involve themselves in the local economy and to lead it toward growth. In this regard, the theory of 'Market Preserving Federalism, Chinese Style' of Montinola, Qian and Weingast (1995); Qian and Weingast (1996) is invalid and the explanation of China's partial reform by this theory can be challenged for its incomplete and has a narrow region-specific bias. On top of this, the sustainability of China's partial reform is thus also arguable.

This thesis focuses on an inland region, Xinjiang in northwest China. Xinjiang, as China's westernmost frontier province, is typical of Central Asia, geographically as well as culturally,

having a large Muslim population of multiple minorities, dominated by the Uyghur, a people descended from ancient Turkic stock. Because of its ethnicity, Xinjiang was given “regional autonomy”, a Chinese form of political administration specially designed for minority regions. However, the political administration of these minority regions is in particular required to gear up for the party’s dominance over every aspect of the region’s affairs. As a result, the mission and performance of local government and its leaders have been heavily framed, affected and weighted by this type of political administration. Central policy toward Xinjiang’s development is to maintain political control through the reinforcement of the CCP’s power while the economy is sustained by heavy subsidies from central state funds and resources.

Choosing Xinjiang as a case study is not only because of its inland location but also due to its political sensitivity and natural wealth, which makes the region very different from any of the other Chinese provinces. Xinjiang is also different from other minority regions like Tibet, Inner Mongolia, Ningxia, Guangxi, and Yunnan, in which the “regional autonomy” has been granted also because of their ethnicity. Inner Mongolia is historically, geographically and religiously closer to Han China than the other two regions: in history, Mongolian took control of China for three hundred years during the Yuan dynasty. Both Guangxi and Yunnan have no particularly dominant minorities. Han culture has been strong in Inner Mongolia, Ningxia, Guangxi and Yunnan for centuries, but for Xinjiang and Tibet, they are not just distant in terms of geographical location, but also in culture and religion from Han influence. Therefore taking and holding political control in the latter regions has had more added value than in, say, Inner Mongolia. Xinjiang is arguably more crucial than Tibet because of its rich natural resources.

Coincidentally, Xinjiang’s huge land reserves, various natural resources, including oil, and its geopolitical location is just next to Kazakhstan, an oil-rich Central Asian country. Since China became an oil-importing country in 1993, securing sufficient oil supplies and reserves has been a big concern to the central state and critical to fuelling China’s fast growth, both at present and in future. Under these circumstances, the CCP’s domination has two implications: political and economic controls. Xinjiang’s natural wealth characterizes the

regional economic pattern of a resource-based industrial economy. Much of the local economy is controlled by the state, in a very different manner from the TVEs, and its oil industries are all SOEs, through which a fixed property right entitles the central state to take control of production of this strategic resource.

Since the reform of 1978, on the principle of economic efficiency, the regions with comparative advantages like the coastal regions have been able to develop rapidly and impressively, while the inland regions in relative terms have stagnated with their large state sectors and unfavourable market conditions. The increasing gap between China's eastern and western provinces in their economic development has alarmed the central government. In contrast, eastern China's wealth has made western China's poverty difficult to bear, especially in Xinjiang where the minorities see resource-exploitation as a drain on their regional wealth for the sake of eastern China's prosperity. Resentment towards the Han Chinese has resulted in violent separatist protests, which make Beijing eager to ease the escalating political tension in Xinjiang, by improving the region's economic situation (Sisci, 2001). Taking into consideration its political-economic geographical location, natural resources and its ethnicity, Xinjiang's regional development is not only central to its regional perspective and to the nation's wealth due to its resource base, but is also crucial to national unity and social stability.

China has attempted to narrow the otherwise increasing gap of unbalanced development between the coastal and inland regions. The factors affecting the less developed inland region are usually discussed in terms such as: geo-economic disadvantages, late entrance to market economy, less advanced economic sectors, and unfavourable central policies. There is rarely a discussion of the efforts by local institutions, especially the inland local governments, as to whether they have been able to act like their counterparts on the coast in releasing local talent toward wealth creation, overcoming their locational disadvantages, skilfully tackling the restrictions of central policy and institutional constraints, and solving bureaucratic inefficiencies for the benefit of these poor regions. There are many Chinese scholars, policy-makers and local bureaucrats who have pointed out that the less developed inland regions do not just lack all of the competitive market elements but also lack a development of politico-

economic institutions. The latter is much more dynamic and important as, without removing institutional constraints and providing incentives, talent in the regions, no matter how much potential there is, cannot be released. China's past has proved this point. It is high time to undertake a systemic analysis of the local state and in particular the governments of the lagging regions, especially in the minority regions.

In examining the functioning of Xinjiang's local government, its transitional politico-economic institutions, and its management and entrepreneurship in conducting an economic growth for the region, we need to raise the question as to whether the local government under the circumstances of political domination and state economic protection is able to act in the same way as its counterparts in the Han provinces in effectively removing constraints on economic growth, in securing local resources and releasing the local talent towards generating wealth, and in skilfully tackling all restrictions in the best interests of the region.

This raises the issue as to whether China's partial reform, with its continuing political restrictions, can be made to work, as has happened in the coastal provinces, by removing most economic institutional constraints and also some political ones. Most important here is that the action of local government toward radical reform, for example foreign investment in the coastal region, should not be thought of as fostering a great threat to national unity and jeopardising political control. However, in politically sensitive regions like minority provinces, partial reform implies that local government cannot remove institutional constraints such as party control and the state's domination of economic development, and, at the same time, enhance its own role. This undermines its own entrepreneurial ambitions. Without the dynamic economic role of local government in regional development, how can local economic efficiency in a market transitional economy be achieved? Without local government acting as a counter weight to central policies, how can a locality protect its wealth and provide incentives to continue development? Again, without such harmonious development in China's minority regions, the reform will be difficult to carry through and, most importantly, the social unrest in the minority regions will place the reform in danger and possibly reverse all progress. So, we need to find out whether the dynamic role of local

government in the economic development of the minority regions can take place in a region with such a political environment.

1.2 Scope of the Research

1.2.1 Aims

This thesis focuses on studying the way in which Xinjiang's government and leadership have been shaped by the specific political administrative system of the region, and how regional economic policies based on the central reform strategy have been shaped by the local government, and how the dynamic role of local government in local economic growth has been blocked by institutional constraints in which the local economic actors have no incentive to make efforts. The aims of the thesis are to understand the weak development of Xinjiang province, to identify the causes of this underperformance, and to propose ways in which its development might be enhanced in future.

1.2.2 Objectives

- 1) Investigation and definition of those problems in Xinjiang's economic development that result from the Chinese Party-state political administration and Chinese semi-politico-economic transition; and an examination of the origin of the problems in terms of Chinese governmental administration specific to this particular inland area.
- 2) Examination and discussion of regional policies produced by local government in response to the central government's development strategy, in order to judge the competence and capability of the local government in managing regional economic growth in a transitional economy, and to find what institutional constraints shape local government's role in this particular region.
- 3) A discussion of the administrative orientation of local government as framed by Beijing's policies toward the ethnic provinces in the national strategic framework in order to address the resultant problems involved in the construction and unity of local governmental teams.

- 4) An examination and criticism of the provincial government in terms of its structure, responsibility and suitability for Xinjiang's development in order to define its integrity, self-dependence and capability in managing the regional economy during the transition.
- 5) A definition and demonstration of the critical role played by Xinjiang's provincial CCP and governmental leaders through an analysis of their personal backgrounds in order to understand the specific leadership in this particular region and the impact of the leadership on local economic development and political unity during the course of economic transition.
- 6) An examination of local economic promotion in terms of financial management and productive sectoral development to define the capability of local government in managing economic self-reliance of the region and to reveal the results of institutional constraints on the local state's dynamic role in China's transitional economy.
- 7) A discussion of the management of relations between China's regional policy and provincial government institutional development in the course of local reform, in order to recommend future regional policies for the province of Xinjiang.

In this thesis, I will focus on three issues in order to analyse the performance of the provincial government of Xinjiang and, in relation to the institutional constraints, the impact of the performance of local government on the regional development of Xinjiang.

First, there will be a discussion of governmental political administration, structure and leadership. With regard to ethnicity of the region, the political administration granted to the region will be specially discussed in order to address the difference of Chinese regional autonomous administration from that of Han regions and to highlight the consequences of the differences for orientation, rational and efficient performance and structure of institutions. The specifically political nature of the administration has meant that its units and leadership act differently from the one required by economic transition. Leadership and performance of the local state and the party leaders will be analysed through discussion of their personal backgrounds, leadership orientation and their crafting of the local reform strategy.

Second, I will analyse local governmental economic management in terms of financial management and the promotion of sectoral development contributions to local economic growth. Since the 1978 reform, many Chinese regional economies have been dramatically improved from the growth started in socialist, institutionally thin sectors. This growth strategy attempts to switch away from the traditional economic production affected by the poor performance of SOEs towards greater market efficiency and growth incentives by fostering mobile factors such as property rights to protect local wealth, exploiting comparative advantages, decentralising production choice to local enterprises and promoting revenue producing economic sectors for the locality. It gives autonomy and authority to local governments in decision-making, a rise of power specifically from local financial self-reliance and bargaining strengths against central predation, which provides incentives for economic actors, especially local governments, continually to make efforts for local economic growth as well as seeking the removal of all institutional constraints. I will examine Xinjiang's economic sectoral development to see if the emphasis on promoting the locally most productive sectors under the domination of SOEs can meet the requirements for generating local wealth and raising power and autonomy of local governments. I will also examine local financial management under two headings. First, the economic decentralisation of decision-power to a locality is in practice represented by the financial autonomy of local government gained from a series of fiscal reforms since 1978. So, local government not only has power in making plans but also has the power to implement plans in its own interests. Second, local government can retain surplus budgetary revenues and reinvest the region's capital independent of the centre, although Beijing insists that it also must take responsibility for the greater inherent risk. It also helps with solutions to common problems involved in a socialist economy, such as SBCs. This can strengthen the financial self-reliance and independence of local government as the major economic unit and reduce the existing complacency of government bureaucratic behaviour created by the state's financial protection and so increase the discipline of governmental institutions in financing the local economy that provides great incentives for local governments to perform their critical role well. This thesis will determine if Xinjiang's government has reached this stage

and will address what institutional constraints have limited local governmental capability. This will help to understand Beijing's attitude toward to the region.

Third, I will look at provincial reform strategy and policy to see whether provincial government has produced justified local policies and formed a locality-based reform strategy for the region in response to the central plan. These policies and strategies provide a test of the capacity, capability and competence of the local state in managing local economic growth in the transition economy and in adopting Mao's institutional system or removing institutional constraints for local economic growth (Cheung, 1998b). Since the 1978 reform, and especially after the decentralisation of decision-making power to the locality as a sign of institutional change, local government has gained greater freedom and authority, by means of economic success and financial independence, to adjust central policy to fit local conditions and to compensate the region for the unfair treatment it would otherwise receive from Beijing. The local economy is thus the focus of local government. The examination of local policies will display the orientation, willingness and competence of the local state and the exact institutional constraints on the local state in releasing the talents of local state authorities for economic growth in the interests of the locality. In this regard, the thesis will examine Xinjiang's regional policies and development strategies in terms of sectoral development, spatial development and will examine the results of the strategies for the local economy and environment in order to assess local policies to see whether the local government is capable of acting as do their counterparts on the coast.

1.3 Design of the Research

Chapter one is the introduction to the thesis and defines the scope of this research and explains its significance.

Chapter two will construct the conceptual framework to form the basic argument of the research by introducing the theories of Kornai's SBCs, North's institutionalism, and Weber's ideal-rational bureaucracy. Through addressing the differences between the coast and inland, especially minority regions, in undertaking China's characteristic reform, the chapter will

discuss the issues raised by Kornai, North and Weber to test the validation of the theory of Chinese Market Preserving Federalism and to question the sustainability of China's partial reform by using a case study of Xinjiang.

Chapter three will describe how the research was approached and completed with multiple approaches in data collection and analysis during fieldwork. The approaches are comprised of quantitative and qualitative researches including the analysis of official and unofficial statistics, field trips, interviews, participant observation and data archive searching, etc.. The outcome of these approaches and an explanation of how the results were analysed are also presented in this chapter.

In chapter four, I will examine the special features of the region in terms of its geographical location, ethnic society and ideology and discuss the minority politically autonomous system granted to the region in consideration of its differences. The chapter reveals the implications of the autonomous system and its practical implementation, especially in relation to the country's unity and political control over the region. Therefore, we will try to address the political framework through the practice of the autonomous system granted to the region in which all activities of local state have been orientated and framed.

Regional government political administration, structure of the governmental institutions, and local leadership will be examined and discussed in chapter five. Chapter six will focus on the examination of local government's financial behaviour and productivity allocation in terms of economic sectoral promotion. Finally, the regional policies made by the local government in response to the central strategy, and consequently the local economic achievements of the reform as a result of policy implementation, will be discussed in chapter seven. These three chapters will address the major argument on the test of local government institutional change and the resultant bureaucratic role of local government in managing economic self-reliance and growth for the region, which will serve to support the main argument of the thesis.

Chapter eight contains the conclusions and summarises the significant discoveries of the research in this thesis and makes recommendations for solutions that might help with China's partial reform in future.

Chapter 2 Theoretical Review and Debates

2.1 China's Partial Reform and its Theoretical Implications

2.1.1 Characteristics of China's Transition

China's transformation from the world's most inward-looking nation to an open, market-oriented, economic state has been gradual and partial, and its path is criticised by many western scholars. This is because, in truth, little has changed in her political institutions, in which the communist party has maintained its sole authority intact and continues to dominate the country's political beliefs and economic reforms. This has led to a trajectory rather different from the simultaneous transition, namely the "shock therapy", favoured by those western scholars and adopted both by the Eastern Europe and former Soviet Union countries, in which there was a rapid economic privatisation and liberalization, accompanied by political democratisation (Nolan, 1996, 1999; Rawski, 1994, 1996; Walder, 1995, 1996). China's exceptionalism is understood by Lin (1989: p.100) to be "a result of a process of open-ended reform unique among the central planned economies in which the most distinctive aspect of the Chinese reform is that they have proceeded without a detailed reform blueprint or coherent theoretical formulation". Given its huge land and massive population, China has been hard to influence from the outside and her understanding of transition is based on her perception of her own exceptionalism, resulting from past political struggles, economic stagnation and regional geographical variations, with marked socio-cultural differences and unbalanced development. The method of trial and error in the reform was described by China's chief reformer, Deng Xiaoping (1993): "we are crossing the river on stepping stones" and "walking on a path of Chinese style socialism".

A few features in China's transition will be examined here:

Firstly in the political sphere (Montinola, Qian and Weingast, 1995; Liu, 2001):

1. Chinese polity since the reform has remained largely at a standstill, with a centralised, hierarchical governmental regime under the monopoly-control of the Chinese Communist Party (CCP), in which political and governmental administrations are intertwined in their handling state affairs. For example, the party-state bureaucratic apparatus is integrated into the key economic sectors, thereby guiding economic growth largely with the help of market regulation to serve political purposes.

2. The party-state government still makes strong but selective political interventions in order to steer and foster economic growth, change the direction and control the pace of economic reform and confiscate the property of successful enterprises with force when it is “necessary” (Montinola, Qian and Weingast, 1995). The phenomenon is best found in the Tiananmen Square Incident, which was fundamentally triggered by conflict between reformist radicalism and political conservatism among the Chinese elite as to whether a rapid reform was desirable towards the free market and democracy in China (Burns, 1989). Despite the existence of such strong party-state government, political control has been much relaxed to an extent which commits the political administration to economic growth. Bramall (2000: p.415-458) names it an “economic growth promoting state”. Nolan and Ash (1996: p.36) comments in their analysis that: “the outcome for China was to release the potential concealed within the Stalinist system. Meanwhile, the maintenance of an authoritarian political system allowed the gradual development of market forces, helped facilitate fiscal stability, provided a stable environment for large-scale foreign capital inflows and provided a means of intervention in areas of market failure.”

3. There is no proper commercial law beyond the authority of the party to protect and secure the property rights of non-state economic units, to terminate unlawful wrong-doing by the party-state, and to maintain a justified institutional environment for the economic reform (Montinola, Qian and Weingast, 1995: p.50; Bramall, 2000). Economic success is always vulnerable to political predation without the support of a non-political attached, legal system.

Secondly, in the economic sphere (Walder, 1996; Kornai, 1990, 2000):

4. China's economic reform is gradual and flexible, with constant adjustments by a series of guiding policies to pursue economic marketization, such as: the correction of distorted prices; the opening of domestic markets; fiscal and investment reforms; growth of non-state-owned enterprises; the transformation of state-ownership; and periodic reform strategy-making, including the Five-Year Plans (FYPs), Special Economic Zones (SEZs) and preferential policies for specific regions. Thus China's economy since the reform has gradually become one "in which the market and non-state-owned enterprises dominate economic life" (Shirk, 1993: p.346). Naughton (1994: p.472-3) has said that it is the "the fact that certain economic forces and institutional conditions shaped a chaotic and inconsistent set of policies into a coherent process, which makes the Chinese reform interesting". In this regard, Lin (1999: p.674) remarked that China's politico-economic system should be categorized as a market-rational or market regulatory type.

5. The core economic sectors, dominated by the massive, problematic state-owned enterprises (SOEs), have remained in the domain of the central state. The existence of SOEs not only continues the rigid operation of major productive units and provides incentives for soft budget constraints (SBCs) to continue their market failure, but guarantees that the state will put their interests above those of the localities in which they are located. This blocks market incentives and undermines the release of local initiatives.

There are heated arguments about the different possible interpretations of China's reform path in comparison with reforms in the former Soviet countries. One of the main arguments relates to the deeper question of how far China's partial reform could go.

China's transition is, paradoxically, a process in which economic marketization and privatization are not accompanied by parallel political liberalization (Walder, 1996; Rawski, 1996 and Oi, 1996). In political terms, a lack of commitment to a political democracy could kill economic reform, reverse the reform process and put the economic achievement at the mercy of political predation (Montinola, Qian and Weingast, 1995: p.50). This point comes from North (1990, 1991), who, based on the historical development of European trade in the 19th century, develops a broad argument known as institutionalism. He thinks that polity and

economy are inextricably linked – Path Dependent – in shaping and fostering a certain performance of economy. North states that in European history, in order to gain more incentives for trade expanding, economic organizations required the cooperation and integration of political institutions to capture the potential benefit for trade. In exchange for getting more revenue from trade increasing, the rulers of the state had to provide certain services, including decentralizing power and introducing representative bodies for constituent groups in order to continue their trades. The representative bodies eventually developed into legislative bodies, the origin of parliaments, representing multiple interest groups. And such political institutional reform led to the evolution of polities toward democracy. According to North, the evolution of the polity is propelled by the needs of productivity development and shares in the economic wealth. An appropriate polity will fuel economic productivity along an upward path. This is because a properly developed polity not only fosters property rights for economic units and protects their profits, reduces transaction costs and so provides incentive structures for the best performance of economic units, but also and more importantly, the rulers of the state share out the economic bounty and this leads them to commit to restructuring the institutional framework and establish a state with a growth-promoting ideology.

In democratic governments the rule of law and decentralization of power has allowed citizens to hold the government to account for efficient property rights to provide incentives for economic growth. Governments, in return for tax revenues, have to establish a proper institutional framework to reduce uncertainty for economic activities. The implication is that, in fostering economic growth, adjusted political institutions are necessary and a cooperative relation between polity and economy must be developed that will result in fostering the mobilization of factors of economic success. Incentives are, moreover, the key to propelling economic performance and political institutional evolution efficiently (North, 1990; Bramall, 2000: p.447).

In particular, in the modern world, considering that democratic governments have to provide opportunities for their people to be involved in the decision-making process, there is less likelihood that politicians can stifle economic success. According to North and Weingast

(1987), there is no guarantee that democracy is best for property rights but it definitely stops political arbitration (cited by Bramall, 2000: p.435). In less democratic societies, not all parties have equal access to decision-making and the power is concentrated in the hands of a few rulers. These rulers are likely always to give preference to their own interests over economic growth when institutional development looks unfavourable. So, the efficiency of the political environment is a key. More importantly, reducing the political arbitration over property rights and ensuring best economic performance can only be guaranteed by a democratic society (North, 1990, 1991).

In this sense, China has not provided a polity that could be described by the theory as having an institutional framework to ensure the continuation of economic growth and enable economic liberalisation to be completed. Indeed, the party continually practices a form of political domination that is unfriendly to private ownership and the market mechanism (Kornai, 2000; but see Guthrie, 1999, 2006).

In the economic respect, Kornai (1980, 1986, 1989, 1990, 2000a and 2000b), Kornai, Maskin and Roland (2002) establishes the theory of SBCs to explain the economic failure of socialist system. He thinks that the domination of politics over economic performance and the existence of state ownership will always be an excuse for letting SBCs occur for political trade-off to bail public economic organisations out of their problems. Because of this, the organisations invariably increase their dependence on state protection and therefore lose any initiative to make their own efforts to compete in a free market. In order to save face for its “bad” investments, the state lets SBCs take place continually, eventually resulting in investment waste and resource shortages, which leads to the collapse of entire economies. Kornai’s (1986, 1989) works came from the failure of Hungary’s early reform that “market reform in a socialist economy creates new problems (such as inflation and liquidity crises) without curing the underlying defect of central planning”.¹

In this regard, Kornai (1990: p.133) argued against the idea of market socialism and considers the partial reform is a process “without a justified blueprint”. He stresses that “a

¹ Wong, 1986a, cited by Walder, 1995: p.5.

gradual reform of public ownership simply cannot work, not even as a transitional strategy". For him, the relationships between state-ownership and market coordination, and between private ownership and bureaucratic coordination, can be characterized as weak linkages. The state ownership will protect the SOEs against "economic natural selection" and provide incentives for the enterprises to withdraw from market competitions, which leave marketization incomplete. In this incomplete marketization, the competition is always not fair to private ownership, which is always vulnerable in political arbitration. The two components can't prosper simultaneously because of their incompatibility. Therefore there is no alternative to making a choice between the two forms of ownership: private or state.

China's economic success started with a partial removal of rigid economic institutional constraints from agriculture, stimulating marketization and commercialization in the rural economy. This was symbolized by the development of non-or semi-state-economic sectors. For example, some of them are apparently in the form of township and village enterprises (TVEs), which have capitalist characteristics in terms of ownership defined as collective or non-state's ownership which provides no incentives for SBC taking place. This effectively improves the efficiency of operation of these economic units. The success of TVEs propels reforms in terms of the semi-privatization and marketization of marginalized sectors of industry, largely in the state's ownership, which eventually embark on an overall economic growth specifically in the areas with large TVE economies, for example, China's coastal regions (Wei and Fan, 2000; Wei, 2000a and b). Rawski (1996: p.194) commented that the Chinese reform's characteristics were viewed as: "the decentralized nature of Chinese economic planning, the pre-reform growth of rural industry, the dispersion of large scale manufacturing facilities, and the availability of commercial information, technical knowledge and funds from overseas Chinese communities – in propelling a virtuous circle of institutional change, market competition, financial pressure, innovation and further incremental reform."

However, state ownership still dominates the large and key economic sectors, such as the strategic resource industries, which are well protected by the socialist system. Importantly, the remaining large bulk of SOEs is always presented as problematic, with rigidly inefficient

operations, large state investment and a shortage of market competitive incentives. They are a cause of continuing SBCs, which are hindering overall China's transition to a free market economy, and which result in a series of problems seen as threats to macroeconomic stability, including investment shortages, inflation, bureaucracy, bankruptcies and massive layoffs in the SOEs, and increases in social crime (Wong, 1986a). All have been predicted by Kornai (1980, 1986, 1989, 2000a and 2000b). Heated debates on the reform of SOEs, specifically with regard to property rights, focus on the need for the reform of ownership and for change in the political institutions, and some Chinese scholars also suggest that separation of political administration and economic institutions would be a solution to the inefficiency of SOEs (Lin, Cai and Li, 1999). Moreover, with regards to the less developed regions, in which, coincidentally, regional economies have been dominated by SOEs as the legacy of Mao's planning economy, their regional economies have been largely at a standstill since the reform, thus exacerbating the unequal nature of development across the country. With China's economy becoming more and more market-orientated, in order to possess a capacity to improve the regional economy and reduce the poverty and unbalanced development, the need has become pressing for an appropriate ownership transition of the SOEs and a clarification of property rights in order to provide incentives for regional economic improvement.

Unlike those former communist Eastern European countries in which the reforms are staggering under the weight of economic recessions and political unrest, China has achieved a steady economic growth, with one of the strongest increasing rates of GDP in the world and an economic transition without much political friction or social cost. In the view of Naughton (1995: p.16-23), a "big bang transition inevitably involves large short-run adjustment costs, generally including discontinuous changes in the price system and sharp increases in maintain both inflation and open urban unemployment within fairly narrow limits...The Chinese have acted as if minimizing short-run adjustment costs at the expense of prolonging the overall adjustment process were an important argument in the overall transition strategy". Before taking a new step toward the profound reform of its fiscal system and state enterprise ownership in 1994, which is a difficult task supposed to have been undertaken twenty years earlier, China had already seen her economy struggle, in particular in SOE-dominated

regions and economic sectors². Specifically, many inland regions whose economies are dominated by traditional resource industries headed by SOEs with their inefficient operation and problematic performance, as a result, face severe economic recession. The result is marked uneven development between China's coast and inland. This unbalanced development further brings social unrest and national insecurity, a big concern for the central state.

Despite China's survival of the turbulence of 1989 and other upheavals, and despite her transition being praised nationally and internationally, the central state still has to respond to and find a promising way to tackle all of those problems and to alleviate hardship in order to carry out a profound transition. As said in the statement that "China's socialist character will not be changed in fifty years' time." (Deng Xiaoping, 1993d), it seems unclear in which direction the country's politics will eventually head. In a sense, due to the political institutions being rigid (this point contested by Guthrie, 1999, 2006), the economic institutions, based on ownership still under political arbitration, cannot be adjusted for any a further economic liberalization. Therefore the phenomena of Kornai's SBCs and North's institutional inefficiency will be continually present, resulting in economic inefficiency and unbalanced development – a great challenge to the success of China's reform.

So, Kornai argues that to reduce the discussion to a choice between "gradualism" and "shock therapy" is wrong. The real decision is less about the speed of reform than the path of reform.

"The transition from socialism to capitalism has to be an organic development. It cannot be done otherwise. It is a curious amalgam of revolution and evolution. It is a trial-and-error process, which retains or liquidates old institutions, and tries out, accepts or rejects new ones. Each element in the process might be very rapid, fairly rapid or slow. Each has its own appropriate speed. Some episodes call for a one-stroke intervention. Many other processes advance by incremental changes"
(Kornai, 2000a: p.64).

² The economic sectors here refer to those operated under the state ownership but marginalized by the state's investment and development plans.

2.1.2 Major Theories Challenging China's Partial Reform

2.1.2.1 Kornai's Theory of SBC

The SBC theory was originally developed from a study of the failure of Hungarian economic reform. Janos Kornai (1980, 1992); Kornai, Maskin and Roland (2002) observed the SBC phenomenon in the Hungarian transition of the 1970s, an experiment of introducing market economy into a socialist system, resulting in the kind of basic problems confronted by transitional economies, for instance shortages and inefficient investment, which in his view explains the failure of economic reform that is unaccompanied by parallel political liberalization. From observation, Kornai recognized that, as the fundamental feature of a centralized economy is the dominance of the state sector, there is a major problem in socialist transitional economies in the lack of financial discipline of investment in the state sector. This lack of discipline derives from the unenforceability of bankruptcy threats together with various subsidies, credits, and price-supports, implying that state firms can always count on a bailout by the state even after suffering serious financial deficits.

Based on Kornai's description, I will briefly explain, firstly, how the SBC theory interprets the failure of economic development under a socialist system. Suppose there is a state-owned enterprise which generally has a budget constraint (BC) to confine its expenditure that is set by its initial endowment and revenue. If it makes a loss and the deficit persists, it cannot survive unless financial support is given by a supporting organization (S-organization) to cover the deficit and continually sustain its activities. The motives of the BC-organizations seeking rescue can be explained as a lack of strict budgetary control along with a shortage of profitable assets. Here are some of the most typical reasons to explain why the S-organization would like to help out a problematic BC organization:

- continuing support in order to recoup past investments (Dewatripont and Maskin, 1995);
- paternalism (Kornai, 1980);
- reputational concerns from the high level to prevent financial failure (Bai and Wang, 1996);

- avoidance of an economic spillover effect and dishonest relationships between S and BC organizations (Kornai, Maskin and Roland, 2002).

The SBC phenomenon has a broad application to, as Kornai has summarized, enterprises under state ownership; banks and other financial intermediaries relying on the support from the state; not-for-profit organizations, such as hospitals, schools and universities; indebted or insolvent local government authorities; and, finally, international organizations. In most socialist countries a supporting role is played by the state and its financial organs, with the intention of bailing enterprises out of crises, in order to allow them to continue operating. Besides profitability, the objects of government's bailout of financial deficit enterprises include the continued supplies of scarce inputs to other enterprises; the maintenance of full employment; the funding of pensions and medical insurance; and the provision of housing and social services. The means of bailout include subsidies from the state budget or tax concessions, and credit, such as loans, etc..

After Kornai's (1980) identification of the SBC syndrome in socialist economies, there was an assumption by him that the role of the S-organization is usually played by the central state. The central state financially sponsors its state enterprises to run economic programmes. Owing to obvious political considerations besides profitability, the state has continually to provide financial support to its own enterprises, driven largely by paternalism, in order to keep the programme operating, even though there is indeed a loss produced by the operating units. This is due to "the desire of a paternalistic state to avoid socially and politically costly layoffs" and to avoid the economic spillover effect, and so on (Kornai, Maskin and Roland, 2002: p.21-22). Without a strong bankruptcy threat, those state enterprises are hard to discipline in their performance, especially with regard to finance, thereby resulting in low efficiency of economic management and social shortages across the nation.

Kornai emphasizes less the causes than the consequences of SBCs. These include chronic shortages, due to the misallocation of resources, delays in project completion, queuing, hoarding, rent-seeking, etc and the failure of innovation. Qian (1994: p.146), by developing the model of Dewatripont and Maskin (1990), argues that shortages are a phenomenon

peculiar to socialist economies, because state firms expect to receive continual funding to maintain bad projects (again the SBC problem), and so resource allocation has to move funds from household consumption to the inputs of firms. Therefore, by means of increasing market prices, social welfare is reduced and shortages are created as an “equilibrium phenomenon”. In the long run, this affects the whole progress of social development and results in a collapse of the social economy. China’s economy in the pre-reform period displayed a good sample of such social shortages affected by SBCs.

Kornai, Maskin and Roland (2002: p.13) also discuss the consequences of SBCs on enterprises: “an influence over the life and death” of enterprises and thus “over economic natural selection”. In general the survival of an enterprise depends on its adjustment to market selection, as described as Schumpeter’s (1911) theory of creative destruction, but, due to the intervention of S-organizations during the financial deficit occurring to SBC-organizations, the process of market determined destruction of troubled enterprises, which would otherwise collapse under hard budget constraints, is averted. Therefore, as a result, the SBC directly reshapes the expectation and behaviour of SBC-organizations: providing some managerial slack to actors. When there is no restriction to the reduction of costs, a SBC-organization is unlikely to make efforts to maximize profits, improve managerial effort, and technologically innovate. All of this reduces the efficiency of organizations affected by SBCs. “Soft budget constraints directly influence the efficiency of the state sector through their effect on the expectation of state-firm managers” (Maskin and Xu, 2001: p.2).

The SBC also contributes to the explanation of persisting problems in transitional economies where political liberalization is determined by the top elites of the state. In Kornai’s work, he has suggested an incompatibility between an efficient market economy and state ownership because firms are not incentivized to pursue hardening BCs. In order to apply the HBCs to firms, there is a need to transform the ownership of the firms from public to private, that is to say, there needs to be a revolution in the social system, instead of weak “market socialism”. Only by doing so can firms cut off government intervention in their operations and operate in a purely independent environment (Kornai, 1990). Market socialism doesn’t go so far, as its inconsistency and bureaucracy hinder efficiency and competition. Kornai (1990: p.133),

commenting on the variation of economic transformations under socialism, pointed to “whole societies proceeded to cross the deep water without accurate knowledge (a blueprint) about the final destination by a process of moving from one stone to another” and “the weakness and inner inconsistency of market socialism reject itself to be the ideal.” Ten years later (Kornai, 2000a) he continued to criticize market socialism and advocated the necessity of the transformation of socialism to capitalism and specifically the transformation of ownership, namely by privatization.

2.1.2.2 North’s Theory of Institutionalism

North’s (1990, 1991) institutionalism examines the nature of institutions and the consequences of institutional change for economic or social performance. His argument starts from the definition of institutions and organisations such as: institutions are constraints shaping human behaviour and organisations are a group of people bonding together for a special purpose, which includes all types of social organizations like political parties, government, business firms, etc.. Institutions construct constraints including informal rules (customs, traditions) and formal rules (laws, property rights) to human interaction. North then further examines the efforts – transaction costs – that are the consequence of the institutional framework and the consequence of the organisation in constructing that framework. More specifically, he tries to reveal the difference between organisations and institutions and the interaction between these two in shaping institutional change. The institutional role is to reduce uncertainty by providing an efficient structure in which people can capture the expected results. Institutional change thus comes from the relationship between these two regimes that “have evolved as a consequence of the incentive structure provided by those institutions and the feedback process by which human being perceive and react to change in the opportunity set” (North, 1990: p.7).

In respect of economic activities, the profit-maximising and bargaining behaviours could drive economic organisations to use the polity to provide efficient institutional frameworks to enhance productivity, which in return changes the means of acquiring productivity that propels institutional changes to maintain that productivity. But institutions may also push

economic organisations to devote their effort to unproductive activity, for example: fiscal crises, asset confiscation, and lead to the failure of economic performances. Therefore, North exploits institutionalism to explain that the performance of the economy is differentiated by the role of institutions in cooperatively constructing an efficient institutional framework to capture wealth from economic activities. Economic performance thus is determined by the efforts made by institutions on the costs of transactions and production. Political constraints determine economic constraints, seen as property rights and human contracts, which are specified and enforced by political decision-making. Efficient property rights result in low costs of political transactions and the guided action of actors to maintain efficiency. Efficient property rights encourage successful economic performance: individuals capture rights and devote their resources to this capture. Here political efficiency is especially emphasized and presented as, firstly, the polity will reduce institutional constraints to let economic actors make the best choices and possess useful information; secondly, political parties have to have equal access to information and have the correct model to guide their decisions. If not, monopolies will direct decision-making toward the profitability of one particular party which has privileged access to information. So, property rights need to be monitored by a third-party, the legal system. According to North (1990: p.129), “the shackling of arbitrary behaviour of rulers and development of impersonal rules that successfully bound both the state and voluntary organisations were a key part of this institutional transformation”. This legal system or institutionalised regulation will be sufficient to stop the state’s predation, for example the confiscation of assets or tax revenue extracted by the use of “coercive power”.

In politically centralised countries, enterprises can never be certain that their economic success will be secured from “politically arbitrary” actions and protected against “powerful rights” at the “margin of the law” and at the “mercy of authority” (Coatsworth, 1978: p.94-99).

2.2 The Theory of Market Preserving Federalism Chinese Style in Explaining the Success in China's Partial Reform

2.2.1 The Theory of Market Preserving Federalism Chinese Style

Further to North's theories on political predation and Kornai's on SBCs, Montinola, Qian and Weingast (1995); Cao, Qian and Weingast (1999) have developed their own explanation of China's success with the partial reform. Qian and Weingast (1996) think it is due to the decentralization of economy in terms of decision-making and institutions, that is processed with the gradual reform of political institution propelled by the economic decentralization. On examining China's reform, Qian and his fellow researchers state that, in order to manage economic growth, Beijing has gradually removed certain political institutional constraints and formed a new structure of governance within the centralized party-state regime to accompany economic reform. In this regard, to some extent China's reform is considered not as an example of Path Independence but of Path Dependence, which appeals to the description of North's institutional corporatism (Oi, 1995). Qian asserts that essentially it is the CCP that has made a commitment to economic growth, thereby modifying traditional Maoism's emphasis on political priority over the economy and removing all possible institutional constraints in order to meet her promise. In the words of North (1990: p.110), "Ideas and ideologies shape the subjective mental constructs that individuals use to interpret the world around them and make choices," and it is this commitment that has provided an ideological foundation to limit political intervention and guarantee the decentralization that secures Chinese economic marketization. This can be viewed in Deng's (1993) famous words: "How good a cat is does not depend on whether is white or black, but on whether it can catch mice", which implies that China is determined to pursue economic growth, so any possibility will be considered even if it does not live up to the purity of socialist ideology.

China's partial reform started from authorizing economic power in terms of decision-making in financial freedom and allocation of national resources to local government, which transforms the local government into major economic units to lead regional economies. This was seen by some as a kind of economic federalism (Goldstein, 1996) and specifically

regarding market preserving federalism Chinese-style by Montinola, Qian and Weingast (1995). Firstly, federalism is in general a political institution involving local and central governments in decision-making. However, China's polity has not yet reached the stage of political federalism in principle. But her economy in the reform, during which local and especially provincial governments became involved in decision-making and were granted liberties in financial management and resource distribution, formed a de facto Economic Federalism: one of three principles of federalism of Inman and Rubinfeld (1997). According to Inman and Rubinfeld (1997: p.45) "the principle of economic federalism prefers the most decentralized structure of government capable of internalizing all economic externalities, subject to the constitutional constraints that all central policies be decided by an elected or appointed 'central planning'". Oates's (1972) classic Fiscal Federalism "provides the most complete description of economic federalism" in considering local and central government being assigned responsibilities for their own domains, and China's economic decentralization, through a series of fiscal reforms to authorize local government, meets its basic criteria.

Secondly, the Chinese economic federal system has its own character. To understand the economic function of federalism, we need to understand 'market-preserving federalism', which is rooted in the second generation of federalism theories. Federalism builds on a certain degree of decentralization. According to the discussion of Montinola, Qian and Weingast (1995); Qian and Weingast (1996); Cao, Qian and Weingast (1999), there are four types of decentralization: *complete centralization*, *administrative delegation without authority*, *decentralization with authority: federalism* and *complete decentralization*. In between the two extreme types of decentralization: *complete centralization* and *complete decentralization*, there are two types with the differences in the degree of decentralization. *Administrative delegation without authority* represents decentralization to the locality with authority on implementing policies and administrating tasks but no authority on policy-making. There is indeed no virtual autonomy but delegation for the locality. It is unlike *complete decentralization* in which the central government is a form of administrative organization without any power. *Decentralization with authority: federalism* represents systems sharing authority among different levels of government. There is no fixed one but

various systems based on certain political and economic arrangements (Qian and Weingast, 1996).

The central arguments in federalism concern the achievement of economic efficiency. In this regard, local factors such as information can be best utilized by local actors, such as local authorities, to provide better service and goods than the central authority (Hayek, 1945) and the jurisdictional competition that drives the local actor to “better match goods and services with customer’s needs” (Tiebout, 1956: p.422; Oates, 1972). However, the first generation of economic theory of federalism ignored the incentives to shape the type of governance required by economic performance and to drive government to provide public services and preserve the market. The government itself can be an obstacle in particular to economic wealth if there is no incentive to monitor its behaviour and to force it to make a commitment to preserve market competition. The mechanisms developed by decentralization, including the rule of law and horizontal power shared by different parties, are not enough (Montinola, Qian and Weingast, 1995; Qian and Weingast, 1999). The second generation of federalism emphasizes the governance structures of the state, which can provide incentives for an effective state in terms of efficient policies (Inman and Rubinfeld, 1997). More particularly, the second generation of federalism tries to find out “the certain type of decentralization and federalism” which can provide government with better incentives to support market development and secure economic prosperity (Inman and Rubinfeld, 1997; Jin, Qian, and Weingast, 2005: p.1720). The incentives are seen mainly as decentralizing certain powers down to the local government that could provide privileges to the local government to have authority over the local economy that therefore preserve market competition. Competition among jurisdictions drives local government not only to make a commitment to secure property rights, preserve markets, share local interests and act against the central interventions but also to discipline their financial behaviour. In this regard, it is called “market preserving federalism”(Qian and Weingast, 1997).

On examining the system of market reserving federalism, there are some important features involved (Qian and Weingast, 1996; 1997):

- 1) A hierarchical government with a decentralized authority to all levels of government.

- 2) Local government has authority over the local economy.
- 3) The central government has power to control the common market and ensure the free flow of goods and capital among regions.
- 4) A financial system that forces both central and local governments to face hard budget constraints.
- 5) The decentralization of authority and responsibility has been institutionalized with the certain arrangement between central and local governments so that it won't be subject to any one of two regimes.

Using defined criteria, Qian and Weingast (1997) have examined federal systems in several countries to see if they fall into the category of market preserving federalism. On examination, Brazil, India and the former Soviet countries to a large extent fail to meet the second and fifth criteria. Their case studies imply that “the political discretion and authority retained by the central government in their systems greatly compromises their market-preserving qualities” (Qian and Weingast, 1997: p.85). There is no structure in their system to allow the local state to be a “helping hand” in economic performance and to allow market preserving federalism. Although China has a totally different political system from these three countries and decentralization without horizontal power divisions, nevertheless her decentralization, according to Qian and Weingast (1996, 1997), provides arguable evidence of a market preserving federalism in a Chinese style.

Montinola, Qian and Weingast (1995); Qian and Weingast (1996); Cao, Qian and Weingast (1999) argue that the decentralization in China's reform in terms of information and power from the central state to locality is achieved through a vertical instead of horizontal decentralization by passing on a considerable degree of decision-making power down to the sub-national level of the hierarchy and ignoring the request for power to be shared by several parties. This fully meets the second criterion, though the horizontal decentralization is absent. Chinese vertical decentralization without horizontal decentralization is especially precious, because the government rejected the other alternatives to reduce their political discretion due to high political transaction costs. In this regard, China's case should be understood as an internal institutional restructuring within the Chinese party-state regime without necessarily

involving an overall political reconstruction. This not only reduces the transaction cost but also creates mechanisms to eliminate the problems noted by North and Kornai by providing a representative middle agent – local government – from inside the ruling regime to work for the outside against the regime itself and to promise economic reform. This, combined with the traditional Chinese administrative hierarchy, typically meets the first criterion, and political domination of the economy meets half of the third criterion, in which government is able to control the common market but there has not yet been a free flow of goods and capitals across all regions. The restructuring political institution replaces some actors in economic performance from purely economic entrepreneurs in the conventional debates with politicians. Those politicians have to work on both areas. The new arrangements between local and central governments on their respective shares of tax responsibilities and revenues, along with the restructuring of resource allocation and enterprise ownership and the increasing use of economic growth as a criterion for the promotion of government personnel, together provide a mechanism for change in local government, which will increasingly become an agent representing its region, an entrepreneur responsible for the regional economy and for policy choices, and a representative of the state committed to competition and marketization. The negotiation and deals between the local and the central states over financial arrangements and the apportionment of property rights in their separate domains provide mechanisms both to limit state predation and harden the budget constraints for both the centre and the localities, though such arrangements have not been institutionalized and therefore represent only a partial reform of China, as we have discussed before (Qian and Weingast, 1996). This indicates that half of the fourth and fifth criteria have been met.

In this regard, the reform is primarily characterized as market reserving federalism in a Chinese style. Central to this system is the “political durability of the built-in arrangement” between central and local governments about the degree of decentralization of decision-making. Montinola, Qian and Weingast (1995); Qian and Weingast (1996, 1997); Cao, Qian and Weingast (1999) argue that, with the completion of Chinese-style federalism, economic reform is able to continue and success can be secured in this centralized, non-liberalized polity by building a new incentive structure and exploiting local government as an instrument for overcoming the political and economic institutional constraints within the political

regime, seen largely as problems of North's political predation and Kornai's SBCs. To some extent, this reform strategy provides an effective political environment in terms of ideological development and adjustable institutions for economic growth, and it guarantees the continuation of economic transition in China case without bringing high transaction costs and what might otherwise be thought to be the necessary political democracy (Goldstein, 1996; Qian and Weingast, 1996; 1997).

Instead of the conventional concern about the relationship between the centre and local enterprises during decentralization, Chinese federalism lays more emphasis on the relationship between the central and local governments and on the organizational development of local government. In the Chinese case, reform to date has enhanced the autonomous power of local government, redefined the politico-economic administrative responsibilities of local government, reshaped the relations of central and local governments, and invited the participation of each locality through its local government as bargainers with the centre over decision-making. The central state also uses this middle agent powerfully to guide economic performance and shows no sign of a willingness to lose power in its control of the common market, the locality and local government through its hierarchy of political administration. According to Bramall (2000: p.470), "the lesson from transition-era China is rather that selective interventionism can work - but only if the state is 'strong'. If the state is weak, then an interventionist strategy is bound to fail because the state will be captured by a series of rent-seeking coalitions pursuing their own interests, rather than the goal of growth promotion." Similarly, Oi (1995: p.1147) said that "China's experience suggests that one should disaggregate the 'state' into its component parts to distinguish between levels of government and the incentives for different levels to perform. There is a need for strong state capacity...at both the local and the central levels". Montinola, Qian and Weingast (1995); Cao, Qian and Weingast (1999) nuanced account suggests that consideration of China's partial reform might help to break through the boundary of conventional debates on politico-economic decentralization and transition, and provide a new theoretical framework.

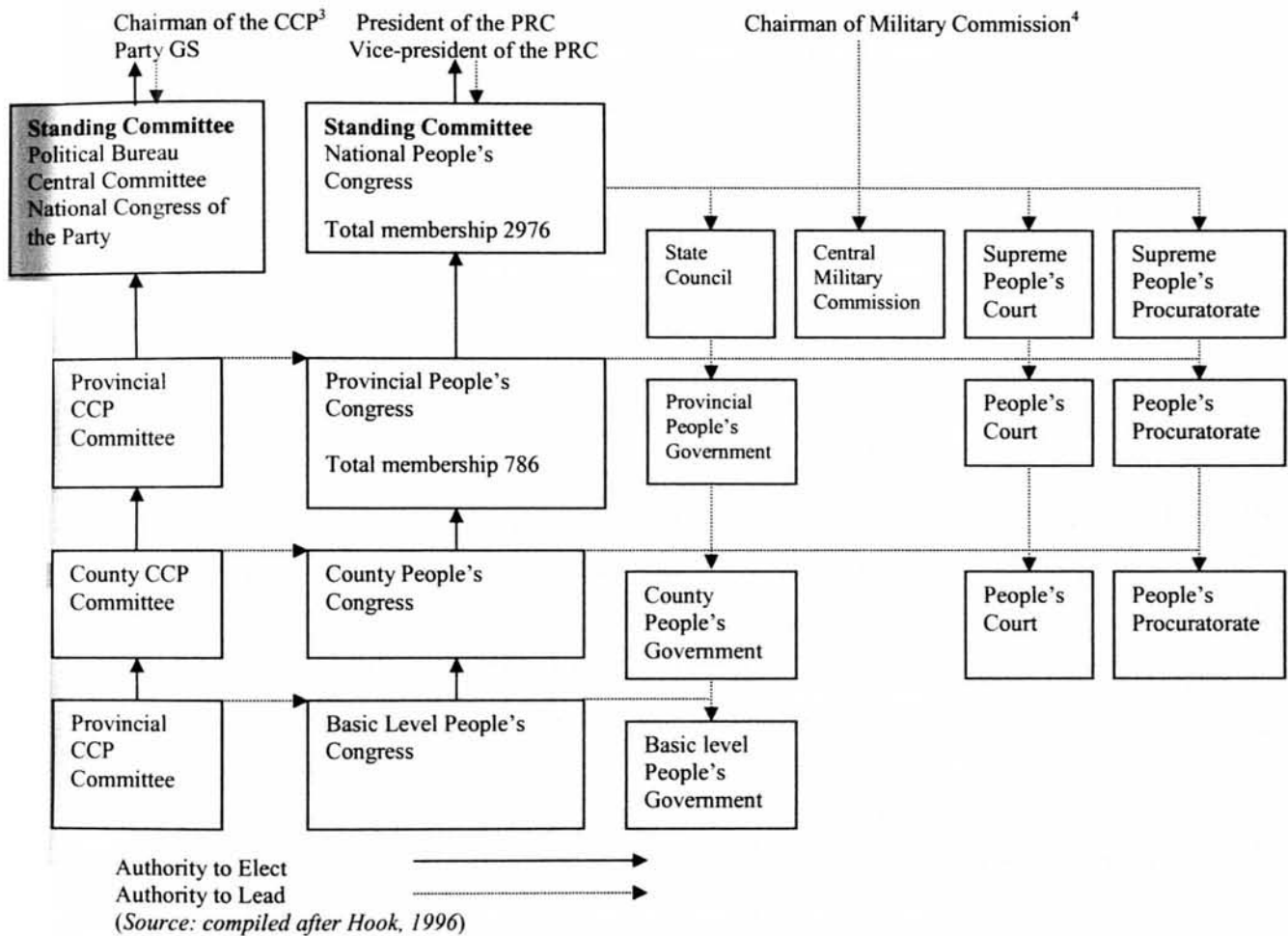
2.2.2 Reviewing China's Transition to Test the Theory of Chinese Style Federalism and its Impact on the Evolution of Role of the Provincial Government

2.2.2.1 The Path of Chinese Partial Reform

In Mao's era, the CCP and the government comprised intertwined but not identical organisations, both operating in the centralised and hierarchical government administrative bureaucracy and having interactive determination in their respective sub-units (Figure 2.1) (Schurmann, 1966; Unger and Chan, 1995; Liu, 2001). Within its decision framework - centre, province, locality to the territorial organisations: school, factory and village commune - the CCP and its officials, headed by the General Secretary (GS), were always dominant and acted as the chief executive officers, especially relative to those without party membership (Oi, 1995). Through this Party-state network, the party controls society by utilising the levers of government (Schurmann, 1966). The State Council (SC) (Figure 2.1), the equivalent of the Cabinet in many countries, has the same rank as the CCP's Political Bureau and Standing Committee, is responsive only to the chief party GSs and facilitates the CCP's control over the country's economy. The SC, headed by the Prime Minister and comprised of the various ministries and commissions handling their specific economic and cultural affairs and planning, could possibly operate on the bottom line units through the vertical departmental network. "In studies of existing socialism, a socialist state has long been characterized by the predominance of the state bureaucracy over both the appropriation and distribution of economic surplus, as well as over the society as a whole. Many scholars would not hesitate to call this totalitarian" (Brus, 1975: p.21-30). As a result, local government at all levels from macro-region to the province, from sub-province to the town, had little to say on economic activities within their administrative territory (Breth, 1978; Zhao and Kwan, 1995 cited by Li, 2000: p.169). The conflict between "lines" (*tiaotiao*) and "area" (*kuangkuang*) was suppressed by giving priority to the national strategy at the expense of local interests (Lieberthal and Oksenberg, 1988; Li, 2000: p.169). With SOEs, though local government played a less influential role in their production, housing and land renting, water and electricity supplies, and other facilities provided by the localities, certain responsibilities have been devolved from their respective ministries to the local level and this has entitled local governments to maintain a certain supervision of these enterprises. Although the

centre/locality conflict has frequently been commented on as the cause of inefficient and problematic SOEs, this is due rather to their operation under too many administrative supervisors (Huang, 1996: p.656). The analysis above indicates that the rigid framework of the Chinese party-state centralised polity has, in its political framework the economic performance, been subject to, and badly affected by, political discretion.

Figure 2.1 The State Structure of the People's Republic of China



The Chinese government's institutional role is always characterised as an agency integrated by economic management and political administration (Yan, 1999). Owing alternatively to

³ Existed between 1949-1981, after 1981, the GS was only the top leader of the CCP.

⁴ On most occasions the Chairman of the Military Commission, President of the PRC and GS of the CCP were taken by one person.

the lack of or restrictions on any type of non-government organisations (NGOs) being established in China, their absence, especially at the grass root level of the locality, has enhanced the domination of the multi-institutional functions of local government (Yan, 1999). However, in a SOE-dominated industrial economy, in the absence of local government in decisions on property rights, fiscal control and resource distribution, its role was largely confined to agriculture and alternatively to the less influential locality-based manufacturing and service sectors. In such a framework, local governments could be seen by and large as the transmitters and political administrators of central state policy. Local governments have regarded their locality-based enterprises as one component of their corporate-like political bureaucracy. The limited economic role of local government was further undermined by the close supervision of the central state through the centralised planning and fiscal systems. Furthermore, the rigid, inefficient commune system in agriculture before 1978 concealed productive elements and left no incentives to peasants and no effective mechanisms could be applied by the local government to reinforce their economic role. Moreover, in securing their cadre career, on most occasions local officials remained silent having seen Deng Xiaoping, the vice prime minister in 1972-76, prosecuted for trying to overthrow the commune system against the politically received wisdom. In short, China's centralised politico-economic system and decision-making mechanics restricted the dynamic economic role of local government in Mao's era when it was regarded as little more than an administrative delegate with limited authority.

After Mao's death, the Chinese realized his failure in managing economic growth, and this alerted the new government regime under Deng Xiaoping's leadership that the continuation of this failure would jeopardize the authority of the CCP and so generate political as well as social instability. Lessons from the past, the influence of Western theories, and inspiration by the economic successes of neighbouring East Asian countries led Deng's regime to a "more flexible and realistic" approach towards economic transition (Fan, 1997; Lin, 1999).

China's economic transition is summarized by Wei (2000b: p.24), as a tripartite process of *decentralization*, *marketization* and *globalization*. The transition emphasized efficiency instead of self-reliance and a clearly efficiency-orientated economy has to rely on market

forces in order to compete (Yang, 1997). Goodman (1989: p.21) argues that decentralization in China seems desirable because of the failure of the centralized command economic system and because of her size and ethnic mix. China's regional variety can be handled most efficiently by the locality appealing to the idea of Hayek (1945). At the outset, the reformists adopted a strategy of decentralizing economic control initially for agriculture by re-introducing marketization. The three thoughts behind this strategy were, first, that if the rural reform failed, the CCP would suffer a minor loss economically and politically as the urban-based industrial sectors were more important in Mao's economy (Oi, 1995); second, the rural economies in China's broad countryside had been on the periphery of the politico-economic administration and were partly rural-fair-based and always commercially active even in the Maoist planning era (Shirk, 2000; Wei, 2003); third, starting with a fundamental reform of the vast population-intensive agricultural sector, which was the legacy of Mao's revolution⁵, could at least solve the urgent need for daily goods supply and improve the basic living standard of consumers, who were still experiencing material shortages ten years after the Cultural Revolution (Naughton, 1994). The most important implication of the strategy of the early phase of Chinese decentralization was that economic liberalization would not be limited by political sensitivity, which laid crucial ground for the later stages of the reform.

Despite the debates, as argued by Bramall (2000), that agricultural success in the post-Mao era was attributed to a series of actions taken by the state, such as team farming, the relaxation of procurement quotas and improvements in modern agricultural technologies, etc., there are many other scholars who still think that decollectivization was fundamental in connection with China's promotion of efficiency (Lin, 1992). Farmers received considerable decision-making power and became responsible for their own activities, and towns and villages could produce goods and diversify production according to market demand (Chow, 2001). This was an initial shift of autonomy gradually from the centre to the locality and from respective economic ministries to the enterprises⁶.

⁵ Mao's communist revolution started from the countryside, where the political administration was weak.

⁶ *The Bright Daily* (CCP's Newspaper): Oct. 4. 1981, cited by Solinger (1993).

When the reform was launched, the decision-making power in farm production and in the rural-based industries returned to local government through the reintroduction of market regulation of the rural economy and the replacement of the commune system with “contract responsibility systems”, which not only released productivity but also required the local government intervention to channel local talent toward production growth in a semi-market economy. It is in particular in the lighter resource industries and less SOE dominated regions that local government was able to play an economic role more than simply a political administrator and to act as a real economic agent. The rural enterprises at the state’s administrative periphery provided a “system-grey zone” for local governments to reestablish their economic authority. It is said by Huang (1994) that Chinese local states have resources, techniques and organization, that were lacking in the Soviet reform, to take and enlarge the opportunities of the decentralization.

On the frontline, the village GS was the first to receive decision-making power and responsibility for the whole community’s economic activities. According to the new responsibility system, the land remained in the hands of the state but the ownership for production and marketing by local farms and farming-based-collective industries was passed on to the local authorities. Thus the village GS was not simply the leader of the party but also the manager of village farming business in handling day-to-day production. This is termed by Oi (1995: p.1132) as ‘local state corporatism’ and seen as evidence for North’s (1990: p.107) institution: “the underlying determination of the long-run performance of economy”. After handing in the required quotas to the state, in contrast to the past when they had to remit most income, the village was now allowed to retain any surplus income, which inevitably stimulated the peasants, including the GS and other leaders, to seek more incentives, such as bonuses, increasing income and other perks. This “sharing economic wealth” and the consequent incentives (North, 1990) bound the cadres themselves to economic improvement and drove them to optimize their economic management and remove as much bureaucracy as possible, an initial form of hardening of Kornai’s SBCs. Apart from these lucrative incentives, the cadres’ capability in managing economic growth could be also rewarded by the possibility of promotion, whereas the Maoist bureaucratic legacy had been to select higher level cadres from the grassroots level by judging how they expressed their political

attitude and responded to a new policy (Oi, 1995; Edin, 2003). The principal criteria of promotion in the Post-Mao era were reformulated and applied to all departments, units and regions: political integrity (*de*), competence (*neng*), diligence (*qing*), and achievement (*ji*). Within the four criteria, work achievement accounts for 60-70 per cent and this now refers mostly to the economic improvement by the local officials instead of their political expression (Edin, 2003: p.37). A good example is Mr. Zhao Ziyang, who won his promotion and moved to the SC in 1980 after he, as the governor of Sichuan province, had bravely experimented with a contract system in local rural economies, thereby improving the local economy of this agriculture-based province (Goodman, 1994: p.14). According to Oi (1995: p.1133): “for China the issue was not whether its bureaucracy was capable of generating economic growth but whether it had the incentive to do so.” These redoubled incentives have improved the performance of local government and forced local government and their leaders to be both economic entrepreneurs and political agents, who, for the sake of the locality, bargain with the central government for further institutional relaxation, which has also influenced the behaviour of the higher levels of government (Edin, 2003).

Along with farming agricultural improvements, the rural economy was upgraded to profitable industrialized and commercialized levels, thereby stimulating the growth of rural industrial enterprises and leading to remarkably differentiated economic growth rates among the 30 regions and contributing to China’s reform distinguished from other countries. From two dimensions we can discuss the implications of the rapid rise of rural enterprise in China’s reform. Firstly it lays a ground that could smoothly usher in an economic transition in terms of ownership privatization, economic marketization and operation efficiency into the industrial sector, the nation’s economic core. China’s rural enterprise is a different and mixed organizational form - “midway along an evolutionary continuum from state to private ownership” (Walder, 1995: p.264). It provides an institutionally ambiguous and a policy-unclear, alternative ownership in socialist China, in which property is not completely within the socialism system nor wholly in private control. This makes the hardening of budget constraints and marketization operation of enterprises more efficiently and much easily applied. Many enterprises involved in the agricultural sector have been in the hands of private or semi-private and collective owners since Mao’s era. With the nature of profit-

seeking and semi-private ownership that terminated the state's bailout, few among these enterprises operated under SBCs, especially after the reform. Walder (1995), Kwong and Lee (2000) argue that Kornai's SBC, remaining serious at higher levels of government jurisdiction, was minimal in China's rural sectors. As TVEs, since the reform, have expanded further from agricultural to industrial sectors involved in mostly non-core, manufacturing and light industries, the application of HBCs and marketization operation and the self-determination of production, sale and distribution via these enterprises therefore is passed on to the operation of China's major economic sector. This breaks through the rigidity and inefficiency of the socialist command economy over China's industrial production and terminates the symptoms of SBCs, thereby reviving efficiency of industrial economy, which, most importantly, not only enhances China's economic growth and preserves market economy, but also propels the institutional change of ownership of industrial sector largely dominated by SOEs. And such a definition of property rights as collective-ship diversified the conflict forcing concerns about socialist ideological purity, which provides a ground of political toleration for the reform in industrial privatization.

During the initial price reform around 1982, these non-state owned rural enterprises were able to decide the price of their own products that not only did they bring a high income and rapid improvement in productivity and efficiency to each involved individual, but they also created new mechanisms of agency without necessarily privatizing ownership, setting a model for the state enterprises to follow eagerly (Putterman, 1996). The prosperity experienced by the collective enterprises inspired local, small-sized, state-owned enterprises to undergo transfers to collective status and eventually initiated the massive transformation of ownership of the country's large, non-core public sectors into various "semi"-state or private ownership such as collective, state shareholder-ship, etc., without triggering socialist defensiveness and steadying China's public sectors transfers (Naughton, 1994; Bramall, 2000). Therefore, the economic transition has been "easier, evolutionary and less costly" than it might otherwise have been (Pei, 1998: p.31). "During the economic transition, the property rights form of the non-state rural sector over assets could be much better defined, without changing the form of ownership and only changing the principle of delineating rights from command/obey to voluntary negotiation, and transaction costs in this sector could be both

rapidly and considerably decreased” (Pei, 1998: p.31). The low cost of transactions of the increasingly large non-state sector significantly reduced the transaction cost of China’s reform overall.

The reform in China has meant that non-primary industry grew faster than primary industry and that non-state owned enterprises grew faster than state-owned enterprises in the coastal regions (Pei, 1998). Regions with a high proportion of fast-growing industries in their economic structure could expect to have faster growth rates than regions with a high proportion of nationally slow growing industries. China’s success in her transition is apparently a rapid economic growth in the eastern and southern regions, in which the development of TVEs in Jiangsu province, private enterprises in Zhejiang province, and foreign direct investment (FDI) generated joint ventures in Guangdong province, were key economic sectors. Table 2.1 indicates the fast growth of GDP per capita of these regions since 1978. It is just as Walder (1995: p.263 and p.265) argued: “in China’s vast public sector, the fastest growth in output and productivity has occurred where government ownership rights are clearest..., which enables officials to... monitor the firm and enforce their interests as owners.” “The most industrial growth occurs in areas in which the transition to a market economy is closer to completion.” Again this sets another example for other inland regions to follow and stands as remarkably different from the reform in the former European countries.

Secondly, it creates a mechanism that enables the local party-state, including both township and provincial governments, to be involved in a local economy that embarks on the changes of its administrative role and initiates the reform on China’s overall governmental institution. As the TVEs themselves are under the domain of local state’s administration, with China’s decentralization of fiscal administration, the performance of the enterprises becomes a big concern to the local state. If the enterprises have done well, it would not only provide increasing revenues for local government to enhance its authority over local economy but also bring in economic prosperity, which is viewed as a political credit both for local government to bargain for more autonomy and for local leaders to win promotion. Again, due to the ownership of TVEs within the local administration, the local leaders could naturally

practise managerial and authority powers over the enterprises, and share and respond to the revenues submitted by the enterprises. Both incentives drive local states to be deeply involved in the affairs of local enterprises.

Table 2.1 The Growth of Provincial GDP per capita, 1978 and 1994

Provinces	GDP per capita in 1978 and 1994 (yuan)			Percentage of National Average 1978 and 1994 (%)		
	1978	1994	Change	Index 1978	Index 1994	Change
Beijing (metropolitan city)	1267.8	4148.3	2880.5	334.5	306.6	-27.9
Tianjin (metropolitan city)	1160.0	3435.3	2275.3	306.1	253.9	-52.2
Centre:						
Shanxi	365.0	1097.3	732.3	96.1	81.1	-15.2
Inner Mongolia	317.0	1047.0	730.0	83.6	77.4	-6.2
Jilin	381.0	1369.2	988.2	100.5	101.2	0.7
Heilongjiang	564.0	1405.8	841.8	148.8	103.9	-44.9
Anhui	244.0	871.3	627.3	4.4	64.4	0.0
Jiangxi	276.0	1051.3	775.3	72.8	77.7	4.9
Henan	232.0	913.3	681.3	61.2	67.5	6.3
Hubei	232.0	1271.8	939.8	87.6	94.0	6.4
Hunan	286.0	870.0	5844.0	75.5	64.3	-11.2
East:						
Hebei	364.1	1325.9	961.8	96.1	98.0	1.9
Liaoning	677.0	2125.6	1448.6	178.6	157.1	-21.5
Shanghai (metropolitan city)	2498.0	8044.9	5546.9	659.1	594.6	-64.5
Jiangsu	430.0	2381.3	1951.3	113.5	176.0	62.5
Zhejiang	331.0	2214.9	1883.9	87.3	163.7	76.4
Fujian	273.0	1677.7	1404.7	72.0	124.0	52.0
Shandong	316.0	1543.8	1227.8	83.4	114.1	30.7
Guangdong	370.0	2321.8	1951.8	97.6	171.6	74.0
Hainan*		1589.0			117.4	
West						
Guangxi	227.0	732.0	505.0	59.9	54.1	-5.8
Sichuan	253.0	953.9	700.9	66.8	70.5	3.7
Guizhou	175.0	576.4	401.4	46.2	42.6	-3.6
Yunnan	225.0	786.1	561.1	59.4	58.1	-1.3
Tibet	375.0	918.7	543.7	98.9	67.9	-31.0
Shannxi	294.0	1001.2	707.2	77.6	74.0	-3.6
Gansu	348.0	1029.6	681.6	91.8	76.1	-15.7
Qinghai	428.0	90.9	502.9	112.9	68.8	-44.1
Ningxia	370.0	1017.5	647.5	97.6	75.2	-22.4
Xinjiang	313.0	1244.8	931.8	82.6	92.0	9.4
National Average	379.0	1353	97.4	100	100	0.0

(Note: *Hainan used to be part of Guangdong province and became a separate province in 1988.

Source: National Statistics Bureau: China Statistical Yearbook, 1997)

Kwong and Lee (2000: p.516) used a principal-agent framework to explain the relations between local government at the county level and the township-village enterprises. They comment that the overlapping interests of government and enterprises have fostered local

government's business-like behaviours that resulted from China's fiscal reform and that encouraged them to prompt local TVE and marketization developments. The local TVEs provided revenue increases to allow the local government to have a vital power to make their own decisions and in return the local government provided preferential aid to the enterprises in the form of tax and credit privileges, which have alleviate the problems of the principal-agent, as coined by Rose (1973). Thus, the more power the local governments have over financial decisions and production, the more responsible they feel for the TVEs in their territory, an incentive for changing their own local governmental behaviour and the more ground they could stand on to act against the central predation. Within this corporate-like system, the incentive shift the local governments into coordinators or mediators – middle agents – between upper governments and local enterprises and between enterprises and their foreign investors or business partners. At the township level, this middle agent acts more like a locality defender.

They have to respond to the performance of local enterprises in terms of resource allocation, enterprises operation, financial discipline, capital investment recruitment, product sales and promotion, and worker performance. Changes in the economic management and bureaucratic service of local governments indicate that local, especially township, governments have started playing a critical role as economic entrepreneurs in regional economic development and have in effect become representatives of local enterprises and local interest against the centre. Walder's (1995) analysis complemented and supported the same idea through examining the relations between local governments and enterprises. He (1995: p.267) concluded that "China's rapid industrial growth has been spearheaded by the management of public firms and, to some extent, even by local government officials acting as 'market-oriented agents' who compete fiercely on regional, national, and even international product markets."

When local and national interests were in conflict, they have the responsibility to negotiate with the state on the local side to minimize losses. As the semi-owner of the local enterprises, local governments have to bribe the central government or their upper leaders for better or fairer treatment in the best interests of their sponsoring local enterprises. Local governments

not only provide services in terms of institutional relaxation and securing information and resources to the local enterprises, but also negotiate for more institutional cooperation by removing politico-economic constraints from the upper tiers of governments. Such agency completes a new political governing structure of China's economic institutions, promising a more relaxed political environment – political efficiency – for the continuation of economic reform.

In experiencing economic management, they enhanced their responsibility for the protection of local economic achievements and market competition, in the interests of the region and for themselves. This is especially the case in regions where there are few major industrial enterprises directly owned and controlled by the central government but there are large-scale TVEs. Even in regions with state-determined economies, local government goes to great lengths to bargain with the state for possible ownership of SOEs and, as soon as those enterprises are under their administrative domain, they transform them into a semi-privatised form in order to get rid of their rigid systems of operation. This to some extent “defines” property rights within the domain of local actors to protect the reform successes, provide incentives for economic efficiency and terminate central arbitration, as described by North. It is a “fake collective”, only using the collective label for protection and economic benefits (Liu, 1992; Oi, 1995: p.1135).

In order to enforce the economic role of local state's administration, the local governments themselves have changed their bureaucratic behaviour to become more entrepreneurial, managerial and efficient, such as commitment to economic instead of political administration, undertaking financial discipline of local governmental budget, bureaucratic rationality and non-political attachment in governmental administration. Their behaviours influence the performance of their upper governmental units and form a driving force for the reform of national governmental bureaucracy and irreversible politico-economic institutional change toward autonomy of decision-making.

Mao's traditional regional development created self-sufficiency and self-reliance within macro-regional units, and this resulted in China becoming a “cellular” economy and polity in

which local governments cooperated with local operating units, gaining a capability for thwarting and subverting Beijing's demands on the eve of reform (Donnithorne, 1972). The argument by Liu (1992: p.294) developed from Wenzhou's case, stated that "a study of local deviation from state policies and its historical roots also inevitably raises the questions about the degree of control of a socialist state... the concept of a sporadic totalitarian state, which denotes a state with strong despotic power but weak infrastructural power." Weak infrastructural power creates a possibility for local government to develop their economic role and change their bureaucratic behaviours and results in the possibility of local governments' involvement in the economy in the reform era.

In addition, "[T]wo of the most important institutional changes that prompted local government to become entrepreneurial and develop rural industry were the decollectivization of agricultural production and fiscal reform" (Oi, 1995: p.1137). Let us now turn to look at the impact of fiscal reform on local government. As we know, in the past the central state held tightly on to national investment and budgetary control. Local governments had no permission to retain any surplus revenue in their respective regions and they financed their region's expenditure according to funds allocated by the centre. The fiscal reform started with permission being given to some preferential regions, such as Guangdong and Fujian, to retain a fixed sum of surplus annual revenue, which made a great contribution to generate those regions' rapid economic growth. Using these retained extra funds, local governments are able to make investments on their own terms. A good or bad investment decision obviously displays their skill in managing and sustaining the local economy. Poor investments by local governments would entail them being burdened with the losses from their protected enterprises and sponsored projects without any bailout from the central state; on the other hand, correct decisions would entitle them to enjoy larger amounts of extra-budgetary non-tax revenue. China has a "dual" fiscal system, in which two official budgetary funds exist at the same time: one is called the budgetary fund, which is used to finance generally national expenditures controlled by the finance ministry; the other is called the extra-budgetary fund, which is set as a flexible fund for government departments. The extra budgetary funds were set up with the aim of providing small flexible funds outside budgets, for localities and enterprises initially, but they have expanded rapidly after the reform and

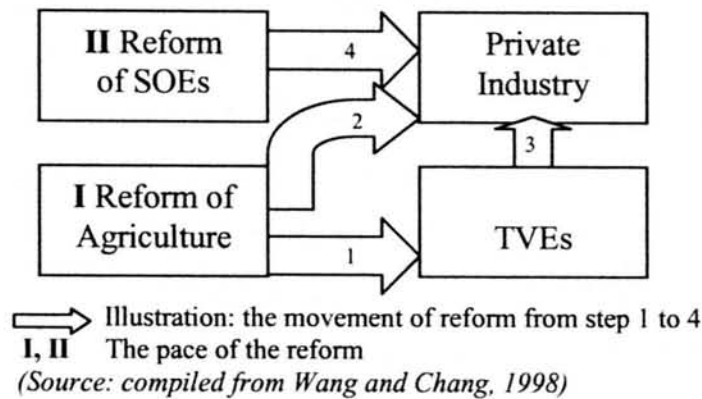
were largely controlled by the local governments to use for a variety of purposes. The increasing extra budgetary funds mark an enhancement of local governments' power to make their own decisions, and so all levels of government make every effort to recruit the extra budgetary funds. This they do, either by helping local, productive enterprises to grow rapidly in order to increase local revenues, so as consequently to increase the retained revenues and strictly discipline the provincial budgetary behaviours, or by bargaining with the central state to reduce remittance rates in order to raise in relative terms the retained surplus revenues (Wang and Liu, 2000). It is this fiscal incentive that explains the local governments' enthusiastic involvements in rural reform and enterprise growth and in institutional decentralisation (Ho, 1994; Oi, 1995: p.1138). The substantial amounts of extra budgetary funds mean a lot to local government: the power for making decisions and the capacity to make strategy for local development. The financial behaviour of local governments not only forms the initiative for hardening soft budget constraints to the centre as well as localities themselves in securing resources in their respective domains, but also efficiently stops central economic "predation" over local wealth.

In summary, the development of TVEs accompanied by fiscal reforms leads to a governmental institutional change where the local governments of especially coastal regions with large TVEs were seen, not just as simple political guides, but also as economic managers capable of reviving governmental entrepreneurship by involving themselves in local economic growth. This involvement encouraged local government to adapt Mao's political institutions for economic corporation in order to tackle the state's policy restrictions on the economic system and preserve marketization (Oi, 1995; Wei, 2000b, 2002), which are explained by North (1990) as the restructuring of institutional frameworks to secure the economic success that to some extent is seen as the initiation of China's political institutional reform. This institutional change has been firmly stressed by Montinola, Qian and Weingast, (1995); Qian and Weingast (1996); Cao, Qian and Weingast (1999) in the theory of Chinese Style Federalism as a mechanism to prolong the partial reform. The central key is that local government started playing an important role. In addition, the development of TVEs has encouraged the uneven regional development between the coast, with its large number of

TVEs dominating the local economy, and those regions, such as in inland, where large SOEs persist.

After the accomplishment of the rural and agricultural economic transition, as confidence grew and experiences gained, China was ready to undergo a profound transition right across the country, with an emphasis on privatizing the SOEs that have dominated urban and industrial economies for nearly fifty years (Walder, 1996a) (Figure 2.2).

Figure 2.2 The Order of Institutional Transfer



Chinese urban reform started in 1984 after the Twelfth Central Committee's Third Plenum and targeted the industrial sector (SOEs), which used to operate strictly within the state distributive system of material supply and demand. The reform emphasized four areas: the planning system, management, prices and wage policy. In effect, the planning system gave way to "guidance" directives focusing on profitability instead of plan fulfilment, and market forces started influencing production, particularly of manufacturing units which had less bearing on the national economy. Enterprises were allowed to retain surplus profit after handing in a fixed quota. The managers of state enterprises were assigned new authority to handle product marketing, to purchase materials and inputs outside state distribution channels, and new responsibility for the operation of their units. In 1987, a new system of management was introduced in 75 per cent of China's 12,398 larger state-owned industrial enterprises, known as the "contract responsibility system", in which managers have a right to employ workers and to discipline their behaviour according to the contract (Solinger, 1993). The new wage system, replacing grade-fixed payments, justified the incomes of the workers and managers according to their ability and actual workloads. The new price policy corrects

the disconnection between state plan and market prices (Solinger, 1993). However, despite much having been done to SOEs in the reform of their management and operation, their ownership is still under the jurisdiction of government administration.⁷ As there has been no reform of the property rights of SOEs, problems persist in their operation that consequently result in a weakness in market competition, in slow structural adaptation, and in their inefficient operation. These problems may be viewed as: insufficient incentives and decision-making power for operators; soft budgetary constraints and no clear definition of the responsibilities of managers for state property, observable as the state having neither concern for property rights nor guidance for enterprise operation, and the enterprises showing little responsibility for the preservation, effective operation and profitability of assets. As by 1994 SOEs account for 35-40 per cent of GDP, take up 50 per cent of national enterprises above the town-level and centre in the major public sectors of infrastructure, energy, transportation, and other core industries, such remaining problems within the SOE sector hinder the continuation and completion of China's transition (Gao and Chi, 1997). The economies of regions mainly relied on the existing large SOEs, for example, the Northeast regions, China's traditional industrial base, have been seriously affected, which resulted in their economies being less progressive than that of the coastal regions and remaining at a standstill. Moreover, local government's economic institutional role in the areas with SOEs dominated economies is contradicted and handicapped by the intervention of the central state, with its predominantly political concerns, in the local economy via SOEs.

In addition, during the transition, China also launched an open door campaign and located Special Economic Open Zones (SEOZs) in the coastal provinces, so that a favourable environment was created for promoting foreign trade and attracting large-scale overseas investment. In these SEOZs many political restrictions were lifted and firms and enterprises were able to operate under a semi-market economic system. FDI and joint ventures were especially welcomed. Led by labour-intensive export-orientated manufacturing industries influenced by classic western export-based theory, these regions' economies experienced rapid growth.

⁷ On April 13, 1988, the state-owned industrial enterprise law of the PRC was adopted in which it clearly defined the nature, right and duties of SOEs.

In accordance with marketization and globalization, China, though retaining state intervention in the major public sectors, has decentralized relative economic autonomy and this has inevitably weakened central political control over local governments, which has therefore increased their responsibility for local economic growth (Huang, 1996). In the SEOZs, both state and private enterprises, in collaboration with local governments, are able to act as real economic institutions. As the semi-owner of these enterprises, the local political administrative government has become more entrepreneurial and liberated, which also reflects a further requirement for change in political institutions. In other words, globalization and marketization have made China adjust her political system to be more conducive to economic growth. The term “socialist market economy” was thus coined to describe the economic transition (Deng Xiaoping, 1993). Naughton (1994, cited by Goldstein, 1996: p.147) described key characteristics of China’s transition as having a few features: first, a massive growth of rural enterprises which broke through the state monopoly control over industrial sectors in the form of collective enterprises and foreign trade, that bring in market competition “both among state firms, state and non-state firms”; secondly, government monitoring of state-owned firms and central planning is still in practised but minimized to a certain extent. More importantly here, these two features fundamentally constitute empirical evidence for Qian, Weingast and other fellow scholars to construct and argue in the theory of Federalism Chinese Style for the success of China’s partial reform (Qian and Weingast, 1996; Cao, Qian and Weingast, 1999).

2.2.2.2 Fostering Provincial Government’s Dynamic Institutional Roles in China’s Regional Development and its Significance to China’s Reform

China’s regional development used to be strongly the state’s determination through policy as instruments to manipulate growth especially for the selected regions. China’s regional development in the Mao’s era embodied an approach of redistribution of industrial production that was accomplished through resource transfers, economic self-reliance, and close-to-resource Soviet heavy industries construction. On reviewing China’s regional development in the pre-reform period, a phase of the socialist planning system used the top-down centralized policy of resource distribution to pursue the regional development and this

approach hardly took into account the factors of local initiatives and many initiatives in fact had been concealed by the rigidity of the planning system. However, since the reform, as efficiency plays domination, local initiatives have been strongly emphasized. Many scholars think that the cause-effect relationship between preferential policy emphasizing resource distribution and regional growth determines the development of China's regions, but to a large extent other factors involved in generating regional development have been paid much attention.

As China's transition was regarded as a "bottom-up" process (Fan, 1995), the cause of rapid development on the coast is not simply attributed to the state resource distribution but is multi-faceted with largely local efforts driving the reform. The "bottom up" approach with a semi-free market system had to involve initiatives. It is local state that willingly triggered these initiatives, released local talent and exploited the reform opportunities to generate regional and national growth. The role of local governments has been emphasized by Shieh (2000); Gu, Wong, Shen and Zhen (2001) in their study of the rapid growth on the coast using a case study of Guangdong and Fujian provinces. Wei (2000, 2003: p.46) also suggests that: "China's process of reform can be best understood as a triple process of decentralization, marketization, and globalization; and consequently multiple mechanisms – the state, the global investor and the locality – are shaping the uneven regional development...in particular the role of localities".

China's transition has removed many political constraints on the revival of regional productivity. However, when the transition was introduced to a region, it could not be pursued top-down by the state without the collaboration of local authority and institutions. What is left of Mao's political system still requires local governments to be the dominating institutions, acting as political guides and economic agents to the region. They stand between the central government and local social units serving as "political middleman", dealing both with transmitting the central policy to the region and responding to regional development (Cheung, 1998b: p.13; Shieh, 2000). It is the local government which decides whether its region should take a bold reform before others or open a "policy window" before it is accepted by the rest of China. To guide local reform against the established ideologies, local

governments have to rely on the integrity, cohesion and coordination of the government regime and also rely on the leaders' "perception, attitude, preferences or instincts" and commitments to reform. As China's transition is complicated across the country and varied from region to region, without an integrated blueprint, each individual provincial government is constantly challenged by seeking and undertaking suitable strategies for its respective region in reducing constraints and exploiting opportunities. Mao's self-reliance strategy meant no support between regions and no interdependent network established among all of the provinces. The success of local reform really depends on the local government's willingness, integrity, experience and capability.

As China's decentralisation distributes decision-making power to the locality, regional development has to a large extent related to the performance of major economic actors. Within the governmental hierarchy, the central government is the top level of decision-making; the provincial governments are the second, undertaking tasks of transmitting, modifying and implementing policies to their respective localities and sub-levelled government at township; then the local units, including village communes, non-or state enterprises, are the final level of the operating network. The decentralisation of power to the locality has diversified the roles of local, especially provincial government, as, on the one hand being part of state's governmental regime, the local government facilitates its political control and helps with the effectiveness of central policy implementation to the regions – guardians of central policy – and, on the other hand, being local leaders they have to stand up for their region and produce local policies against inappropriate initiatives from Beijing, though Yang (1995) thinks that few leaders are willing to risk their careers for the sake of purely local interests. However, China's political administration technically places those local leaders in the middle of the bureaucratic hierarchy. In order to achieve their personal interests, the leaders of provincial governments must act in the interest of the region first to ensure they receive credit for their actions from the centre. That effectively drives these leaders to involve themselves in local economic affairs.

Hausner, Kudlacz and Szlachta (1997: p.207) stress the importance of local governments as semi-independent in the restructuring network in Poland's reform, and they claim that the

establishment of local self-government marked a breakthrough in the construction of the democratic state structure, and it is necessary to develop such complex but coherent system of agents at the intermediate, regional and local levels, which indicates that one of major local actors, represented by the public administration at the provincial level, is able to perform independently and effectively. This is required by market development for appropriate instruments and institutions based on a locality to handle the varied problems created by an individual region in implementing state's regional policy. Pickvance (1997: p.306) also argued that, in a transition, local government is a key mediating institution having an ambiguity of meanings, since "it can be seen as simply implementing central government policy", termed "passive transmitting", or "as providing scope for local political force to modify the implementation of central policies" – "actively shaping". It gradually takes control of resources and establishes or adapts old into new networks to exercise increasing economic and political power. Only those local key actors represented by local governments through the gain of authority over local resource could produce the best performance of locality than the central government (Hayed, 1945). It is said by Yang (1994: p.65) that "a government's capacity to manage the economy depends not only on the amount of resources it directly controls but also, in the case of an economy becoming more and more market-oriented, on whether it possesses the appropriate economic institutions for undertaking such management."

The institutional approach to regional development, emphasizing the significance of non-economic factors, looks at the source of regional advantages which lie in the character of local social, cultural and institutional arrangements (Amin, 1999: p.369). It improves the traditional top-down policy affected by Keynesian theory's focus on income redistribution, welfare policy, and state incentives to the less favoured regions, and by the neo-liberal theories approving investment in training, transport, communication infrastructure, and technology to stimulate less favoured regions. "Explanatory weight is given to the effects of formal and informal institutions,...to value and rationalities of action ensconced in networks and institutions; to the composition of networks of economic association, especially their role in disseminating information, knowledge, and learning for economic adaptability; and to intermediate institutions between market and state which are relatively purposeful and participatory forms of

arrangement” (Amin, 1999: p.368). He suggests that the orientation of regional policy should emphasize not only the “supply base”, including advanced transportation and communication system, but also the “institutional base” including business agencies and political representation (Amin, 1999).

China’s regional development planning underlain by Chinese versions of growth pole theories of the “Third Front” or the “Three Ladder Step”, has given the impression that concentration of resource distribution and large investments are the major method to generate or maintain the identified regions’ economic growth and are the major component of state regional policies. Given the size of China and its various economic conditions, the central policy-makers are always troubled by the balance between transferring scarce national resources and funds to a targeted region in order effectively to generate growth in the national interest, and the need to minimize unequal development among regions in order to alleviate the side-effect of these transfers. “In a socialist system which accords the ultimate power of resource allocation (especially investment to the state), China’s leadership is constantly confronted by allocation dilemmas – by choices between national integration and stability, and between efficiency and equality. “The policies that ensue thus constitute negotiated outcomes between conflicting ideals” (Fan, 1995: p.421). In the framework of Chinese political strategy, only regions whose growth has political significance can be treated preferentially and be the target of policy preference, which leave the rest of regions to struggle with their own resources and to cry out that their resources are being “taken away”.

Despite Beijing’s strategies for national development dominating the development policies of each individual region, certain institutional structures established in Mao’s period provide an opportunity for local governments. When a new policy is adopted nationally, it is always experimented with in one or more regions first on a trial basis. Obviously the selected trial regions have to fulfil certain preliminary conditions in order to achieve the expected results (Lieberthal and Oksenberg, 1988). In the region with these conditions, the decision on whether they will be a trial region or not depends on the local leaders’ efforts, their connections with central leaders, and their negotiating leverage at the centre. If a region is selected, the gains will not only be benefits from abundant resource allocation and

preferential policies, but also recognition of the local leaders' competence. If the trial is successful, the local leaders might either be promoted to high office or remain in their original post but with future bargaining clout for reform or better treatment. For example, in China's national fiscal reform in the mid-1990s, the Premier Minister had to negotiate with the governor of Guangdong (Qian and Weingast, 1996). As for promoted leaders, they intend to or are asked by their original regions to "take care of their regions". In this rapport alliance network, the region will always be in the good care of their former leaders. For example, after Guangdong's successful reform, in 1992, one of six members of the CCP's Political Bureau was posted by the current GS of Guangdong's CCP: Mr Xie Feng, and he undoubtedly influenced the central decision in favour of Guangdong's development (Hook, 1996). Such reform "pioneer" success and bureaucratic networks provide a negotiable political environment in terms of bureaucratic administration to pursue institutional relaxation for economic liberalisation.

Lieberthal and Oksenberg (1988: p.3) in their research have systemically examined "how the bureaucratic structure of the state, policy processes, and outcomes are interrelated in contemporary China". The research revealed that, from the outside, Chinese bureaucratic apparatus and power chain appeared as unified and hierarchical but, on the inside, turned out to be divided, fragmented, segmented, and stratified, which promoted a "system of negotiations, bargaining and the seeking of consensus among affected bureaucracies" (Ibid., p.3). Chinese decision-making is a complex process: considering an initiative among the leaders; announcing the initiative; discussing the requirement for allocated funds and material resources within the plan; scheduling and regulating construction; and ensuring measures to make the plan produce the expected result. Any project, before being proposed, requires large participating units and personnel to undertaking a series of approval research studies in terms of feasibility, design, technology, and finance. China's power elite at the top level of the decision-making system is confined to 25-30 people within the SC, who enjoy influence in formulating a national policy, and the prestige of one or two core leaders (for example Deng Xiaoping) necessitates casting their own personal policy preference in terms of the national interest; but the elites cannot control or monitor policy being implemented effectively and cohesively by sublevel units. Every step involved in the outcome of the final

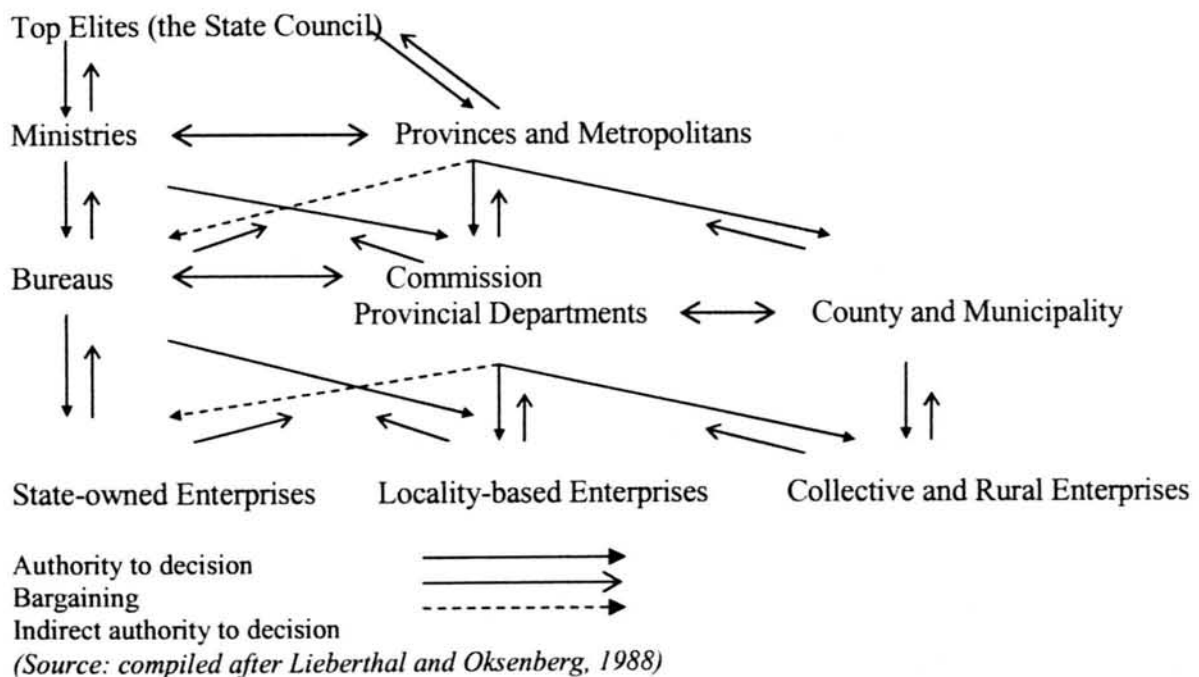
version of a plan and the results of implementation is the result of bargaining among the participating units. In the first place, at the level of the SC ministries and commissions, the officials and the operating procedures of the organisation become very powerful in shaping the final version and issuing, transmitting and implementing the policy down to lower levels of operating units in targeted regions. Ministries and bureaux have particular interests on their side in seeking supplementation attached to the draft in order to express their views and rationalise the formulation of policy. They have to turn to the top leaders for support and understanding of their expertise and contribution in terms of both their units' and the national interests. They make efforts to influence the decisions of the top leaders to reach the final agreement on any substantive policy. Such approaches shape the bureaucratic behaviour and their results are passed on to officials and units at all lower levels of government. In the end, the policy reaching the operating level has always been heavily adapted from the initial one (Figure 2.3). Again, at the implementation level, all sub-levels of operating units and officials can interpret the policy with their interests in mind in accordance to the bargaining agreement with their respective upper level authorities. For example, on the agreement of fiscal reform in 1980-84, it turned out that as many as 14 instead of an initial 7 provinces actually received subsidies from the Centre. In realising such a process, the central state can only set forth goals or instructions on what should be done, but there are no detailed implementations and regulating documents accompanying the main policy of the kind normally written by higher-level decision-making in western countries. Such a non-cohesive policy-making process indicates a loose control by the state over the lower operating units and provinces: at the top, the leaders have always a strong commitment to the policy, but at the bottom, the policy is presented and implemented divergently from the original intentions.

Therefore in this weak infrastructural control, central-provincial relations are viewed as characterized by intense bargaining between both sides concerning their own interests and resources. In pursuit of a consensus among the many involved officials and organisations before it is possible to get action, a complex bargaining process takes place in the decision system, which enhances the ability of various provincial and operating units at all levels to make their own decisions and amend central policy (Lieberthal and Oksenberg, 1988).

Lampton (1992: p.37) said "bargaining is one of several forms of authority relationship in

China, that it has been of central importance in the Chinese policy process throughout the Communist era that it became increasing important in the first decade of reform in the post-Mao era.” For him the systematic causes of bargaining are as follows: first, Chinese policy-making has too many, parallel, interdependent territorial and departmental units with divergent and varied interests involved but no effective legal measures to stop negotiation and bargaining among those units; second, Chinese policy-making still sits in a context of a bureaucratic-oriented polity with limited market coordination; third, policy is distortedly implemented by the localities in favour of their own interests, the so-called “implementation bias” (Naughton, 1987, cited by Liberthal and Lampton: p.38); fourth, the ideology of equality is still driving bargaining between the upper and lower officials in favour of compensation from the centre. However, importantly, the implication of bargaining across different levels of government is that the bureaucratic structure in the policy-making process does provide a mechanism to allow decentralization of power to take place from central to local government.

Figure 2.3 Commanding and Bargaining in Decision Making System



Bargaining represents a reinforcement of local governmental involvement in local economic management, and expresses the intentions of local leaders in tackling the restrictions of the centre and in seeking more local autonomy and decision-making power. And most

importantly, bargaining presents the mechanism providing a space for local authority to make own policies and to increase or enhance their competence and skill in removing all constraints to steer local economic development.

In order to make justified local policies, there are certain elements required for local governments. Firstly, understanding the region is a prerequisite to make policy for utilising local condition to maximise economic success. We will discuss this from two viewpoints. First, the policy-makers of the local government have to be equipped with adequate knowledge, experience and skill in understanding local conditions in terms of local society, natural environment, resources and economic development in order to produce justified policies. This requires personnel who are economic or administrative professional technocrats.

The theory of technocracy indicates that “modern socio-economic chaos could only be reduced by application of the physical sciences... thus the government, which was supposed to handle all types of problems, should consist of technicians...and scientists” (Howard Scott, cited by Liu, 2001: p.88). Max Weber said that contemporary politics is formed by two groups of “new elites: technically trained professional career administrators and professional party politicians” (Liu, 2001). Recently studies of technocrats in government have stressed highly trained professionals who can formulate or produce high quality policy and effectively implement the policy because of their professional experience (Lande, 1976, cited by Liu, 2001). So, recruitment becomes an essential consideration.

Second, the local governments have to understand the geopolitical orientations of their regions and the weight of their economic growth in the framework of China’s national development as a whole. Beijing puts great emphasis on the national development and unity as their priorities and they will not allow preferential policies for selected regions to undermine these goals. The development of each individual region has to serve the central goal first, if necessary at the expense of local interests.

Having experienced Mao's political discipline and class struggles in the past, provincial governments are schooled with the know-how of modifying the state's policy in its implementation at their discretion to accomplish national as well as local goals, without necessarily toeing the state line, and they also know best how to exploit the local economic initiatives beyond the restrictions of state policy (Liu, 1992). Local governments, including the GSs and governors, are firstly responsible for maintaining political as well as a social well-being and then to foster local economic growth. For example, in Zhejiang and Jiangsu provinces, which have large non-state-owned enterprise sectors, the provincial governments reduced controls and encouraged and protected the privatised collective enterprises so that they would grow rapidly, but they also ensured that their sponsorship of politico-economic society was maintained as stable and inoffensive to the centre (Lin, 1998; Cheung, Chung and Lin, 1998). Although the regional leaders have to understand Beijing's political intentions and their region's political significance in that strategic framework before taking action against appropriation of the state's strategy, the power of decentralisation enables local government to modify the Maoist system (Oi, 1997). It is just as Goodman (1989: p.29) said, that decentralisation in China is not equalised: "recent research has pointed to the significance of several factors: a locality's political cohesion and integration, its economic importance, and the personal connections of its leaders."

The second element for the local government to make policy is to make a commitment to bureaucratic administration conducive to local economic growth. The commitment of local government and leaders determines the choices of local governments in their administration and determines too the performance of the organisation. Despite the central state's commitment to reform, there are still many local leaders hesitating. This group of local leaders is called by Cheung (1998b) the laggards.

The third element is the capacity of local government in making policy for growth. The allowance for competence gained by the local government is institutional decentralisation. The vital power gained from the decentralisation is through financial independence to possess resources seen as, in the case of China's reform, funds available outside the central budget for dynamic local authorities capable of acting in their own terms. To recruit funds for

the region is more dependent on local economic self-reliance, which means local economically significant growth supplies extra-budgetary revenues, which in turn reduces Beijing's financial domination. This requires efficient bureaucratic rationality by local administration.

All in all, the institutional role in development requires provincial government to be seen as individual unit possessing not only economic experience and capability in terms of financial self-reliance and independence to make their own choices for development policy, but also bureaucratically administrative efficiency reflecting on organisational integrity, cooperative, professional team members and rational leadership. Provincial governments have become agent-like, locality-orientated organizations. Their entrepreneurial capability in terms of financial discipline and reform strategy helps better regional integration of local government in terms of bureaucratic efficiency and competency, now increasingly viewed as rational and professional.

It is especially important to reconstruct Chinese government bureaucracy in terms of re-orientating administrative tasks, transforming governmental functions, and increasing efficiency by reinforcing cohesion, cooperation and high quality of members and leadership.

With the evolution of the institutional role of provincial government, a parallel reform of governmental bureaucratic administration has been pressed in order to increase the efficiency of the bureaucratic and personnel quality of the administrative elites. There have been attempts to achieve these through a series of institutional and governmental reforms since 1978, which have been aimed at reducing Party intervention and Party-state bureaucracy and at recruiting professional technocrats. After 1982, the CCP, under the leadership of Deng Xiaoping, launched administrative reforms in both regimes, including the elimination of 'bureaucratism' by curbing party interventions in every affair of the state and preserving only its supervisory role at the national scale (Liu, 2001); by downsizing overlapping organs and personnel in order to reduce slackness and increase efficiency; and by promoting the recruitment and training of young, professional technocrats. This reform happens to meet

some of the criteria of Weber's ideal-rational theory, which was originally presented as a general discussion of the efficiency of the government organizations (Liu, 2001).

Weber thought that modern officialdom should function in such ways that the hierarchical structure of a bureaucratic institution and all its operations should be based on a rational rule with regard to its interactions with society, so as to reach a maximum degree of rationality and efficiency (Weber, 1958; Mommsen, 2004). This rational rule is believed to be one of permanently and rationally established laws and the leaders and officials are appointed in accordance with these laws (Bendix, 1960; Freund, 1966). The institution should be operated in a hierarchical system in which there is a supervision of the lower officers from the respective leaders, and subordination is required for all officers (Weber, 1958; Bendix, 1960). The administration of the institution should be run by these professional, managerial staff beyond their own personal interests and they must stick to the rules, and not be co-opted by or transform themselves into a specific honorific class (Levine, 1991; Mommsen, 1989, 2004). These are the fundamental themes of Weber's Rational-Legal Theory.

Weber's Ideal-type model of bureaucratic administration does not represent "an average of all existing political governmental structure", but predicts a successful politics dependent solely on "the belief in the formal legitimacy of enacted rules and the right of those elevated to governmental offices to exercise power according to these rules" (Mommsen, 2004: p.112-113). Wilson (1987, cited by Liu, 2001: p.83) said that: "administration lies outside the proper sphere of politics...the field of administration is a field of business." Gulick (1937, cited by Liu, 2001: p.83) thought that the separation of political and administrative institutions is necessary; otherwise it is impossible to produce efficiency.

As noted above, the CCP penetrates all levels of government by intertwining the party units into the governmental organs and utilizing their power to control the entire society. In the party's hierarchical bureaucracy, each Party cell within the governmental organs serves the party first. Whoever are the leaders and members of the party committees are superior to the administrative leaders and officers in terms of decision-making. So the distinction between the party's and governmental functions is blurred and difficult to define.

In this respect, Schurmann (1966: p.109-111) discussed the Chinese form of administration that Mao and his followers used in the CCP to express “the will of people”, “to root it in society” and to “lead the work of government”. Finally, “the Party actualises the control of the society over the state”. Shrik (1992: p.60) said that, although the CCP is intertwined with the state and the society, “it is a distinct political institution”. The party leads the state and society, and drives the state and society to serve the goals of the party. So the party became a ruling institution over Chinese society. This is not a law-based rule but a party-led, moral-based regulation within the Party-state regime that runs the society and the state of China. Schurmann (1966: p.72) applied Weber’s theory to explain conflicts between the Chinese Party leadership and administration in the pre-reform era. In order to achieve the goals based on their personal perceived ideologies, the leaders used the single Party system of political monopoly to attack middle level administrators of government and so run the government and the society against the grain of western notions of legitimate administration of a state.

Liu (2001) has suggested, in her work on China’s administration reform after 1978, that the reform of the Chinese administration to some extent appeals to Weber’s Legal-Rational Theory in terms of seeking administrative power outside the party domain. In China’s governmental bureaucratic reform, the efficiency of the governmental bureaucracy has largely increased by recruiting professional administrative experts and technological technocrats from the outside the party and by dismantling Party core units within the governmental regimes in some regions. However, due to a lack of institutionalized separation in politician-bureaucrat relations in the administrative and independent legal systems monitoring polity-state administration, political influence on bureaucracy has to a certain extent been minimized but it has not been eliminated and might be recur during a political crisis, such as the Tiananmen incident, when the party’s superiority returns to centre stage. The efficiency and rationality of governmental operations is still a challenge to improving administrative efficiency and institutional professionalism of local government in China’s one-party state, especially with respect to increasing integrity of local government in conducting local economic growth.

In this section I have discussed the evolution and the implications of local government institutions in regional development. This shows that, instead of focusing on incentive endowments and resources, regional development has relied on the dynamic of institutional evolution in China's economic transition. In this institutional evolution, provincial government as a bureaucratic organisation has played an important role and major actor in securing incentives and propelling economic growth for the locality. Rather than assuming that provincial governments are agents only for the central political institutions determining the policy process and policy outcomes, we have examined how provincial governments have shaped their policy agendas, coped with institutional constraints, and attempted to bring about economic change within a large hierarchical, Leninist political system and how provincial governments make use of the new opportunities created in the reform era and confront the new policy challenges facing their provinces. Hence, we see provincial governments not only as participants in national government and politics, but also as active players in a provincial political system that involves coordinating, bargaining and mediating with sub-provincial units and the upper central state as well as promoting local social and economic development (Cheung, Chung and Lin, 1998). The discussion on the dynamic role of provincial government and its effective strategies and active performance in generating growth has reshaped the traditional focus and emphasis of regional development on to the social-institutional context.

We have reviewed the path of China's partial reform and evolution of the role of the local state during the reform, and revealed the relations between economic reform and the performance of local government. China's bottom-up reform was helped by the local state, which eventually has developed into a middle agent both for the centre and locality and has become an agent assisting economic growth and forwarding central policy. With this helping hand, China's reform is able to tackle the problems foreseen by both North and Kornai, and provide arguments for state commitment to economic wealth in support of the arguments of Qian and others on the formation of market-preserving Chinese federalism.

Local government involvement in the regional economy of China, termed "local state corporatism" (Unger and Chan, 1995; Oi, 1995: p.1132), explains the difference of her

transition process from that of the former Soviet Union and East European countries and her greater closeness to the Newly Industrial Countries(NICs). In East Asia, the NICs, led by Japan, there is a type of intensive development in which states take a role, not at all like the *laissez faire* minimalist states nor the centrally planned Leninist ones, but having elements of both: in the relationship between the state and the recognised associations, the state dominates the decision power but leaves some degree of autonomy to the organisations “within each of their respective spheres of operation” (Unger and Chan, 1995: p.30). Though China has a different polity from the NICs, reform has generated a similar approach: a state-led economy committed to the market but remaining under a Party/state leadership. We can see that China’s reform is Path Dependent. China’s reform success at this stage can be viewed as the result of state involvement in incentive structures and growth commitment. To enhance the involvement of the state, a crucial role is played by local government, but in the evolution of the institutions of her polity, safe to say, it is China’s political state that has allowed the evolution of its components to become a part of the reform, and this has propelled the entire institutional reform and economic growth.

Walder (1996a) and Oi (1996) have argued that, unlike the reform in the Soviet Union and some Eastern European countries, where the local government is bypassed by a strong ministerial system and plans are transmitted directly to enterprises, and, as a result, government is crippled and has withdrawn from the economy, China’s Maoist bureaucracy retained its key features but has been modified and has evolved towards a market economy through a series of changes: the provision of incentives and stimulating local leaders to involve themselves in the local economy; and the upgrading of bureaucratic efficiency. There has been a reinforcement of local government’s role as economic-corporate-like political administration, and it has been entailed in the semi-ownership of locality-based enterprises and collectives, etc. The transition has allowed the state to retain its central control over the macro economy, while leaving the localities and local government with a broad autonomy for operating and managing the economy of political capacity. All told, this is close to the description of a “guided economy” (Ma and Liu, 1994, cited by Li, 2000: p.179).

2.2.3 Weber's Theory of Rational-Ideal Bureaucracy

To Max Weber, all complex human actions take place within organisations with structure, and actions are constrained by authority. Organizations have an individual as a chief at the top of the structure to exercise authority and the members act to fixed administrative routines. This constitutes a bureaucratic administration. There are three types of legitimate authority conceived by Weber: legal authority, traditional authority and charismatic authority. Legal authority depends on the legitimacies of the authority established and the leaders and appointed in accordance with law. Traditional authority depends upon belief in the sanctity of traditions like religions and the leaders who thus have authority. Charismatic authority results from the willingness of the majority to give their obedience to the authority of an individual because of his/ her "holiness, heroism or exemplariness". In the modern western world, rational-legal authority is regarded as the most approved form, in which the authority is excised lawfully by an office according to legitimated law. The action of the office is subject to the rules and not to the interests of any individual or ruling class and the rules themselves are legitimized by a legally authorised agent.

Bureaucracy is a type of legal authority with regards to its functioning, with principles appealing to the definition of legal authority. Max Weber's definition of bureaucracy may be quoted as follows:

"From a purely technical point of view, a bureaucracy is capable of attaining the highest degree of efficiency, and is in this sense formally the most rational known means of exercising authority over human beings. It is superior to any other form in precision, in stability, in the stringency of its discipline, and in its reliability. It thus makes possible a particularly high degree of calculability of results for the heads of the organization and for those acting in relation to it. It is finally superior both in intensive efficiency and in the scope of its operations and is formally capable of application to all kinds of administrative tasks" (Weber, 1921/1968).⁸

⁸ Max Weber on Law in Economy and Society. Max Rheinstein (ed.). Translated by Edward Shils and Max Rheinstein. New York: Simon and Schuster, 1954.

In Weber's words "The purely bureaucratic form of administrative organization, that is the monocratic variety of bureaucracy, is, as regards the precision, constancy, stringency and reliability of its operation, superior to all other forms of administrative machinery and for those who are affected by it. Owing to the intensity and the scope of its operations, it is capable of being applied to all kinds of administrative tasks, hence it is, in a purely technical sense, capable of attaining a maximum of efficiency and therefore, in all respects, formally the most rational form of exercising authority over human beings." (Weber, cited by Mommsen, 2004: p.112)

The bureaucratic efficiency is examined in Weber's Rational Ideal of bureaucracy with features such as:

- 1) A hierarchical structure is necessary to guarantee obedience from junior to senior officers and responsibility for the effective action and decisions of civil servants.
- 2) The operation of the organization will follow a rational and legitimate rules and regulations in order to retain its original objects.
- 3) Bureaucratic efficiency depends upon the people who operate the administrative machinery and they must adhere strictly to the rules.
- 4) The administrators form a special group who are detached from the ruling classes and from personal influence, and they must be professional and devoted to their administrative skills and specialised knowledge.
- 5) The bureaucratic administration has to achieve a consistent rationality with social interaction applicable to all levels of society.

Weber tried to formulate a model of bureaucratic administration based upon efficiency. The model requires the operation of bureaucratic institutions on the basis of rule-obedience, emotionless decision-making and technical qualification: "a considerable degree of formality, rationality and impersonality is prescribed by the classic bureaucratic organisation in intra-organisational relationships, in inter-organisational relationships and in the relationship between the bureaucracy and its clients" (Weber, 1987, cited by Liu, 2001: p.82). In order to maintain the rationality and efficiency of bureaucratic administration, professionally trained administrators should be recruited to run the organization and to act according to rule-based

and impersonal administrative system. In this regard, technocrats are recommended (Liu, 2001).

Although Weber's theory deals with a pure type of bureaucracy, its application to governmental administration is challenged by the relationship between politics and state administration. Despite Weber's theory considering the necessary distinction between two regimes in order to raise rationality and efficiency by getting rid of political influence, it is difficult in reality as Weber himself said, because politicians make policy and the administrator implements it. Weber therefore defined bureaucratic domination as legal domination by requiring the administrator to stick to "a continuous rule" in conducting "official business" and the construction of bureaucratic domination is conjunct with the "political function of the state" (Schluchter, 1991: p.371). Therefore legitimation tackles the relation between ruler, the administrators, and the ruled, and the relation between politics and administration (Schluchter, 1991).

2.3 The Limitations of China's National Unity Framework on Institutional Evolution of Provincial Government

2.3.1 Unequal Decentralisation

As we have discussed previously, the state's commitment to economic growth allows decentralization in China through political incentive restructuring seen as the development of the local state institutions that provide political cooperation and efficiency to regional economic growth and national reform as a whole. However, among the factors listed above, the most crucial of all is the degree of decentralization, which has varied from region to region and from sector to sector. For example, when Beijing started to decentralize state control to selected provinces and economic sectors in 1978 they purposively chose those having the least economic and political risk for the nation, for example the provinces like Zhejiang, Fujian and Guangdong, and sectors like agriculture and commerce, were allowed to undertake rapid reform. But a core region like Shanghai, though it is geographically next to Zhejiang, owing to her key economic position of China, was not allowed to implement the

same reforms until 1992 when permission was finally given by the President Deng Xiaoping after he saw the success of the reform experiment in Guangdong (Li, 2000). Among China's economic sectors, up to now, the decentralization of state control has taken place in those less strategically important sectors such as manufacturing industries rather than strategically important resources such as refining. "The extent and exercise of local autonomy is thus not an automatic feature of Chinese political life, but depends rather on each area's relationship with other localities, with the centre, and with the nation as a whole" (Goodman, 1989: p.29). Politically sensitive regions and sectors with high transaction costs were avoided in the early experiments because Beijing needed guarantees to ensure the success of the reform. Nearly thirty years after the reforms of 1978 this mentality has still not changed.

The fundamental point here is the essential nature of state commitment in terms of the degree of decentralisation. It doesn't really matter in launching a reform strategy of "bottom up" or "top-down" development, whether the decentralisation is vertical or horizontal, or whether the GS or chief director of economic units, successfully or skilfully heads the reform in their respective domains. Success depends rather on the incentives for change made by the state and subsequent action taken to remove constraints. The CCP has made a commitment to decentralisation in order to release the latent energy in the nation's economy, but the reform is not genuinely and wholeheartedly radical where change might jeopardize national unity and social stability or undermine the leadership of the CCP itself.

Deng said in the initial time of the reform: "economic development is the centre of party work" and "we must firmly maintain the Four Cardinal Principles – namely, keeping to the socialist road, upholding the people's democratic dictatorship (that is, the dictatorship of the proletariat), upholding leadership by the Communist Party and upholding Marxism-Leninism and Mao Zedong Thought. No-one should be allowed to undermine these principles, and they should be codified in an appropriate form." (Deng Xiaoping, 1993b).⁹

⁹ Deng's Speech: "Implement the Policy of Readjustment, Ensure Stability and Unity" at a Central Working Conference on December 25, 1980.

In 1978, the reforms were targeted at the coastal area due largely to comparative economic advantages. Despite its share of total fixed assets falling from 72 per cent in 1952 to just 47 per cent in 1983, the coastal region still produced nearly 60 per cent of the national gross industrial output value. We cannot deny the fact that the coast regions have traditionally been the centre of market, resource, labour, technology, production and investment for centuries and have many comparative advantages in terms of non-state investment, agricultural productivity and transportation convenience. But we need to acknowledge the fact that the coastal share of national GDP grew from 50.66 per cent in 1980 to 58.94 per cent in 1994 because of the coastal economic actors knowing how to integrate their localities into the market economy and knowing how best to reveal local initiatives in the transitional market economy. That could be done only with the commitment of the central state to decentralization, with the cooperation of the local state, and with the marketization of these regions. The “three-ladder-step” set the pace for the differential development between the inland and coastal areas, as well as orders for greater openness and politico-economic liberalization, and many interior areas have as a result lagged far behind. The encouragement of the coast to undertake openness and politico-economic institutional changes helped to reinforce the country’s unity via the wealth gained from the regional reforms.

However, in the regions with political sensitivity or with strategic economic sectors, the state commitment to marketization and institutional relaxation has been limited, and incentives weak. In this sense, Kornai’s prediction on the incompatibility of marketization and state-owned SOEs is presented in the economic performance of these regions. The institutional inefficiencies may be seen as a combination of North’s predation and Kornai’s SBC plus Weber’s irrationality and far from being eliminated, these were enhanced. Therefore, Qian’s argument, which is underpinned by the central commitment and decentralization eliminating “predation” and SBCs, is questionable. It is a geographically biased and narrow interpretation in terms of its application to variations of China’s regional reforms. When looking closely at those regions, all the criteria comprising the evidence for a Chinese style of market-preserving federalism falls apart. Unequal decentralization in those regions thus challenges China’s partial reform and invalidates Qian’s theory of Chinese-style market-preserving federalism. Because of this, it is interesting to examine those ethnic regions where the state’s

commitment to local decentralization is weak, not just in relation to their economic endowments but also their institutions, in order to test whether China's reform is sustainable.

2.3.2 The Ethnic Region in the Framework of China's Macro Decentralisation

In China's western regions, the reform toward regional development has not undergone quite the same path as in the east: a completely vertical decentralisation. There are more restrictions and limitations attached to economic liberalisation here. Many poor interior areas do not just occupy geographically distant locations from China's core, as well as lesser development historically, but also they have large minority populations and are situated along China's inland borders, such as Tibet, Xinjiang, Inner Mongolia, Guangxi and Yunnan provinces, in which local people have close ethnic connections with the neighbouring countries. Furthermore, given the variations of these regions' minorities in terms of their locations, histories, ethnic structure, religions, political or economic relationships with their bordering countries as well as with Beijing, the centre's ethnic policy toward them has varied from one to another. This depends on how the local leading minorities recognize their ethnic identity under the Chinese advocacy of "a multi-ethnic state". Given these circumstances, it is easy to understand why the centre will be more careful in handling the affairs of provinces like Tibet and Xinjiang than of Yunnan and Guangxi. This increases great political sensitivity in the political administration of these regions in relation to national unity and the control of non-Han populations. These factors have affected Beijing's regional policy in terms of political deregulation by comparison with Han dominated regions. As China's economy is always in the shadow of her political discretion, the degree of economic liberalization in these ethnic regions with regard to openness, foreign trade, fiscal deregulation and ownership is also accordingly affected and differentiated from the others.

In the economic respect, ironically, these ethnic regions, in common with other inland regions, have large-sized strategic SOEs dominating their local economies, as a result of Stalinist industrialization in the past. This reinforces a double institutional constraint: political and economic. In particular, in regions which have strategic resource and related processing industries in the form of SOEs in the reform period, central control is not released

at all and state predation is common. This is especially damaging to a province such as Xinjiang, where most of the economy relies on these SOE resource industries.

As a result, there is a lack of sufficient resources to generate local economic growth and there is a lack of incentive for local actors, such as the “helping hand” of local government, to make their own efforts. Neither do the regions have the ability to attract FDI and transform local traditional economies into competitive market ones, nor the experience, consciousness and determination to open up and compete in domestic and international markets. These factors all lead to a frustrating standstill of the interior economy, despite it being in transition. In order to reduce the widening gap of unbalanced development between the interior and coast, the centre has continually had to grant more financial support to the interior in order to sustain its economy, especially because of the problematic state enterprises. As a result, Kornai’s SBCs are formed.

It took nearly ten years after 1978 to involve the ethnic regions in the market economy. This cannot be simply explained as late openness for interior areas that have been economically less developed in history. It is due largely to a lack of commitment by Beijing in terms of decentralization and of incentive restructuring of regional institutions, and, as mentioned before, a lack of political efficiency. The political sensitivity of the ethnicity of these regions requires local actors, especially provincial governments, to have a greater focus on political unity and administrative considerations than on economic prosperity, which clearly defines the scope of decentralization in the region and retains incentives.

2.3.3 Challenge to China’s Partial Reform in Terms of Provincial Governmental Performance in Chinese Ethnic Region

Cheung, Chung and Lin (1998) have studied the dynamic roles of local leaderships in China’s regional reform. They looked at eight provinces to compare and contrast them in order to test the degree to which provincial leadership counts for the success of local reform. It is undeniably the fact here that local leadership as well as the provincial government is very important to regional development but it is necessary to stress that, in addition to the capability and integrity of local government, the political orientation of a region is

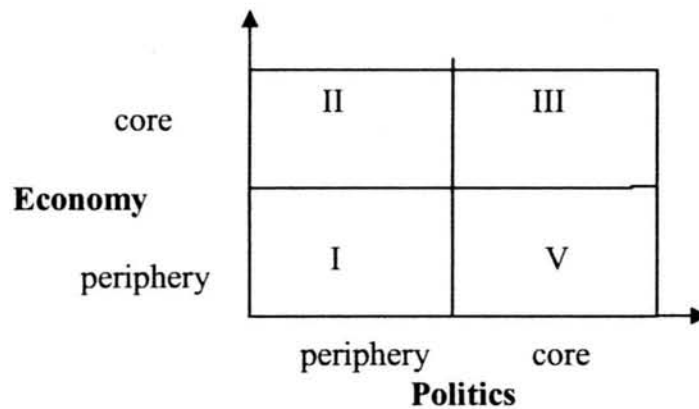
fundamental, defining the degree of the centre's toleration of decentralization and the scope of these regions' local governmental decision-making power to reshape local government performance. Cheung and others, including Qian, Weingast and Roland with their theory of Federalism Chinese Style, only target the provinces having more or less similar political perspectives and they neglect those regions which have fundamentally different politics rooted in ethnicity, key strategic resource sectors or sensitive geopolitical locations, which thus shape the regional political geography differently from the coastal provinces. Beijing treats these regions differently in terms of policy, institutions and the decentralization of power, and the preliminary condition for arguments about the capability of local government is changed.

As mentioned before, bargaining represents a mechanism to allow local governments to make their own decisions. The effectiveness of provincial leaders' bargaining with the central leaders in reality depends variously on the degree of control by the centre over the province in question, its wealth and potential strategic significance, and "the personal connections, ambitions and acumen of the leaders" (Lieberthal and Oksenberg, 1988: p.139). These differentiate the performance of provincial governments and leaders in how they act as economic-corporate like administrative institutions in the development of their territorial economy. This has resulted in starkly different development performances among provinces.

Before the provincial leaders approach the centre to bargain for more decentralised decision-making power and more local autonomy, they have to understand whether their regional politico-economic setting in the opinion of Beijing lays a foundation allowing them to do so. Without understanding this principle, despite the existence of other explicit advantages, the bargaining will not lead to the expected result and, moreover, any bargaining beyond the boundary of political unity is forbidden. I will use a diagram (Figure 2.4) to illustrate how local leaders could see the possibility of decision-making autonomy based on their region's political and economic core-periphery relations in China's overall strategic framework. When experiencing a particular phase of reform under this strategic framework, a region may be viewed as politically insignificant (situated in regime I or II in the diagram), the leaders of regions may be able to gain more decision-making power than those leaders of regions

regimes III and V. Provinces like Zhejiang with less state-dominated enterprises and a politically peripheral location had local governments more empowered at the beginning of China's reform to take actions than others such as Shanghai (Liu, 1992; Wei, 1995, 2001, 2003), and provinces like Guangdong, with a record of great economic success, were able to influence central decisions and bargain for more openness without worrying too much about bringing political risks to the nation or to themselves (Hook, 1996; Chu and Yeung, 1998). "It appears that localities which are politically distant from the centre have greater autonomy than those whose existence looms larger-for whatever reason, be it defence, a substantial national minority population, or the importance of economic output – in the centre's political mind. Thus, despite the physical distance, Tibet and Xinjiang in the far west of China are in fact politically closer to Beijing and thus less autonomous than provinces such as Shanxi or Shandong" (Goodman, 1989: p.28). A region's politico-economic orientation sets the degree of local economic autonomy and defines the capacity of regional leaders' decision power and once more reinforces or undermines local government's capability for managing the economy from region to region.

Figure 2.4 Region's Political and Economic Core- Periphery Relationship



(Source: author, 2004)

Because of this, many interior regional governments have held back local reform for fear of making mistakes in relation to the centre (Cheung, Chung and Lin, 1998). Any profound reform has been cautiously undertaken by deliberately postponement until it can be fully justified. Such a constant reference to politics undermines the development of local government entrepreneurship and bureaucratic efficiency and undermines the dynamic of the local state's institutional role. It also restricts the transformation of the government

institutional role as a middle agent representing the locality. Largely because of political restrictions, local government in these ethnic provinces is unable or unwilling to become an agent as in the coastal or Han regions.

In this case, the local governments in these regions can be described as administrative delegation without autonomy. Most importantly, while the economic role of bureaucratic administration of local government has been largely confined, the political-administrative role is thus reinforced. Many local governments have been clearly aware that the political sensitivity of their regions' ethnicity requires them to act as "central defender" rather than "local defender" and to pay attention more to the "political administration" rather than "economic conduction" in order to maintain the integration of the regions with China as a whole. Therefore North's "political predation" via local governmental political administration will continually play its role in the development of these regions and Weber's ideal rational bureaucracy is unlikely to influence the performance of these administrations.

Since the reform, the central government has passed the fiscal authority and responsibility on to local government and clarified financial responsibilities between the centre and localities with the aim of reducing central intervention and increasing local economic self-reliance and financial discipline. Decentralization has also meant the supervisory power of local government over state enterprises. However the advanced coastal regions possess more TVEs and collective enterprises (semi-owned by the state) with a clear boundary of ownership, and that provides mechanisms for the local governments there to take part in the HBC, while the less developed interior regions possess more SOEs, which not only limits provincial authority over the SOEs located within their territory but also provides no means for local government to pursue financial self-reliance and to utilize local resources to best serve local economy.

Therefore the primary responsibility for economic development by local governments in their respective jurisdictions has been reduced or is limited. Moreover, without vital power gained from the decentralization plus the political administrative orientation, these local governments in the minority regions in particular will not make any effort to remove all

restrictions on growth. This explains why local government of the interior hasn't achieved its potential by comparison with the coast. The resultant standstill economy in the interior requires the central state continually to offer financial assistance and to bail the local economic institutions out of their poor management.

Since the Chinese Communist government was founded, the centre has always aided ethnic regional development and has spent a great deal of money to maintain local economies and social stability, and the regions which have large minorities (including Xinjiang, Qinghai, Tibet, Gansu, Yunnan, Guizhou, Guangxi and Ningxia) have constantly received government subsidies and retained all revenues regardless of their economic performance. "The ethnicity variable is a strong predictor of whether a provincial unit receives fiscal subsidies from the centre" (Yang, 1997: p.92-93). Compared to the other ethnic provinces, Xinjiang, Yunnan and Tibet have always enjoyed more subsidies from the centre (Yang, 1997). They are, as some Chinese academics have claimed, "blood transfusion economies" and "outside assistance economies" (Yang, 1997). As a result, the availability of central funds enables the top elites of these ethnic provinces to count on more financial support from the centre rather than making efforts to raise funds from their local economic productions and continually to perform as political defender without worrying about punishment for economic failure (Huang, Liu, Wu and Zhu, 1990). Kornai's theory of SBC explains why the central government's assistance or protection weakens local governmental self reliance in financial management, which in turn undermines local institutional capability.

In such a framework, the stagnant economies of these ethnic regions are attributable, besides the un-favourable policy and harsh natural conditions, to a lack of experience, to narrow-minded local institutions, to the lower integrity and capability of provincial government in adapting the region to a market economy, and to the lack of commitment and unwillingness of local government to readjust its administrative role to serving the best interests of the region. "This is why it is vital that regional actors ask whether their decision-making processes constitute an obstacle to institutional renewal, away from a culture of hierarchy and rule-following, towards one that focuses on informational transparency, consultative and

inclusive decision-making, and strategy-building on the basis of reflexive monitoring of goals” (Amin, 1999: p.373).

The evidence to be presented in the thesis supports the argument that the problematic local government structures created by China’s limited decentralization contribute to the economically lagging nature of some regions in China’s semi-transition, particularly ethnic provinces such as Xinjiang. Therefore, protection from Beijing helps to explain the inefficiency of local government in responding to local economic transition. The limited vertical decentralization in ethnic regions provides no incentives for marketization or new institutional frameworks to capture wealth. The local actors have lost interest in taking risks, in taking the initiative and, more importantly, in supporting profound reform. On examining the government’s financial performance of Xinjiang in the following chapters, the evidence for this will be clearly presented.

All in all, in the ethnic provinces, many former politico-economic features still remain. The productive local economic enterprises and dynamic governmental institutions are incomplete due to the stalled ownership reform and due to political restrictions on local economic liberalization, and therefore the provincial government has not been able to increase its competence for conducting growth in a market economy and its efficiency in bureaucratic administration, unlike their counterparts in the non-ethnic provinces. Even though there is huge local economic potential existing and there has indeed been certain decentralization of power to the regions, the provincial government has not known or done enough to rely on their own efforts instead of central assistance. Although the newly promoted Western Development Project (WDP) seems to offer many opportunities to the region by bringing in large investments, its success is doubtful owing to the slow paced semi-transition and owing to the insignificant deregulation permitted in the region. The injection of large investments granted by the series of new policies is obviously important, but, on the other side, it lays the foundation of a potential failure of the region’s development.

The challenge to China’s regional development and central control is seen here to be, given all the possibilities and economic potential, that the development of an economically

marginalised region cannot simply rely on the possession of all its resources and capitals, but also on its ability to reveal these through initiative; on the local actors having a great desire, capability and knowledge for the development; on the empowerment to local active institutions in releasing and making the best use of those local talents, thereby breaking the ties of hierarchy and dependency on state provision; and on the rationalities of the actor networks of local government as economic agents (Amin, 1999). So, we see that the state's regional strategy, embodying the decentralization of economic autonomy without too many political strings attached to the regions, is essential and necessary, and also explains the rapid growth of the coast on the eve of Chinese reform.

This thesis uses Xinjiang as a case study of local government and regional development – the relation between regionalized partial decentralization and the resultant incentive structure that shapes the performance of provincial government in China's transition. Xinjiang is made significant by its minorities, its border location and its reserves of resources that support China's development as a whole. Xinjiang's transition has been especially slow and cautious because of its ethnic makeup. "Socialist characteristics have not changed much" is a summary of what was said to me by many local people and officials during my fieldwork.¹⁰ Central control still dominates. As a result, the role of local government is different from its counterpart in the eastern regions: heavily politically-orientated, resulting in administrative, bureaucratic, organizational incoherence, and less economic activity and entrepreneurship by local government. We will examine the Xinjiang provincial government's performance in order to understand the less dynamic role of local government in China's underdeveloped ethnic regions due to the limited decentralization within the partial reform, supported by the three theoretical frameworks of Kornai's SBC, North's institutionalism and Weber's ideal style.

Despite nationwide intent of these reforms, the results in practice have been differentiated and regionalized. In a region such as Xinjiang, with a very heavy political emphasis on its administration, the superiority of CCP leadership, rather than being confined, has been reinforced.

¹⁰ Interviews, 2002 and 2003

The rationality and efficiency of local government bureaucratic administrations has been affected and consequently the expected increase of economically managerial competence and cohesive organization of government teams is questionable. Because of this, Xinjiang's economic development has been largely held back and remains at a standstill, which fuels social unrest and political instability. It constitutes a major threat to China's partial reform. The following chapters will, based on the debates stimulated by these three theories, explore the crucial role of local (particularly provincial) government in China's regional development through examining the institutional role of local government in a lagging region.

Chapter 3 Methodology

3.1 Introduction

3.1.1 Research Questions

This research addresses the problems created by China's partial reform in order to shed light on its sustainability and effectiveness. The major problems are seen by Walder (1996) and Kornai (2002) in terms of an institutional reconstruction that allows economic decentralization to local units while retaining political 'non-liberalisation' through one-party control and a legal system that cannot act outside the party's interests. The reform thus puts "economic successes always at the mercy of political discretion" (Kornai, 1997, 2000; North, 1990; Qian, Weingast and Montinola, 1995: p.50). However, Qian and his fellow colleagues use a model of 'Federalism Chinese Style' that explains China's vertical decentralization as a Path Dependence, where local governments are empowered to protect their success from central political discretion. According to this model, local, especially provincial, governments play a crucial role in China's reform. On the one hand they steer regional development in a market economy, and on the other hand they remove all institutional constraints on regional economic growth, protecting marketisation and prolonging the partial reform. In my research I conclude that the theory of Qian, Weingast and Montinola only captures one part of China's reform – the successful story of China's coast, in which large semi-state owned enterprises and fiscal independence provide incentives for local government to take the initiative, and where political administration is also weak. In the vast inland region, there are not only large state owned enterprises remaining but also, in some regions with large minorities, strong political restrictions. Therefore China's partial reform can be viewed as regionalized and a contributor to the country's uneven development between the inland and coastal regions. This phenomenon of uneven development is so severe that it may eventually challenge not only the basis of the reform itself but, even more fundamentally, the very basis of national unity and stability.

This research uses a particular case study of Xinjiang to argue that the integrity of provincial governments and the enhancement of governmental competences in managing local economic growth have both been undermined by the experience of political domination in the province's history. The thesis explores the key factors that have affected Xinjiang's economic development and evidence is brought to bear to challenge Qian and his fellow scholars' theory, which is a narrow interpretation of China's reform.

The main procedure of the research is through the analysis of large quantities of quantitative and qualitative data in order to examine the experience of Xinjiang's regional development and to elucidate the political-institutional constraints on local reform by analysing the performance of provincial government in steering the region toward prosperous and harmonious development.

3.1.2 Research Strategies

With regard to the methodology and nature of the research, the thesis chooses two main strategies: *Archival Analysis* and *Case Study* (Walliman, 2001: p.228) as means of collecting and analysing empirical evidence in pursuit of the research task.

As noted before, my positionality is one of a Han Chinese researcher who has insight into Xinjiang as a long-time resident of Urumqi and a former employee of the local state. While these characteristics set me apart from researchers who might be, say, of Uyghur ethnicity or British nationality, nevertheless I have tried to stand on neutral ground in my interpretations of the research topic and to deliver professional understandings. This is important when considering that information collected from China's media is always clouded by its political slant and the reliability and accuracy even of official data is doubted by many westerners. The principle of neutrality has encouraged me to think that it *is* possible to adopt professional methodologies in pursuing research, including theoretical analysis and explanation, and systematic data collection. First, through literature reviews of western scholars' work on China's development, I have tried to construct a conceptual foundation with theoretical arguments to define the research targets and approaches and to construct the research

methods. This has helped me to organize systematic data collection and analysis, authentic discussion and practical action involvement. Thus many activities are involved in library research before the stage of field research. Second, the fieldwork was used to gather evidence to test the justification of applied theories, reduce the division between theoretical hypotheses and practical realities, and to construct arguments for debate. I have used both quantitative and qualitative research methods. Quantitative research has been used in the collection and analysis of official and unofficial statistics, as a means of compiling evidence. This systematic and “non-biased” analysis of data is based on assumptions of objectivity and to some extent helps with the enhancement of neutrality of the research. However, as many statistical analyses rely on statistical comparison, the complex packages like SPSS were not used. Qualitative research was also a major method in this PhD. Evidence and data collected from qualitative research came from interviews, participant observation, historical archives, fieldtrips, etc..

According to Rose (1980, cited by Flowerdew, 1997: p.54), a particularly appropriate approach with five steps can be creatively used in doing research:

- “A. *Theory*. What theory is being tested or developed in the report?
- B. *Theoretical Propositions*. How has the theory been translated into propositions (or hypotheses) to be investigated?
- C. *Operationalization*. What has been done, in practical terms, to shed light on the validity of these propositions?
- D. *Fieldwork*. What practical problems were encountered in trying to carry out the research?
- E. *Result*. What has been found out about the theoretical propositions, and what implications are there for the theory?”

Choosing west China’s regional development as the focus of my research, I faced difficulties arising, firstly, from the absence of an adequate theoretical and academic context. Although there are research studies specialized on China’s institutional change, most have focused on the east, neglecting regions like Xinjiang, and especially its governance. Defining a suitable theoretical framework and academic model to describe Xinjiang’s economic growth seems

challenging: the heavily studied politico-economic systems found in the occident are quite different from that of China, and Xinjiang's particular ethnic conditions only add complexity. So intensive research on the literature relating not just to China as a whole, but also to Xinjiang, is a priority and defining a theoretical framework to support the argument is crucial.

Although helping local government research on regional development, especially on Xinjiang's economy, was my career in China and although, as a member of local governmental staff, I possessed an understanding of institutional functions and governmental organisation, still I needed to work on theoretical as well as empirical literature to understand the relation between institutions and regional development and to seek a theoretical framework to support my arguments. Therefore at the outset I sought to understand the relevant work done by western scholars, who, detached from the influence of Chinese politics, have developed advanced theories and methodologies to interpret China's development. That helped me to shape my ideas theoretically and to construct a conceptual framework.

I have attended a number of seminars, conferences, and panel discussions held in the UK and China that had the common theme of economic and political developments in China. Library researches at the School of Oriental and African Studies, the British Library, the Royal Geographical Society and Durham University have been important too. In this way, a large amount of material, including theoretical and empirical research works of western and Chinese scholars on Chinese's partial reform, institutional changes, bureaucratic administration and regional development and policies, etc., has been collected. In addition, I also engaged in archival analysis of available published materials such as documents, annual reports including Year Books, newspapers, and non-academic journal articles.

Through those large literature reviews and archival analysis, I have come to recognise that it is because of China's huge land area and the social complexities varying from region to region, that all reforms and decentralisation have been undertaken in various forms and at differing speeds according to each region's specialities. At the macro-scale, this has

exacerbated uneven development between the inland and the coast. The models and theories advanced to interpret the 'successful' story of the reform are in my view normally incomplete and inadequate for the entire country and are invalid for some specific regions. For example, institutional cooperation is facilitating growth in the coastal regions but not inland. By seeking the fundamental problems arising from a region's special features, the models are invalidated, but I have then used the same theories to explain why, under certain circumstances, some regions cannot reproduce the success of their counterparts. This is an implicit criticism of the partial reform, which has resulted in many inconsistencies. According to Walliman and Baiche (2001: p.128), "a deductive argument is said to be valid when its premises, if true, do provide conclusive grounds for its conclusion; and, the other way round, when promises and conclusions are logically related in such a way that it follows that the premises could not possibly be true if the conclusion was not true". That is why the thesis can exploit the same theories to construct the conceptual framework. Gradually a framework has evolved in my mind that helps me situate my theoretical understanding of partial reform within a regional context and helps me subsequently to determine the research questions to be answered in the research. Three distinct but interrelated research areas have emerged: institutional development in China's reform, governmental performance and regional development.

Through the literature review of development studies on China, I have extracted a lot of relevant materials. Just as argued by Walliman and Baiche (2001: p.41) after Wiersma (1986) and Leedy (1995), I found that: "Reviewing the literature is essential, not only in providing a context for the research subject and specifically limiting and identifying the research problem, but also in providing you with important information for subsequent parts of the research investigation."

The second phase of study was fieldwork in China. The tasks here were not only data collection through qualitative and quantitative methods like interviews and participant observation but also the continuation of archival research, whose aim was to enlarge my knowledge and enhance my understanding in the field of regional studies contributed by Chinese academic counterparts. Some statistical data and evidence were also collected

through quantitative research in the fieldwork. The aim was to collect evidence and analyse facts to address whether Xinjiang's local government is capable of managing the region's economy and acting just like its coastal counterparts, described by Qian and Weingast (1996), as a key to the regional economic growth in a transitional economy. So a few questions need to be answered:

- 1) How has Xinjiang's economic development evolved since 1949? What are the most productive economic sectors of the region and how large is their contribution to the regional economy? What are the local and central state's preferential policies with regard to sectoral development?
- 2) What are the state's political and economic institutions in the region and how and why have they been constructed? What are relations between the institutions and local government, between the institutions and the local economy, and between the local government and the local economy?
- 3) How does the local party-government regime operate and how is it constituted in the region? What are the policies of recruiting its members and organising the regime?

The information collected from the field aims at fulfilling the following objectivities:

- 1) Investigation and definition of characters, especially the institutional changes seen in China's partial reform.
- 2) Investigation and definition of the regional character of Xinjiang, including its population, location and society, and these characters in relation to regional institutional development, especially during China's transition.
- 3) The compilation of sufficient data and materials to explain the problems emerging from the Chinese economic reform and preferential policies specific to this particular inland area.

- 4) The provision of sufficient information, including all original documents and reports describing and analysing the changing pattern of Xinjiang's regional economic development in the past fifty years, and how economic development relates to the performance of local government and with the constitution of local institutions.
- 5) The discussion of cases to demonstrate and analyze why Xinjiang's local government is lacking the skills, experience, and ability to manage the region's economic growth in a semi-free market economy, and institutional constraints confining the expansion of capacity of the local government and economic institutions in developing the region.
- 6) To gain insights into the working ability, institutional administration, personnel structure, job duties and inter-relationships, etc of the various local governmental civil service departments in order to understand how the local government works for the region and what is its major mission and functions.

3.1.3 Role of Researcher

As to my personal background, my own experience of having been a senior policy-maker in one of the departments of Xinjiang's government for three years enabled me to conduct the fieldwork in my hometown more easily than would have possible for others. I have certain skills to contact and deal with people, tackle unexpected encounters, and reach the data sources directly.

Simply by writing this thesis I am taking an active part in the debates on China's regional development: this is of some significance, since many researchers working on the field have little chance immersing themselves entirely in a local community. My role is seen as: *Insider*, *Outsider* and *Researcher*, that is the tripartite role presented in this research.

As an insider, a Chinese growing up within the local community, knowing it inside out and learning the culture, economy, polity and society, etc. throughout my own upbringing, there are no barriers of language (dominated by Chinese in the region) or cultural setting in the

fieldwork, which benefited me enormously, not just in the perception of the society, but in acceptability by the community during the fieldwork. I am not simply a researcher or observer but a member of this community, a participator. Mohammad (2001: p.101) says that “an ‘insider’...was from and hence ‘belonged’ to the...‘community’. This belonging was seen to endow me with a superior, almost organic knowledge of the ‘community’ not accessible to ‘outside’”. It was the same in my case.

Firstly, my personal experience and upbringing in the region can be regarded and used as “organic” evidence to be presented in the thesis. For example: the experience in the “Bombing in 1992”¹¹. Secondly when approaching interviewees, especially Han Chinese, I was perceived as a colleague, an acquaintance, a counterpart, a compatriot, etc. varying from, but never falling out of, the community circle. This built an inherent rapport, which makes the information gained from their part more reliable and the product of generosity. Subconsciously, they were communicating with me without hiding their true opinions and frankly answered my questions on most occasions, though they were well aware of me as a researcher from abroad. Thirdly, specifically in the Chinese way, any job can be best done through personal ties with others: a “Social Net”. This “Social Net” enables us to get our tasks done sometimes without being restricted by rules. This Chinese social connection creates a privilege certainly for Chinese, compared to foreign researchers, and allows Chinese researchers more easily to undertake research in China. They know the “rule” of accessing information sources, searching for the right interviewee and then organizing interviews. I used my privilege extensively during the fieldwork,¹² especially in getting access to senior bureaucrats, most of whom had no objection to my request for an interview.

However, as an insider, a couple of disadvantages exist too in some respects. The predominance of my feeling of belonging to the society could divert my judgements away from impartiality and increase the likelihood of a personal interpretation. Being acquainted with interviewees could have lost the neutral ground and I might have taken in their words uncritically. My Han Chinese identity certainly barred access to the true thoughts of the

¹¹ Details in Chapter 5

¹² See discussion in Section 3.2



Uyghurs. In order to minimise these negative consequences, I used many approaches, for instance identifying myself and acting as an outsider or observer.

There are two grounds for acting as an outsider. Firstly, the thesis is attempting to arrive at a better understanding of the cause of problems in Xinjiang's regional development. A few years of studying in the UK has equipped me with a broad view of China's reform. After making comparison with well developed European countries, and especially studying western scholars' work on China's contemporary development, I am able to apply western theories to assess China's development from a different angle and on neutral ground. My opinion and judgement are no longer influenced or dominated by my former idealism. Secondly, in my years of absence, many changes and developments have occurred in China, which has left a gap for me to rediscover the updated reality. That motivated my eagerness and desire for new academic adventure.

Acting as an outsider gave me benefits in many aspects during the fieldwork. I was able to examine the data critically and to assess the viability of the information in order to extract valuable material for my research. A large number of Chinese research studies on my field are available, although the method, philosophy and political expectation applied in those studies is unhelpful. Generally such studies are descriptive and lacking in theoretical explanation and argument. Chinese researchers focus on "where" rather than "what" and "how" in their analyses (Fan, 1997: p.633). In order to be free of influence and bias in pursuit of my own research, I have had to look behind the official voice and view them differently. So, when I observe a phenomenon in local bureaucratic administration or policy making and implementation by the government, I no longer consider it at face value but analyze the phenomenon deeply and beyond Chinese ideological expectations, and seek the causes and the best possible explanation.

The disadvantage of the outsider showed in contacts with high ranking officials or even ordinary people, when conversations and behaviours had invariably to be restricted to a certain degree and the interviewees took a great caution and avoided telling me

“inappropriate” facts. I was not completely an outsider but labelled as “an internal outsider”, which prevented me twice from approaching officials of the top rank.

Where problems arose, I changed my strategy in approaching targeted people from formal interviews to informal ones or just a ‘chat’. Knowing their concerns and, in order to alleviate the tension and caution that would prevent the interviewees from telling the truth, and also to pay respect to interviewees as they could feel threatened and insecure, I didn’t use a tape recorder but used note-writing to record the conversation. Sensitive questions were avoided or indirectly asked. I kept the interviews mostly unstructured and the questions open-ended. For missing key information I used alternative sources, for example, as mentioned before, seeking the true voice of the Uyghurs by conducting interviews overseas.

Nevertheless, I constantly shifted my roles from insider to outsider, although my priority reminded as a researcher, bearing in mind that I had all the time to be aware of the main purpose of the research and of the key information I tried to gain. That required me to prepare well for the interviews with lists of interviewees, key information and the basic structure of each interview prior to its commencement, though many changes took place after that. At the very least, I had to be aware of the personal background of the interviewee before I started the interview. The information therefore gathered from interviews as a whole has constructed the basic framework of the thesis. The detailed information needed to fill in this framework has been extracted from the collected data and documents.

“In dealing with the ways in which you end up playing your roles as participant and/or observer in your research, many aspects of your identity will inevitably end up being played off against each other in various contexts as your appearance, ideas, intentions, feelings, politics, ways of doing things, and so forth (have to) change through the experience of setting up and seeing through your project”
(Cook, 1997: p.137).

“In amongst all of these concerns, for many researchers the ideal role to adopt is that of an ‘intelligent, sympathetic, and non-judgemental listener’ to all of its members” (Cassell, 1988, cited by Cook, 1997: p.140).

3.1.4 Research Limitations

The research touches on many sensitive issues. Xinjiang itself is already a sensitive place to undertake research on her political and economic or even cultural development, and there is strong element of politics in my project. I integrated it into the research, rather than seeing it as a part of the process of political mobilisation.

Sensitivities made it impossible to access some materials and gaining genuine information from the interviews with Uyghur. No Uyghur would like to risk themselves to reveal their true thoughts. Besides, there is hostility and distrust remaining in the relations between local Han Chinese and Uyghur. “Prejudice and discrimination held by both Chinese and Uyghur undermine the region’s peace and stability”, according to one professor in Beijing¹³. As I am a Chinese, the Uyghur won’t trust me and I could feel this deeply when I approached and had chatted with them for their true opinions on the performance and bureaucratic administration of Xinjiang’s CCP and government, on the state’s preferential policies toward Xinjiang’s ethnicity, and on the Chinese political institutions in this region.

No Uyghur interviewees answered my questions frankly, even though interviewing those in the UK and those are political silence seekers. Many of the silence seekers simply required for the independence of Xinjiang and ignored any opinions given to the adjustment of policies and institutions. Those interviewed by me in China either found an excuse not to answer the questions sensitive to them or gave me empty talks. The information will never be authentic, as they view me simply as a Han. Such organic information is unreliable. Two high ranking Uyghur leaders (one had retired already) gave a blank refusal to my request for interview.

¹³ Interviews, 2003

Secondly the research draws on published, and unpublished but official, internal materials. The latter are crucial to my research because they often contain information that is occasionally more reliable than published data. These unpublished materials in general are not available in any country other than China. Under such circumstances, though I was granted access to the original unpublished documents recording the past and current development of the region, I was only able to bring out limited copies. Meanwhile, the reliability of those documents is doubtful too as they were produced for a political purpose and the truth behind contemporary historical events might not be interpreted neutrally and impartially and might not ever be released. As a result, one is often thrown back on secondary sources, particularly reports by western scholars.

3.2 Dynamic of Research: Fieldwork

The most significant experience within the research process was the fieldwork in China. In the schedule, periods of fieldwork in the first and second years of my research were planned. The total duration was five and half months.

In order to answer the questions of the research, the activities took place as follows:

- 1) The interviews with people who work for various civil service departments of the local government and with specialists who have research interests in this region's development.
- 2) Document and data-base searches in local civil service departments and library research at Xinjiang's and Beijing's academic institutions. I accessed historical reports and documents by visiting local File Bureau and the National Library in Beijing.
- 3) Talks with local residents whose lives have been directly affected by the reform of politico-economic institutions.

- 4) Visits to field sites and investigations in order to aid understanding of institutional operation at sub-provincial levels and make comparison with other regions in the economic management of local government.
- 5) Participant observation in a local governmental organisation in order to gain insights on Xinjiang's governmental organisation.

3.2.1 Participant Observation

Participant observation was not just to facilitate the research in the field but also to enhance the understanding of reality from the researcher's own experience. As claimed by Holliday (2001), "Ethnographers also often carry out their research during the course of normal jobs or roles within society. For them, the 'dual role' is '(1) to engage in activities appropriate to the situation and (2) to observe'"(Spradley 1980, cited by Holliday, 2001: p.26). Especially in studies on governmental institutional change in terms of bureaucratic behaviours and decision-making process, much of the evidence gained from observation in a governmental office is more valuable than written reports. Therefore, I decided to choose my previous office to conduct participant observation. Due to the object of the thesis being local government, my former working place was convenient because its remit is in that area. It was the best platform to undertake participant observation on bureaucratic behaviours. Firstly, they have plenty of materials available on the broad issues relating to my research, such as some un-published statistical data indicating the economic growth of not only the region but also China as a whole; and original documents on specific policy making and implementation. Copies of all types of five-year plan were accessed in this way. Secondly, although as a former member of local governmental institutes, I have already gained great knowledge of Chinese provincial governmental performance in its infrastructure and bureaucratic administration, still there were issues to be examined and confirmed in order to update my knowledge in terms of new rules on personal recruitment and the proportion of Han and non-Han membership, and age groups, etc.. The relevant documents on local governmental infrastructure and construction were also available. Thirdly, I could easily find out and then contact the potential interviewees through the "social nets" of former

colleagues. I was easily able to approach them as I was presenting myself on these occasions as an “insider”.

I travelled from one department to another within my former office to watch the operation of each department and talk to all directors and key members in their respective fields: economy, industries, agricultures, transportation, finance and investment, personal administration, and CCP affairs. Through these interviewees, I got further contacts with others unit in the same field, such as the financial department of the local Financial Bureau. On contacting these units, I not only undertook interviews with key informants and searched for available published materials in the unit’s file office and database, but also observed the operation of the units in order to gain “organic” information.

I acquired a large amount of evidence on governmental behaviour and organizational infrastructure through participant observation. The method provided the maximum up-to-date and organic information on the transition in managing regional the economy and China’s transition as a whole. In my view, it enhances the authenticity of the thesis.

3.2.2 Interviews

The aim of the interviews was to gain information relevant to the issues and debates on China’s regional development, institutional development in decentralization, Chinese policies in terms of ethnicity, regional development, and government institutional reform from the viewpoint of researchers or officials. The interviews were set up by approaching four groups of people: retired bureaucrats and government planners; currently employed bureaucrats and planners; scholars and Uyghurs (Table 3.1). There are 45 interviews in total conducted and 44 individual interviewees selected according to their duties and any interests they had that were related to my research. I found that they were able to come up with helpful explanations of the causes of China’s decentralisation, uneven regional development and of Xinjiang’s economic standstill. Two forms of interviews were used throughout the fieldwork: semi-structured interviews with individuals and unstructured interviews with focus groups. The semi-structured interviews were conducted with key interviewees, including academic experts, professors, specialists, policy-makers and government officials. These individuals

were selected within Beijing and Xinjiang according to the relevance of their academic work or official job to my project.

Table 3.1 The List of Interviewees

Interviewees	Career	Location and Institute
1	Director	Department A of Local Governmental Institute 1, Xinjiang
3 ¹⁴	Planning Bureaucrats	
1*2	Planning Bureaucrat	Department B of Local Governmental Institute 1, Xinjiang
1	Planning Bureaucrat	Department C of Local Governmental Institute 1, Xinjiang
1	Vice Director	Department D of Local Governmental Institute 1, Xinjiang
1	Vice Director	Department E of Local Governmental Institute 1, Xinjiang
1	Planning Bureaucrat	Department F of Local Governmental Institute 1, Xinjiang
1	Director	Local Governmental Institute 1, Xinjiang
1	Director (retired)	Local Governmental Institute 1, Xinjiang
1	Vice Director	Department A of Construction Bureau, Xinjiang
1	Director	Department A of XAPG, Xinjiang
1	Planning Bureaucrat	Department A of CCP Commission, Xinjiang
1	Planning Bureaucrat	Department B of CCP Commission, Xinjiang
1	Vice Director (retired, Uyghur)	Department C of CCP Commission, Xinjiang
1	Vice Director	Department A of National Land Usage Bureau, Xinjiang
1	Director	Department A of Financial Bureau, Xinjiang
1	Director	Department A of Institute 1 of XPCC, Xinjiang
1	Vice Commander	XPCC, Xinjiang
2	Vice Governors	Manas County, Xinjiang
1*2	Planning Bureaucrat (retired)	Local Investment Bank, Xinjiang
1*2	Vice Director	Urumqi Oil Chemical Manufacturing Company, Xinjiang
1	Director (retired)	Economics Department, China Social Science Academy, Xinjiang
1	Director	Ethnic Studies Department, China Social Science Academy, Xinjiang
1	Director	China Social Science Academy, Xinjiang
1	Professor	Xinjiang University
1	Professor	Xinjiang University
1*2	Professor	Xinjiang Teacher Training University
1	Professor	Regional Studies Department, Remin University, Beijing
1	Senior Lecturer	Regional Studies Department, Remin University, Beijing
1	Senior Lecturer (Eric)	Ethnic Studies Department, China Social Science Academy, Beijing
1	Director (Korean)	Ethnic Studies Department, Centre University for Nationalities, Beijing
1	Professor (retired)	Industry and Economics Department, China Social Science Academy, Beijing
4	Professors	China Science Academy, Beijing
2	Political Silence Seekers (Uyghur)	UK
1	Student (Uyghur)	UK
1	Lecturer	Durham University
1	Lecturer	School of Oriental and African Studies
6 (a group interview)	Retired Bureaucrats	Local Residents, Xinjiang

(Note: Minorities in blue; department A, B and C refers to the different department; *2 means: had interviews twice)

Source: author, 2003)

Based on their careers, the key interviewees are divided into two groups: ones from the academy (including retired scholars), who are currently (or used to be) involved in research

¹⁴ One of three planning bureaucrats had been interviewed twice.

on regional development and policy-making, and the others (including those retired) from governmental civil service departments, who are (or used to be) responsible for regional economic development in their specific fields. Normally I made a request particularly mentioning an individual, face-to-face interview prior to its taking place. In general, they were very open and friendly when I interviewed them with key questions. However, when interviewed by a researcher who is studying abroad, the people of the second group restrained their conversation.

In order to create a friendly and relaxed atmosphere for the interviewees and explore the possibility of getting unexpected information, two forms of interview were used throughout the fieldwork: semi-structured and unstructured interviews with open-ended questions. The semi-structured interviews were used for key interviewees including: academic experts, professors, specialists, policy-makers and governmental officials.

I arranged one focus group interview with six local residents. This was of benefit to the information collection in terms of authenticity and reliability. The information was linked to searching the truth of the historical events affecting China's policy-making and obtaining people's opinions and attitudes toward state policies and Xinjiang's regional development in the past.

“the aim of an interview is not to be representative...but to understand how individual people experience and make sense of their own lives. The emphasis is on considering the meanings people attribute to their lives and the processes which operate in a particular social context” (Valentine, 1997: p.112).

The specially selected group of academic interviewees all have long undertaken research on the regional development of Xinjiang or on China as a whole. They have mastered a large amount of information and their publications frequently employ data sponsored by the state and published within the internal circle. Censorship can prevent contradictory results of research from being published in China, but it cannot prevent them from speaking out. After

my experience of working with them, they showed their generosity to my request for research materials and for the truth. They were my key interviewees.

Because career concerns and personal backgrounds differ between officials and specialists, so does their attitude towards academic researchers from a foreign country. Unambiguous and non-oblique responses to the questionnaire, and a large quantity and reliable information were gained from interviews with specialists or local residents rather than with officials. The academics were eager to express their resentment towards bureaucracy and the mechanics of governments and offered their own suggestions for change. Such information gained from these interviews could never have been gleaned from written documents.

A cross-section of interviewees was used, with a variety of race, career and educational levels and ages 35-65, in order to obtain different views on the political and economic changes that have occurred throughout the life times of these individuals. The interviewees were also selected with regard to the fact that they have seen and experienced changes and those changes have directly affected their personal life in the past fifty years.

Apart from Han Chinese, other minorities including Uyghur, Kazakh, Mongol, and Korean, etc., have been involved as interviewees in both forms of interview. As a requirement for the necessary quality of interview, most of interviewees have been selected with high levels of education and with fluent Mandarin. Special thanks are due to two interviewees whose nationalities are Korean and Eric¹⁵; they both acted as a third party to present their opinions on how better to solve the worsening relationships between Han Chinese and Uyghur.

In addition, after the completion of fieldwork in China, I continued to have a few interviews in the UK as an extension of the fieldwork. The reason for this as mentioned previously, there is great difficulty in obtaining the views of the Uyghur inside the country. Even though I pointed out that I had no political agenda and that my research was confined to the region's economic development, they did not feel able to reveal their true opinions freely in Xinjiang. As far as I am concerned, it is unfair to neglect the voice of local people. Uyghur have a right

¹⁵ A minority that is genetically connected to the Mongolians.

to give their opinions and the research would be incomplete without the involvement of the local minorities especially the Uyghur, who make up the majority of local population and are the main actors in Xinjiang's economic performance. Missing information from their part is filled by my own observations in Xinjiang and by four interviews undertaken afterwards in the UK with western researchers who have interests in Xinjiang and with Uyghur students studying here.

Three major types of information were gained from interviews: comments and recommendations on Xinjiang's regional development in terms of economy, society and institution, and the way and orientation of development of this region in China's politico-economic framework; policy-making on issues of national and regional economic growth and ethnicity and satisfaction with policy implementation; and the truth behind historical events in China and in the region in particular and their impact on policy change and uneven regional development.

3.2.3 Chats

An alternative for gathering information on general or even sensitive issues was to chat with local people such as taxi drivers, factory workers, park keepers, etc.. Unknowing the purpose of my approach and regarding me as an ordinary person no different from others, they were able to tell me their opinions and expectations of regional development and all the changes directly affecting their life. Despite being unsystematic and random, chatting with local people constructs another primary information source: voices from grass roots level in considering China's development. There is no doubt about its authenticity. On the most occasions, I deliberately directed the conversation to my interests. The information enriched the data collection and provided unexpected discoveries, for example, during my visit to Shandong, a coach driver kindly pointed at all advertisements displayed along the sides of highway and told me which ones are financially sponsored by the local government. This was impressive evidence of the great efforts made by the government in that province to sustain their region's economic growth.

3.2.4 Library Research

I undertook library research in China, based in Beijing and Xinjiang, particularly in the capital, Urumqi, where the leading regional universities and academic institutes are located. In Beijing, there are many outstanding universities, such as Beijing University, People's (*Renmin*) University, the National Ethnic University, and national academic institutes, such as the Institute of China Sciences Academy, which can conveniently provide a lot of relevant and up-to-date data. Library research in Xinjiang included Xinjiang University, Xinjiang Teacher Training University and the Institute of China Science Academy of Xinjiang. In those libraries, many Chinese scholars' research works are available and extremely valuable, for example Lu's works (2000, 2001, 2003), from China Science Academy, and Wang's (1999a, b and c), from Xinjiang China's Social Science Academy (XSSA). They did not just present a deepened understanding of China's uneven development and the course of Xinjiang's development over the years but also a large amount of reliable data. Both of these scholars' works have also been quoted by western researchers. Through the recommendation of one interviewee, I obtained copies from its library of surveys done by the XSSA on ethnicity at or below county level, and the religious faith, education and cultural reservation of local Muslim communities and the relations between Han and non-Han. This turned out to be key data in looking at the problems of the local political and bureaucratic administration. The information gained from library research also included copies of China's Five-Year Plans (FYPs) and other development plans and policies; copies of documents, report or academic materials to supplement the information on China's FYPs, Xinjiang's regional development plans and ethnic policies; China's statistical data and other social-economic development indexes.

3.2.5 Fieldtrips

Fieldtrips were the most dynamic part of my work in China, because they provided me not only with a visual interpretation of regional economies being developed and local government's efforts to manage economic growth, but also, through my investigation onsite, insights into how the growth is managed and maintained, and its constraints, reflecting the capability of local governments. The fieldtrips can be regarded as a sort of participant

observation. The information gained includes organisational infrastructure and administrative behaviours of Xinjiang's local government at township level in managing the local economy and tackling bureaucratic institutional changes; comparisons of provincial governmental behaviours in managing local economic growth between Xinjiang and Shandong; and contrasts in the uneven regional development of Xinjiang, Shandong and Hebei.

A. The first trip was undertaken in my first spell in China (Map 3.1).

One field site was targeted: the north-facing slope of the Tian Shan Mountain, an area designated to be Xinjiang's major Special Economic Zone (TNSEZ). The line of the Tian Shan Mountains horizontally divides the region of Xinjiang into north and south. The northern slope of the mountain range contains the best natural conditions in terms of living and farming for its inhabitants. The new development after 1979 has transformed it into the TNSEZ, considerably advanced in industrialisation, transportation and urbanization. The capital, Urumqi, and the second biggest city, Shihezi, which is the administrative capital of the *Bingtuan* (the Xinjiang Production and Construction Corps (XPCCs)), are both situated within the zone. Xinjiang's major railway line is routed along the slope ending westward at the border. When I travelled along the zone, I stopped at four major developed cities: Shihezi, Kuytun, and, Dushanzi and Karamay. Dushanzi and Karamay were founded and expanded by the oil refining industries developed in Xinjiang as a result of the escalated demand for oil consumption in China's east. Shihezi, Kuytun and Dushanzi form "an economic golden triangle", owing largely to the advanced transportation and natural conditions. Shihezi, which has received substantial investment from the XPCC via the State Council (SC), is the second hi-tech industrial town and the second Han Chinese dominated cultural and educational centre and has a large population of immigrants from Shanghai. Kuytun is administrated too by the XPCC and has been economically affected by China's economic transition.

The visit has provided me with an opportunity to investigate economic development at sub-provincial level within Xinjiang and the result shocked me enormously. The site is representative of the most advanced economic development in Xinjiang, but the impact of

Being accompanied by a local official, I had a round-the-town tour to see major developing industrial parks and farming plantations. Manas is located on the slope of north Mountain Tian Shan within the territory of the TNSEZ and geographically close to Urumqi and Shihezi. The best agricultural conditions and convenient transportation have developed an industrial conglomeration in a designated Park, where food manufacturing and wine brewing dominate the assemble lines. Both state and private companies have located plants there and the products have started to be popular all over China. The county has been regarded as a role model for the region. However, the town still faces a shortage of investment and low profitability.

Apart from its economic performance, I observed and investigated the local government's performance in managing economic growth, trying to discover any direct links between economic success and the capability of government.

C. The third fieldtrip to Shandong province, the richest province in China's northern region (Map 3.2).

Shandong has a long coast line along the Yellow Sea, facing South Korea. From 1994-2000 its development reached a peak, as a result of huge profits gained from business and commercial links with South Korea. I went to three coastal cities: Qingdao, Yantai, and Weihai, and the capital, Jinan, an inland city. Impressively, Qingdao is much more economically advanced and socially developed than Jinan. Yantai used to be a military harbour but now is a medium-sized, open industrialised city famous with and economically supported by a pillar industry: the nationally known winery, *Zhang Yu*, whose production is equipped with German techniques and machines and sponsored by the local government. Qingdao is famous for its brewing, under the brand *Qingdao Beer*, and mechanical engineering in the form of a refrigerator manufacturing enterprise, *Haier*. These two products and others have been popular throughout China for years.

Hebei is well-known for its geographical and political proximity to Beijing. It has followed every step of Beijing’s political direction. Although it is close to Beijing and has a coast line, the economic achievement here is far less impressive than that of Shandong.

These visits gave me a simple basis for making a comparison between developed and developing regions. Shandong, Hebei and Xinjiang are physically situated in their respective economic zones – coast, inland and west – according to the division of the “Three-Ladder-Step” programme and have shared the common culture of “China’s north”. As a result of uneven economic development, Shandong’s economic prosperity stands out remarkably and indicates the benefits undeniably gained from policies granted by the centre and political institutional relaxation. In spite of the one-day trip in Hebei, the contrast was obvious and it struck me that China’s wealth is unfairly shared and regionally divided.

3.3 Data

The sources of materials and information include the information gathered from un-structured and structured interviews, chats, observations and from unpublished and published documents and reports, academic books and journals, websites, etc. (Table 3.2).

Table 3.2 Data Collected in the Fieldwork

Sources	Description
Documents	<ul style="list-style-type: none"> • Governmental 10-and 5- year planning policies • Central and local government’s reports on political and economic development • Publications of central and local government • Official publications
Archival Records	<ul style="list-style-type: none"> • Television documentary • Articles on newspaper and journal • Books, journals having historical reviews and reports • Statistics Books of Xinjiang and China • News and information on websites • Papers from seminars, conferences, talks, etc.
Interviews	<ul style="list-style-type: none"> • With individuals being economic experts, professors, specialists and officials • With focus group interviewees recruited from local residents
Chats	<ul style="list-style-type: none"> • With local residents
Observations	<ul style="list-style-type: none"> • Visiting local offices • Visiting field sites • Visiting local factory plants and plantations

(Source: author, 2003)

3.3.1 Data Sources

3.3.1.1 Primary Sources

There is no clear boundary for distinguishing the data from primary or secondary sources in the research. Some materials obviously are classified as secondary ones, for example the suggestions and comments in academic articles that have been interpreted and cited by their authors. The information adduced from interviews, chats, observations and investigation, archival searching is attributed to the primary materials. “The essence of a primary source of information is that it involves the researcher in direct experience and observation of the real world, in so far as that term has meaning” (Preece, 1994: p.80). A few copies of hand-written or typed documents, which recorded the historical events or reported facts to high authorities, were found in those departmental file-keeping offices. I categorised these among the primary sources, as the presentation of those documents have already proved themselves to be historic evidence, acting both as reference and primary materials.

My research areas cover reasonably broad issues, such as: policy, policy-making and implementation, governmental capability and governance, institutional change and development studies, ethnic studies, etc.. When collecting the data from primary sources, especially selecting interviewees, a particular method used was *sampling*. Sampling is a skill of “collecting the information representative of the total quantity of cases of the type which are the subject of your study. When you want to assess the opinion of large number of community, you will have to devise some way of selecting a sample of the members who you are able to questions, and who are a fair representation of all member of the union”(Walliman and Baiche, 2001: p.232). As there are various subjects involved in the research, I chose the interviewee who must be in charge of or responsible for his/her respective field each from academic and governmental departments. The number of interviews for each subject depends on the weight of those subjects in the research, for example: more people than others selected from the field of policy-making, a method as *Purposive Sampling* (Walliman and Baiche, 2001: p.234).

3.3.1.2 Secondary Sources

Apart from the information collected from primary sources, I also collected books and newspapers, copies of various up-to-date reports and documents, news and data from Chinese websites and databases, including Xinjiang's FYPs, key information on each of China's FYPs, and the SC documents announcing the launch of China's Great West Development Campaign (WDP).

Academic books now emerging in China discuss the varied issues in her economic growth and regional development, and the debates, results and data they deploy will accordingly be referred to and selectively used in this thesis, though their method and philosophy are suspect. For example, most Chinese documents and academic data are characterised by political bias. They are instruments in the politics of regional development and of debates about development process. Being aware of this, my thesis has to be completed beyond this constraint and circumscription.

I have kept close eye on any useful news or information from websites during the course of this research, which has helped me with updates and further reference. Nowadays major changes are reported on the web and some commentaries appear too. For example, I found web news about the construction of an oil pipeline to be shared between Russia, China or Japan, following every step of the negotiations. Apart from websites, libraries and government departments and file bureaux have been my targeted secondary sources.

For first hand information about Uyghur true opinion on sensitive issues, I resorted to websites designed by Uyghur refugees abroad and from there I obtained a considerable amount of information.

Statistics include both the regional and national Chinese Statistical Yearbooks published since 1950, which are authoritative sources, providing large amounts of survey information and economic indicators. The regional statistical yearbooks for Xinjiang, Shandong, and Guangdong are also of particular interest. Xinjiang and Guangdong are geographically and

economically classed each in the third and first steps in China's "Three Ladder Steps" theory, the Chinese version of the growth pole theory (Wei, 1999). Drawing comparisons between these provinces, which represent the two macro-regions in China's spatial division, will give a clearer picture of how the state's preferential policies affect the regional development differently. The Year Books, containing a broad range of economic indicators, reflect these differences, and thus I shall rely upon them as a main source. However, owing to the ten years of "Cultural Revolution"(CR), the Yearbooks of the periods of 1965-1980 do not exist. Even if they did exist, the information would probably not be very reliable and complete. They were published as political propaganda rather than as research references. In this case, I have to gather statistics of the period of 1965-80 from other sources, such as economic research books and journals such as: *China Quarterly*, etc., focusing on the mainland China development published in Taiwan and the United States.

With regard to the issue of accuracy and reliability of data in China's Statistical Yearbooks officially published by the National Statistic Bureau (NSB), a few western scholars' comments need to be considered. According to Gale (2002), who is concerned about agricultural statistics, China's statistics have always been politicized and exaggerate growth and understate losses. Since the decentralisation, due to a loosening of government control and growth of the non-state sector, the accuracy of China's statistics is becoming questionable, although modern survey and data-collection technologies have been introduced to counter this trend. Sinton (2001) comments that the quality of China's energy statistics has been declining since the mid-1990s, as the result of loosening control over reporting systems. However, Sinton also said that it does not mean all data should be rejected but should be handled with caution. Holz (2003: p.162) has made a systematic analysis on the reliability of Chinese output and economic growth statistics and argues that "they are both more and less reliable than the critics think. They are more reliable in that the NBS is unlikely to be purposefully falsifying data." Toops' comment (2004a) in particular on the reliability of Xinjiang's Statistical Yearbooks is an important corrective:

"These are the best statistical resources available to the researcher. Demographers such as John Aird,...have utilised the statistical bureau publications in their analyses of

China population developments. For more than thirty years between 1949 and the early 1980s – statistical data was an instrument of political propaganda and manipulation or not available at all. In contrast, much of the data from the 1982, 1990 and 2000 censuses are up to international standards. Data from the 1982 and 1990 censuses are readily available. The Xinjiang Statistical Yearbook constitutes an invaluable resource for the analysis of regional variations in Xinjiang’s overall demographic pattern”(Toops, 2004a: p.241).

As far as I am concerned, based on personal experience, despite politicization and decentralization resulting in increasing inaccuracy in official statistics, China has tried to present her statistical data in a way to meet international standards. The major statistical yearbooks are published in English in order to let foreign researchers directly access the data. This is a signal that, in order to meet the requirement for high standard and reliability of data for international researchers, the state has had to improve its statistical methods and to present highly quality, original data. Since the beginning of the fast acceleration in GDP, many scholars have tried to question the reliability of all statistical data indicating growth. As stated by Nemets and Torda (2002), there is no faked statistical data hidden or contradictory to growth. China needs to prove to the world her economic success by presenting reliable data. Holz (2003: p.163) also says “The recent reforms in the statistical system show that the Chinese leadership and the NBS are responding well to the challenge...recent reform measures are likely to a strengthening of professional statistical practice across the country.”

Fortunately I have insights into the reliability of data in the statistical yearbooks through my privileged position. As Gale (2002) said, historically China has always had duplicative reporting systems and much reliable data is only available to government officials. Through the “social network”, I have been able to access these data, generally considered as more reliable than those in the published Yearbooks. In addition, I will also refer to statistical data collected from the published works of western scholars to compare, select or determine the accuracy of data from the statistical yearbooks. In those ways I will try to minimize the uncertainty about China’s statistical data.

This thesis discusses some political scandals in relation to local governmental performance and leadership before the reform. Although such the events can be found on the records of the China or Xinjiang Year Books, the truth behind events in the CR and in the beginning of the post GS period had been unrecorded in China or distorted for political reasons. Western scholars such as McMillen (1979) have discussed the truth in their books, China Quarterly has provided largely useful data up to the first FYP and I have also resorted to the biographies and autobiographies of important political leaders such as Burhan and Wang Zhen as sources for the truth of those events. Alternatively, through interviews with older people in the region, I have gained further information about the relevant events.

3.3.2 Data Analysis

Because the analysis of data has to be linked to the aims and theoretical framework of the research, the data collection was a combinative process of data establishment and analysis. The preliminary analysis through data establishment is to categorize data by using a coding system, compiling memos and an interim summary. The process illustrated in figure 3.1 shows: all of the collected data – the corpus of data – can be used in the research, but it is messy originally and will need to be made sense of, shifting, organising, cataloguing, selecting, determining, themes – processing the data – in order to develop the sense of the argument. According to Holliday’s (2001: p.103) suggestion, a thematic approach is applied to organise the data: “some studies, certainly, use a purely thematic approach in which all the data is taken holistically and rearranged under themes which emerge as running through its totality”. “Different research projects are driven in different ways, with different intensities of argument; but it has to be recognised that the development of themes and the organisation of data are interconnected with the development of an argument. The whole purpose of organizing the data is to serve and structure the argument in the written study” (Holliday, 2001: p.104).

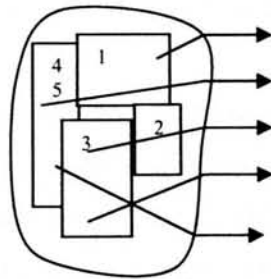
New evidences can be discovered and extracted from the data for the argument to support theoretical hypotheses. Consciously, all discussion and analysis are restricted to the theoretical framework and the research objectives. According to *Grounded Theory*, the

process of data categorizing and analysis aims to discover, develop and test a theoretical hypothesis from field data – the process of qualitative analysis. The importance of qualitative analysis is to develop theory from data rather than “merely to test prior theory” (Walliman and Baiche, 2001: p.259). In this case, “with the further development of the hypotheses, continuing collection of data and theoretical reflection, the developing theory is again tested in the field” (Walliman and Baiche, 2001: p.259). There is a dual aspect in the process of data analysis (Figure 3.2). One aspect is data collection and the presentation of extracts as evidence. Another is the through discussion and argument. In the sectional analysis and extraction, the implication and significance of data in each section is discussed.

Figure 3.1 From Data to Text

[a] Corpus of Raw Data

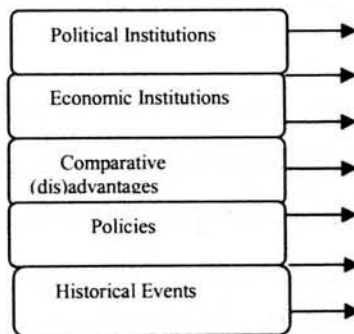
Rationalised sections of messy reality



Once removed from ‘reality’
 1 Documents; 2 Archival records;
 3 Interviews; 4 Statistics; 5 observation

(Source: compiled from Holliday, 2001)

[b] Thematic Organisation of Data



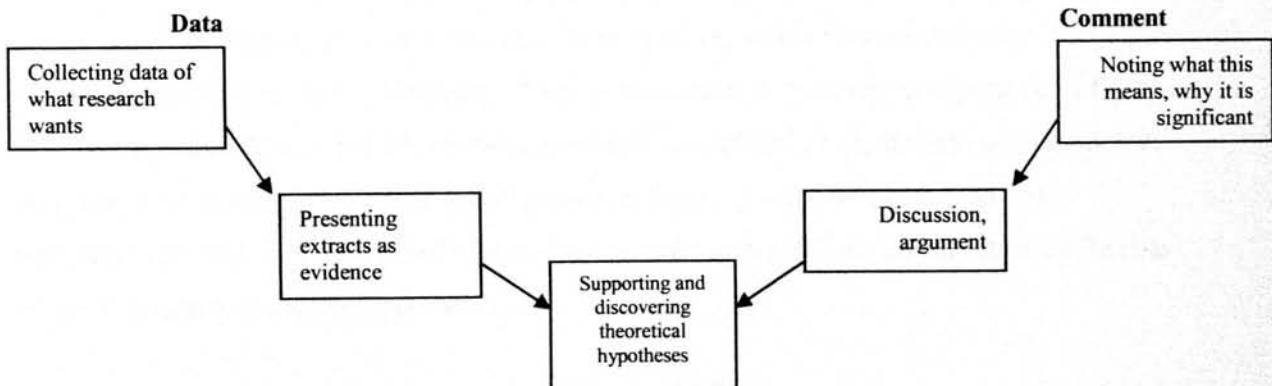
Further removed from ‘reality’

[c] Text or Data Analysis Section or Chapter

Extracts from data, and discussion, incorporated under each thematic heading to form the basis for the argument

Even further removed from ‘reality’

Figure 3.2 A Dual Process

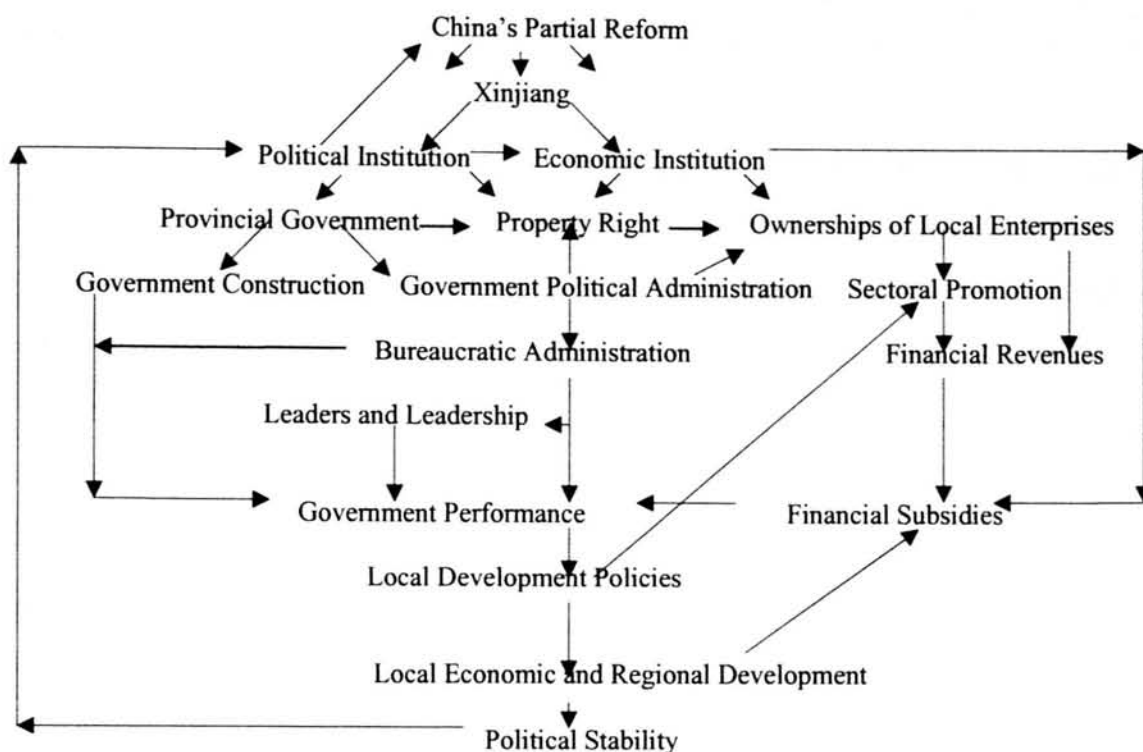


(Source: compiled from Holliday, 2001)

A body of data was established after fieldwork, which includes a large quantity of historical development materials, statistical surveys and official documents and they have been subjected to analysis. I firstly arranged them into a new structure under different thematic headings, such as: 1) political institutions, including the CCP and governmental bureaucratic administration at state, provincial and township levels, administrative reform, and leadership, personnel training, recruitment and appointment; 2) economic institutions including ownership and financial distribution of local industrial and agricultural sectors; 3) locally comparative advantages or disadvantages including: geographical conditions, infrastructure, and social factors in terms of ethnicity; 4) all development policies including state and local FYPs and other policies; 5) records on key events in the local contemporary history; 6) evidence of Xinjiang's economic development over the past 50 years since 1949; etc.. Each heading abstractly reflects the research aims under the structure of the chapter plan. In this way, the data was grouped into different sections related to these headings.

Secondly, each section was then focused on, and the data was further examined, grouped, and extracted to recognise and discover the signification and difference of data and to turn the raw materials into qualitative data to serve the argument (Figure 3.1). The process of sectional analysis can be demonstrated through an example: the analysis of political institutions. The examination of political institutions, which the autonomous state and the CCP leadership established for Xinjiang, reveal the different degrees of political decentralisation and administration here from that in other regions. In the thesis I have tried to find out, by combining the results of the sectional analyses, the impacts of the political institution in the region upon performance, orientation, bureaucratic administration and infrastructure construction of Xinjiang's local government. A summary is displayed in figure 3.3. This provides further material for the argument about local governmental competence in Xinjiang's development. The sources illustrated in table 3.1 – the raw data – will be processed into text form at the end of sectional analysis to explain the contribution of the data of each section to the main argument.

Figure 3.3 Network for the Data Analysis



(Source: author, 2005)

In addition, in one or two data sections there are reports on local financial management in relation to local governmental authority in decision-making. As these data are only needed to draw attention to whether local government can gain authority from economic self-reliance and revenue from local enterprises in their domain, complicated statistical analysis will not be necessary for financial budgetary analysis. I simply use diagrams or tables to interpret the facts by exploiting local financial budgetary and annual reports based on the data collected from fieldwork and the data from provincial or national statistical year books.

The interconnection between the sections will be developed and tested by identifying common themes and functions in order to answer research questions and test theoretical hypotheses. Again this can be seen in an example: analysing the interrelated functions of economic conditions and economic institutional constraints on the performance of local government. The examination of economic institutions revealed that economic decentralisation is different from other provinces. The results, combined with the results of an analysis of local economic comparative advantages or disadvantages, will be used for

pursuing their impacts on the behaviour of local government in gaining decentralised economic power for producing justified policy to steer local economic development.

Through this process of data analysis, the large, “messy”, quantitative data is organised into a systematic network to form argument for the thesis (Figure 3.3). The network is also described the relation of each group of data and their interconnected action on the argument. Based on the direction of the network and the presence of sufficient refined data refined, the thesis writing could start.

Chapter 4 Major Institutional Constraints on Xinjiang's Economic Development

This chapter will examine the constraints on Xinjiang's development in terms of geographical location, social environment, and political administration. We will also try to understand the major problems created by the region's geo-politics and this will be picked up in the following chapters on regional governmental institutions and economic performance.

4.1 Xinjiang's Location, People and Society

In this section we need to look into the major geographical factors in terms of location, population and society of Xinjiang, which are generally regarded as major constraints on the development of this region.

Xinjiang is situated deep in the centre of the Eurasian continent and on China's north-western frontier, geographically on the margins of both Asia and Europe. There are eight countries bordering this region: Uzbekistan, Kazakhstan and Turkmenistan on the west, Mongolia and Russia on the north, Pakistan, Afghanistan, and India to the southwest. This location is responsible for an extremely dry climate and fragile natural environment with gigantic mountains and sandy desserts barricading the region from the outside world, but it encouraged the evolution of the nomadic life-style of its local residents, who look to neighbouring countries and to their Muslim co-religionists for spiritual and cultural ties, thus distinguishing them from the majority Han who dominate the rest of China.

Xinjiang takes up one-sixth of the total land of the People's Republic of China (Map 4.1) but her population represents only 1.2 per cent of the national total. There were basically 13 major nationalities, 12 minorities plus the Han Chinese, inhabiting the different parts of the region before 1949. After the leading group, the Uyghur, the Han have been second in population since 1955, and then there are the Kazakh, Hui (Han Muslim Chinese), Kirghiz, and Mongolian and other minorities, who make up the rest (Table 4.1). The Uyghur is a

like the Kazakh, Kirghiz, Tajik, Uzbek, Tatar, etc., the Uyghur constitute an Islamic society and have strong bonds historically with the other central Asian countries. The Hui are a group of European descent who converted to Islam but share a culture and demographic proximity with the Han, as a result of long-term assimilation. Some Chinese settled in the region long ago, in the first half of the second century BCE and again when the Great Khan during the Yuan Dynasty in 1200 brought his control and the influence of Mongolian culture to Xinjiang (Harris, 1993). Many places still retain their Mongolian names such as Urumqi, meaning “beautiful farming land”. Buddhism also has its share in the region’s culture through the Han, Mongol, Xibo, Manchu, and Daur, etc..

Table 4.1 The Ethnic Structure of Population in 2000

Ethnicity	Population	%
Uyghur	8,256,661	46.08
Han	7,023,910	39.21
Kazakh	1,277,474	7.13
Hui	813,023	4.54
Kirghiz	159,584	0.89
Mongol	156,892	0.87
Tajik	39,642	0.22
Xibo	39,238	0.22
Manchu	22,329	0.12
Uzbek	13,198	0.07
Russian	10,598	0.06
Daur	6,405	0.04
Tatar	4,695	0.03
Others	91,810	0.51

(Source: Xinjiang Statistics Bureau (XSB): Xinjiang Statistical Year Book, 2001)

A large-scale Han Chinese immigration to Xinjiang began after 1950, changing the local population structure away from Uyghur domination. By 1960 the proportion of Chinese had reached 25 per cent, compared to 7 per cent in 1952 (Table 4.2). This reduced the local

shortage of skilled labour and brought hundreds and thousands of technicians and administrative personnel to the locality; on the other side it caused the escalation of resentment from the natives for fear of losing their cultural identity and regional resources. These multiple nationalities have led to complexity and confrontation in terms of politics, religion, and language, especially since massive Han immigration after 1949. It will be no surprise that tensions have arisen.

Table 4.2 Xinjiang's Output and Population in Selected Years

Years	GDP per capita (million yuan)	XPCC GDP Share %	Population (million persons)	Han Population (million persons)	Han Population Share (%)	Cultivated Land (thousand hectares)
1952	170	15.1	4.65	0.33	7.1	1543
1955	207	13.5	5.12	0.55	10.7	1690
1960	314	24.1	6.86	1.94	28.3	3145
1962	217	25.8	6.99	2.08	29.8	3054
1966	305	26.3	8.38	3.10	37.0	3330
1969	210	29.1	9.44	3.71	39.3	3167
1971	249	31.3	10.10	4.05	40.1	3160
1974	202	29.9	11.26	4.66	41.4	3143
1975	229	15.3	11.55	4.78	41.4	3147
1978	292	21.7	12.33	5.13	41.6	3185
1980	338	22.6	12.83	5.31	41.4	3182
1985	574	21.5	13.61	5.35	39.3	3083
1990	810	19.9	15.29	5.75	37.6	3087
1995	1286	16.5	16.61	6.32	38.0	3128
2000	1699	16.6	18.46	7.50	40.6	3417

(Source: Wiemer, 2004)

Religion is a fundamental key to the cultural and political differences of the region from the rest of China. Most of Xinjiang's ethnic populations are Sunni Muslims of the mainstream Hanafi School (Harris, 1993). The religious practices, beliefs and codes have spread widely, persisted and penetrated the society just like other Islamic countries with "religion-state-integrated" institutions. Even though Xinjiang is under the control of the CCP, the clergy have more power than CCP leaders in some remote areas (Mackerras, 2003), and religious ideology remains the principle of life and polity. The Uyghurs and Kazakhs especially regard the Muslim religion as a means to express their identities, to form political and social discipline, to construct cultural heritages and lifestyle and to unify their peoples (Liu and Felmingham, 1998). However in Chinese society religion has had a weakened role since 1949 and is regarded as a weapon for "class struggle" in Communist politics to "mobilize

support for the State” (Lee III, 1964: p.162-164). Chinese Communism requires the ideological purification of people centered on Chinese Han culture and takes for granted that Muslim people in Xinjiang should accept that their religious faith is inferior to Chinese political doctrine, thus contradicting the fundamentalism of the Muslim faith of local people and causing offence and discontentment among local people towards the intervention of the Chinese Communists and to the immigration of the Han Chinese. The Muslim religion in Xinjiang is thus a political barrier, both for ideological doctrine and for any chance of integration into a Han China.

Traditionally, the Chinese perceive the image of their culture, represented by Confucianism, to be culturally superior to others. They describe others’ cultures as barbaric and in need of education by the Han (Harris, 1993: p.115). Such cultural bias results in a lack of respect by the Han towards ‘others’. In Xinjiang the local minorities see the Han as dishonest, materialistic and unfriendly. The Chinese cannot tolerate the Uyghur’s lifestyle and view them as “primitive”, cunning, stubborn, and obsessed by religion. Conflict between two is very easily generated by their unjustified attitudes towards each other, driven by their concerns in their own interests. “The cultural gap between Turkic and Han could hardly be wider. Turkic look to a mythological past in which their ancestors were suckled by wolves, like Romulus and Remus, the founders of Rome. The Chinese look to the rain-making spirit represented by the dragon, with whom their emperors identified. Both are proud creatures who cannot inhabit the same domain” (Tyler, 2003: p.269).

Xinjiang has numerous languages, with four major different scripts: Arabic, Chinese, Mongolian and Cyrillic. Chinese and Uyghur are regarded as the province’s two official languages, both appearing in the public and local state media, though there are TV channels, radio stations, and newspapers specifically designed for non-Han and non-Uyghur speaking minorities. The local educational institutes, science research councils and local governmental departments apply a bilingual system for people who can communicate in one of the two languages on formal occasions. However, these services and departments are by and large found and run by the Han immigrants possessing advanced skills which were lacking among local people. Han language is particularly dominant in urban areas. The Uyghur language

was originally derived from the Aramaic/Arabic alphabet but was changed in 1959 to a Cyrillic and then Latin alphabet, considered by many as the Chinese Government calling for the “Uyghur Language Reform”. However, the truth behind the reform is that in the early years the teaching materials came largely from the neighbouring Soviet Union and were in the Cyrillic alphabet. There were not sufficient texts in Arabic script for the Uyghurs and other ethnics. Obviously there was also partly a political reason, alongside a practical consideration in calling for reform (Schwarz, 1960; Benson, 2004). This decision was rescinded in 1987 and Arabic script returned. At a stroke, the reform made a generation of Uyghurs born in the later 1960s and 70s illiterate in their traditional alphabet. There was a similar reform in the Kazakh language.

Xinjiang has experienced a long history of outside control and has never been recognized as an independent country (Millward and Perdue, 2004). The Uyghurs regard the land as home because they have been living there for centuries, while the Han Chinese consider the land as a part of China according to the fact it has been under Chinese rule for centuries.

The Uyghur at large are the leading group taking action against Han domination and assimilation. They are keen on preserving the purity of their nationality and persisting in their religious faith, but some also promote protectionism and separatism, making the region potentially a centre of political crisis. The local oil industry is said to have been supporting the coastal boom, accomplished through Beijing’s western development plan. Comments have been made that the Han are taking Xinjiang’s resources to serve the central purposes while leaving the region itself poorly developed. The Uyghurs feel that China’s current prosperity is not fairly divided. They worry that they are not just losing their property and wealth but also their culture and national identity. Especially after the Cultural Revolution the Uyghurs have been encouraged to revive their own culture and allowed to read their own history, literature and language¹⁶, and they have been able to re-establish their old Central-Asian connections. This has encouraged them to seek their own national identity and to dream of a geopolitical reorganization.

¹⁶ Hu, Yaobang, who was candidate for national GS, during a visit to Xinjiang for two weeks in 1980, speculated on giving real autonomy to the ethnic regions and encouraged the revival of ethnic culture (Interviews, 2003 and comment by Bovingdon, 2004).

4.2 Autonomy in Xinjiang

Officially, Xinjiang has been recognized as part of China for three or four centuries, but until 1949 Chinese control was weak due to the region's strong bonds to Central Asia culturally and geographically and due to the expensive task of controlling this land distant from the court in Beijing. However, as Xinjiang had been regarded by the Chinese as a strategic defence "door" to the enormous western part of their realm and, in the same way, as a "door" to the Far East by the Russians since the Qing Dynasty, there were struggles between China and Russia for control. In the first half of the twentieth century, Russian influence, following the establishment of the Soviet Union, was increasing, making many people in Xinjiang prefer Soviet to Chinese control even after the advent of Chinese communism, particularly because living standards on the Soviet side of the border at that time were perceived to be higher (Ferdinand, 1994b: p.272-273).

For fear of resurgent Russian control over the area and to take the land under the firm control of communist China, the new government after 1949 developed an autonomous institution for political governance of the region and they encouraged a large number of Han Chinese to settle down here accompanied by huge state investment in the region.

Xinjiang was thus made into the Xinjiang Uyghur Autonomous Region (XUAR), headed by the People's Government of XUAR (XAPG) in 1955, six years after it had peacefully accepted the take-over of the People's Liberation Army (PLA) in 1949. According to Chinese Ethnic Autonomous Constitution (CEAC), a region with a large ethnic population can establish its own local autonomous government under the unified supervision of the CCP. This regional autonomy is a compromise between the desires of Beijing for tight control over Xinjiang and the requirement of the Uyghurs for a federal system. Therefore, all levels of government and authority in any organization in the region have leaders from the leading minority to handle their own affairs and the Han Chinese remains in charge of the CCP. The regional autonomy of Xinjiang was reconfirmed in 1984 and 2001. A number of important features within the institutions of autonomy will now be examined.

4.2.1 Autonomy under the Leadership of the CCP

As we discussed before in chapter 2, the CCP and its General Secretaries (GSs) penetrate government regimes at all levels and dominate decision-making. Notwithstanding Xinjiang's politically and ethnically distinctive features, its autonomous government institutions resemble or are even specially required for the same "party-determining" administration as in China's other provinces, even though it is under the title of an "autonomous region". The CCP and the GSs have been granted a superior authority over the autonomous government and governors in decision-making in terms of the political and economic administration of the region. Second, all the leaders of different levels of government are required to be from the ethnic minorities, while the GS positions at all levels of government-party regimes are taken by Hans. Therefore, the top leaders of Xinjiang in any civil service department are represented by two people having very different backgrounds, interests and missions. Han members of the Party-state regime make the key decisions and the ethnic minority governors implement policies. In particular in Xinjiang the governments and their governors are chosen carefully for their obedience and cooperation in handling party decisions.

Xinjiang has also worked out a recruitment policy to appoint, train and promote Uyghur cadres working in the CCP and all levels of government departments. The CCP in Xinjiang in the 1950s discovered the necessity of establishing an efficient administration in which there would be sufficient numbers of minority cadres to cooperate with Han members and implement Beijing's policies. Xinjiang therefore encouraged carefully selected Uyghurs to join the CCP and sent them to Beijing or other places to receive training and advanced education. Since then any recruitment, promotion and training programme for cadres in Xinjiang's government and state enterprises has had to have a large quota for minorities. The Central Institute located in Beijing runs programmes from six months to two years for minority cadres. The crucial criterion for their selection for promotion or appointment is their political inclination rather than their technical skill qualifications for the job.

4.2.2 Multi-level Political Autonomous System

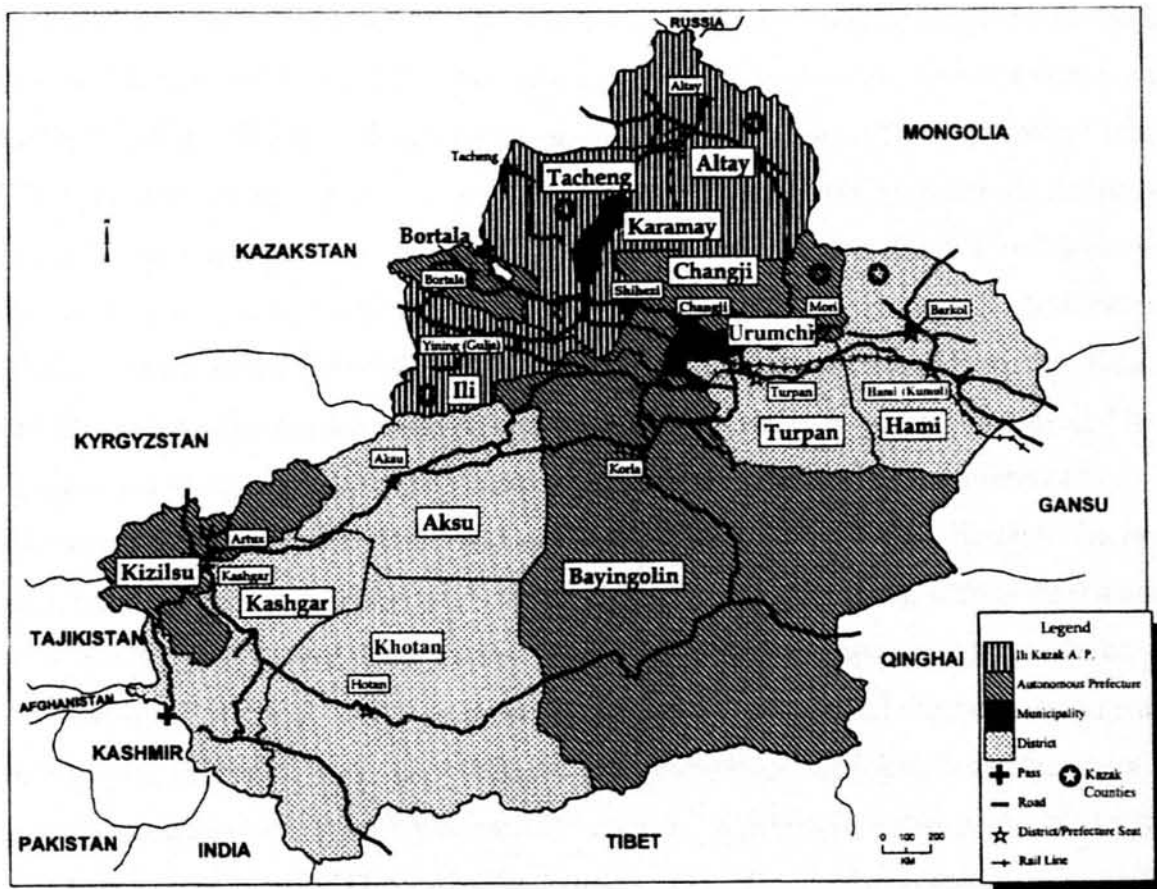
With regards to the region's administration of geographical division, Beijing has granted an extended autonomy to other minorities at the sub-provincial level – “a condominium of nested autonomies” (Bovingdon, 2004: p.13) or “small to large” (Wang, 1999c: p.249). This can be described as horizontal via vertical autonomy, which means that the Uyghur can't solely claim the land for their own nationality but have to share with the other minorities who also have rights to claim autonomy in their own territories. The Uyghur autonomous administration is thus fragmented and surrounded by the multi-level autonomous administrations of other minorities.

On examination, the geographical structure of administration is complicated. Up to 2005, there were a total of 12 sub-provincial divisions at the second administrative level after the province, including five autonomous prefectures, three cities and four sub-regions. They are Ili Kazakh Autonomous Prefecture including Yining, Altay and Tacheng Regions; Changji Hui Autonomous Prefecture; Bortala Mongolian Autonomous Prefecture; Bayingolin Mongolian Autonomous Prefecture; and Kizilsu-Kirghiz Autonomous Prefecture; the cities of Urumqi (the capital), Shihezi (the symbolic hometown of the Xinjiang Production and Construction Corp (XPCC)), and Karamay (the centre of Xinjiang's oil industries); and the sub-regions of Hami (including Turpan Region), Aksu, Kashigar, and Hotan (Map 4.2).

Kashigar and Hotan, Turpan and Aksu have large populations of Uyghur and most of the Han Chinese are settled on the northern slope of the Tian Shan. The largest prefecture in the area is Bayingolin Mongolian Prefecture, taking up one fourth of the land. Although political administrative divisions, Turpan Region and Yining, Altay and Tacheng Regions are in reality sub-regions administrated by their respective upper regions, Hami Region and Ili Prefecture. However, in their economic operation, these four regions are considered independent units on equal terms with the sub-provincial regions. Within each autonomous prefecture or sub-region there are one or two autonomous counties in which the governorship and key leadership have to be drawn from the local dominant ethnic group. In Hami Region,

for instance, there is Balikqueen Kazakh autonomous county, Bukesary Mongolian autonomous county is in Tacheng, and Tashikuerga Tajik autonomous county is in the Kashigar Region, etc.. Xinjiang's sub-regional administrative autonomy gives equal rights to non-Uyghur ethnics and diversifies the domination of one large ethnic group in this multinational area. This is obviously a strategy in terms of national unity designed to preserve the central state control, but it imposes difficulty and complication on to the XAPG for its administration and policy implementation.

Map 4.2 Xinjiang Administrative Divisions



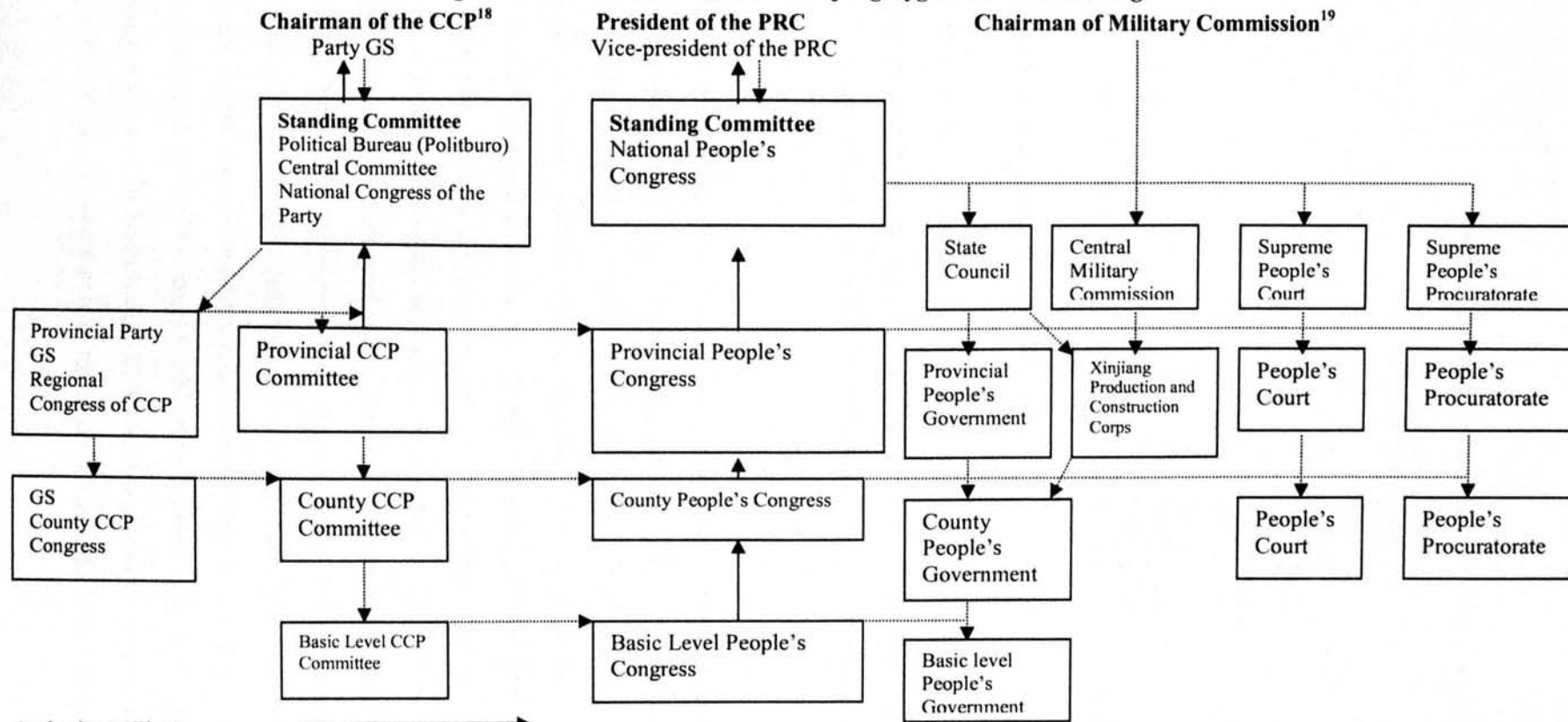
(Source: compiled from Starr, 2004)

Secondly, due to Xinjiang's frontier location, the establishment of the Xinjiang Production and Construction Corps (XPCC) in 1954, as a special military-based governmental organisation, consolidates the political control of the region. However, it is also responsible for the fragmentation of the administration of the local government. The XPCC is not simply a unit within the military apparatus, but, as a large-scale specific productive institute, it also

takes direct instructions from the State Council (SC). Moreover, the XAPG also has a right to insert its supervision on the XPCC. This changes and complicates the general bureaucratic administrative structure¹⁷ in Xinjiang (Figure 4.1). The XPCC has also become a large-scale, Han-organised institute absorbing Han immigrants from central China. The institute has been systemically constructed with its own production sections along with military sections, including agriculture, industry, tertiary, and its civil service departments in which are provided complete educational and social services, not only to its members but also to the people outside the XPCC. The members of the XPCC and their families serve under semi-military-rule but also enjoy benefits. There is a need for permission to leave or get a transfer from the XPCC to other local institutes. The XPCC receives financial support both from the Chinese military and the SC and submits its revenues to the state, the central military union and the locality. After the Cultural Revolution (CR), Production and Construction Corps (PCCs) in other frontier regions were abolished in 1975. However, with the escalation of separatism in Xinjiang, the SC not only confirmed the existence of the PCC in Xinjiang in 1982 and reinforced its function, but also promoted the XPCC by singling it out from the XAPG's apparatus for direct administration and financial sponsorship. Up to now Xinjiang is the only region retaining this semi-military and semi-production type of institute and its ten divisions are spread over the region, further complicating the XAPG's administrative structure (Table 4.3). Local people and members of XPCC are mingled, living in the same areas, but they are administered separately. In many areas of Xinjiang with large populations of the XPCC, local governments have to share administrative responsibilities with the headquarters of the local XPCC division. Shihezi provides a typical example. As a symbolic hometown to the XPCC and second biggest industrial city in Xinjiang, it has the major population registered in the 8th division of the XPCC. The Headquarters of the 8th division have been stationed in Shihezi since 1950 and functioned as the city's government until 1985. After that the Shihezi People's Government was founded in 1985, comprising the headquarters of the division and local civil departments cooperatively acting as one body under the supervision of Shihezi's CCP. The practice of the XPCC is meaningful politically as well as economically in this region.

¹⁷ See in chapter 2 figure2.1.

Figure 4.1 The Political Structure of Xinjiang Uyghur Autonomous Region



Authority to Elect
 Authority to Lead
 (Sources: compiled after Hook, 1988 and Liu 2001)

¹⁸ Existed between 1949-1981, after 1981, the GS was only the top leader of the CCP.

¹⁹ On most occasions the Chairman of the Military Commission, President of the PRC and GS of the CCP were taken by one person.

Table 4.3 The Location of XPCC Divisions in Xinjiang

No.	Regions
1 st	Aksu
2 nd	Korla
3 rd	Kashigar
4 th	Yining (in Ili)
5 th	Bole
6 th	Urumqi, Changji
7 th	Kuytun
8 th	Shihezi
9 th	Ermin (Tacheng)
10 th	Tacheng, Altay

(Source: based on the information from: *the fifty Years of New China, 1949-1999: the Volume of XPCC, 2000*)

4.2.3 Preferential Policies for Ethnicity

To harmonize the system of autonomy under the tight political control of the central government, according to Xinjiang's social variation, Beijing has granted a series of preferential policies for minorities in terms of their religious, cultural and political spheres of life.

First, there are policies of political equality. One feature reflecting political equality is shown by Beijing granting regional autonomy and minority cadre cultivation. The policies state that there must be no oppression and discrimination in any field against any nationality in Xinjiang, no matter what the religion, customs or size of population. Sustaining traditional minority lifestyles and allowing free religious practice, and the granting of religious and traditional festivals as local holidays, are also components of these policies. Any anti-Muslim sentiment is clearly forbidden and respect is required for Muslim customs, for instance lamb and pork must not be displayed on the same shelf in grocery stores. This is all a significant reversal of recent contemporary history, when religions were broadly forbidden and attacked in the CR period and in Xinjiang 90 per cent of mosques were closed. For example, in the Kashigar Region mosque numbers reduced from 5500 to 392 in the 1970s. 4700 mosques were then rebuilt in 1980-81 and by 1999 the officially registered number of mosques in Xinjiang as a whole had reached 23,000, and many Muslims now undertake the Hajj since it was re-allowed and they are able to travel on business to Arab countries.

Second, policies of social development have also been granted to minorities in terms of education, family planning and employment. It is understandable that organizing a modern educational system including the preparation of text books in the very different scripts is complicated, as is the training of ethnic teachers equipped with sufficient knowledge. In fact, education as a whole has been a difficult task for Xinjiang's local government over the years, not having had any modern educational system at all before 1949. Xinjiang has successfully established two separate language systems in elementary and high schools – minority schools teaching in their native languages and Chinese in Han schools. Minority students can study and use their language in schools, local universities and even local firms. Therefore the native language can be preserved in this way. However, as a large number of Han immigrants are arriving and the modern educational system was constructed and dominated by the Han and, as the quality of teaching especially in science subjects and the level of knowledge achieved in minority schools are lower, not only the ethnic elite but also nearly all urban families prefer Han schools for their children's education and better future, in the hope that they will eventually head for top universities in central China. Nevertheless, the parents constantly complain that the education in their own language and literature in these Han schools is inadequate. In 1984, the current GS, Wang Enmao, proposed a campaign aiming to promote Han teaching in Xinjiang's ethnic primary and middle schools, and to encourage ethnic students to attend Han schools in an attempt to improve the overall education standard of the minorities. As a result, many Uyghur or non-Han-speaking ethnic students studying in Han Chinese schools, especially in Xinjiang's northern areas, now have a good knowledge of Chinese but their capability for writing and reading in their first language is declining. In 1996, the XAPG promoted a campaign and launched a policy to improve ethnic students' knowledge of Chinese and suggested that they should take a Chinese test before entering university. Ethnic students who have not attended a Chinese medium school, and do not have a good knowledge of Chinese, have to take a two year Chinese-language foundation course before they start university.

Since 1980, when universities reopened to all school graduates, Xinjiang's policy of enrolment has clearly favoured the minorities. There is a nearly equal quota in each province for school graduates to get a place, and in Xinjiang the quota, divided 7:3 before the 1990s

has been increased to 6:4 between non-Han and Han. Because of the language barrier, minority students are only required to achieve a minimum score in the university entrance examination, while Han students in Xinjiang have to achieve a much higher score than the national average to get a place in university. For example, in 1985, the minimum score to enter university set for Xinjiang's Han was 400, while for the Uyghur it was under 200, and for comparison in Beijing it was only 380. Although governmental efforts are made, including subsidizing minority students for their studies at university, and despite instituting compulsory primary and high school education, the percentage of minority students enrolled in universities out of the overall population is still low. This has been attributed partly to high education fees and linguistic difficulties, driving minority students away, and partly to many minority families placing less emphasis on education than Han families (Bovingdon, 2004: p.41).

On the principle of equality driven by these policies, employment opportunities have been increased for minorities who have had advanced education. At the beginning of the XUAR, Beijing set a special policy to transfer large numbers educated young university graduates and cadres, and technicians into Xinjiang to help out with shortages of skilled labour, though this transfer was eventually developed into a massive emigration with 3 million people settling in over 30 years by 1978. The minimum age for marriage by law for minorities is two years earlier than that for Han. The "one child policy" in the reform period only applies to the Han, while several children are allowed in minority families. Before the profound reform in 1990, many minorities found it easier than their Han counterparts to be allocated a job in the SOEs and government institutions (Sautman, 1997). Many minorities indulged in the preferential policies without undue effort, even though sometimes they are less qualified and capable. This is despite socialist-based equality policies being abolished all over China. Many Uyghurs are not interested in jobs with longer hours and rigid work discipline, compared to the Han and are now being fired firstly at SOEs and also find difficulties in getting a job in private companies.²⁰

²⁰ Interviews, 2003 and comment by Bovingdon, 2004.

Third, for policies of economic development, the Beijing government adopted production redistribution and financial subsidies to help with Xinjiang's economy. This can be viewed through examining Xinjiang's economic development in four dramatically changing periods. Early on it benefited from the initial policy of China's regional economic development, based on the First Five-Year Plan (FYP), with its emphasis on balancing regional growth between the interior and coast and in developing heavy industries as priorities. Xinjiang gained a steady rate of economic growth. During the period 1951-1956, Beijing distributed one-third of its 156 major construction projects to the west region. These projects were all large-scale, capital intensive, industry- and energy-based, and assisted by Soviet aid. Among the projects allocated to the western region, there were a few given to Xinjiang, such as the construction of the railway track linking the capital Urumqi to the nearest central province and to the Soviet border, and the construction of oil and other resource industries newly developed in Xinjiang's north. With this project allocation and state subsidies, including Soviet aid, Xinjiang's economy achieved more than self-reliance (Lo, 1961) and presented a resource-based industrial profile.

The period of 1957-1977 witnessed a series of political movements and international scandals, such as the launch of the "Great Leap Forward"; the "Third Front" campaign caused by the worsening Sino-Soviet relations and US involvement in Vietnam War; and then the CR. Xinjiang's economy was affected, especially when the 1969 Sino-Soviet border clashes closed the border completely, and, as a result, railway construction in Xinjiang was terminated. All trade crossing the border was forbidden and the government investment in Xinjiang's basic construction and resource industries was withdrawn. Xinjiang became a dead corner economically: "a closed border triggers a syndrome of disadvantageous features characterized by a slower pace of economic life and diminution of the attractiveness of the area by artificially restricting the possibilities of growth and blocking potentially advantageous directions of cooperation"(Ciechocinska, 1992: p.198). Over the decade 1967-1977 Xinjiang's GDP only increased by 33 per cent (National Statistical Bureau, 2000), and the local economy had to be completely subsidized and sustained by the state.

In the reform period, although as one of the inland regions, Xinjiang has not provided fertile ground for implementing export- and opening-oriented policies, however, its ethnic politics and its reserves of rich and various mineral resources determined that Xinjiang could not be ignored completely by the state and it has continued to receive state funds and planning aimed at restructuring the resource industries and improving transportation to build up the local economy (Table 4.4). Table 4.4 shows since 1984 Xinjiang received investment of 103 yuan per capita, 31 yuan lower than the amount in 1982 and it remained unchanged until 1988. In 1990 the investment then increased to 120 yuan per capita, due large to the request for energy industries development in Xinjiang. Xinjiang's economic development over the two decades since reform has remained in the leading group among the northwestern regions, though its achievements are less impressive compared to the coastal regions. The economy of Xinjiang in the context of the nation overall has to be seen as steadily increasing in the first ten years since the reform (Table 4.5). This growth has strong ties to central state investments, specifically in local resource industries. According to the indication of net inflows to Xinjiang over the period of 1980s to 90s, economic growth has showed positive relation to the state's huge fund transfers (Table 4.6, Figure 4.2).

After twenty years of reform, the West Development Programme (WDP) was launched in 1999 to balance the economic growth between China's west and east, and to stabilize the lagging regions, especially the regions with ethnic minorities. Xinjiang is at the centre of the programme. Economic growth in Xinjiang is expected to be accelerated in the period of the tenth FYP (2001-2005) with a focus on the promotion of key sectors through economic structural readjustment to concentrate on the development of the eight pillar economic sectors: oil and gas production, mineral exploitation and manufacturing, cotton and textile industries, husbandry, forest, paper manufacturing, tourism, and cross-border trade²¹. By promoting these sectors, it is hoped that the region can establish its own economic development pattern, take up local comparative advantages, and generate rapid economic growth. The region also wishes to take advantage of the opportunities brought by the WDP, including increased funds from FDI, private and state allocations to the region. Beijing put

²¹ Interviews, 2002

\$30.7 billion into Xinjiang under the WDC and the tenth FYP calls for an additional \$51 billion of central government spending for Xinjiang²².

Table 4.4 Total Investment per capita 1982-1990 (yuan, national average = 100)

	1982	1984	1986	1988	1990	Trend
Eastern (mean)	147	147	147	155	155	
Beijing	334	360	325	329	378	↑↑ D
Tianjin	315	265	241	204	208	↓↓ C
Hebei	58	65	67	80	61	-
Liaoning	129	116	139	140	136	↑ D
Shanghai	470	368	341	420	363	↓↓ C
Jiangsu	49	93	112	116	111	↑↑ D
Zhejiang	47	75	94	109	125	↑↑ D
Fujian	50	59	65	62	74	↑↑ C
Shandong	44	74	81	91	82	↑↑ C
Guangdong	84	106	113	124	133	↑↑ D
Guangxi	32	33	41	38	33	-
Central (mean)	63	71	68	61	61	
Shanxi	79	110	104	77	87	-
Inner Mongolia	70	83	63	55	62	↓ D
Jilin	83	80	79	79	79	-
Heilongjiang	135	113	105	91	96	↓↓ C
Anhui	33	52	57	50	45	↑↑ C
Jiangxi	37	45	43	43	39	-
Henan	34	46	57	50	50	↑↑ C
Hubei	57	64	59	60	54	-
Hunan	38	48	50	46	40	-
Western (mean)	78	68	71	67	68	
Sichuan	35	39	44	43	42	↑ C
Guizhou	30	33	29	31	29	-
Yunnan	49	42	49	42	46	-
Shannxi	61	56	59	56	63	-
Gansu	52	50	51	51	52	-
Qinghai	180	140	123	128	102	↓↓ C
Ningxia	81	84	107	83	91	↑ C
Xinjiang	134	103	103	102	120	↓↓ C
National Average (in 1990 constant price)	228	418	542	608	488	

(Note: ↑ increase by 5%, ↑↑ increase by 10%, ↓ decline by 5%, ↓↓ decline by 10%, - little change, C or D converge or diverge to the national average

Source: Fan, 1995)

²² See: http://www.usatoday.com/money/world/2004-10-06-china-west_x.htm, accessed on 1st November, 2004.

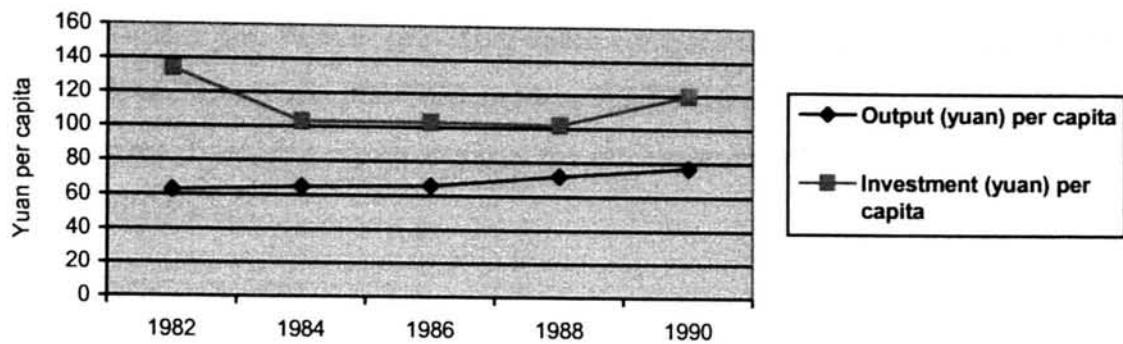
Table 4.5 Total Output per capita 1980-1990 (yuan, national average = 100)

	1980	1982	1984	1986	1988	1990	Trend
Eastern (mean)	162	161	159	156	158	157	
Beijing	300	284	291	256	258	256	↓↓ C
Tianjin	275	279	264	250	254	208	↓↓ C
Hebei	65	63	64	66	70	72	↑ C
Liaoning	155	149	146	152	152	144	↓↓ C
Shanghai	559	528	489	448	411	400	↓↓ C
Jiangsu	104	108	119	136	148	143	↑↑ D
Zhejiang	83	93	109	118	126	123	↑↑ D
Fujian	56	62	64	68	74	77	↑↑ C
Shandong	58	69	76	80	89	97	↑↑ C
Guangdong	84	89	93	99	109	118	↑↑ D
Guangxi	46	49	42	42	42	43	-
Central (mean)	66	68	69	71	69	69	
Shanxi	68	73	78	74	70	73	-
Inner Mongolia	53	58	58	59	61	63	↑ C
Jilin	89	87	95	93	96	90	↑ C
Heilongjiang	109	108	103	106	94	99	↓ C
Anhui	46	50	54	60	57	54	↑ C
Jiangxi	56	53	51	54	54	54	-
Henan	46	46	47	53	54	55	↑ C
Hubei	68	73	79	83	81	77	↑ C
Hunan	60	62	59	61	56	55	-
Western (mean)	53	53	53	55	55	56	
Sichuan	46	48	49	52	53	53	↑ C
Guizhou	30	33	36	35	35	34	-
Yunnan	39	42	43	41	41	45	↑ C
Shannxi	55	55	55	57	57	58	-
Gansu	58	53	53	57	56	57	-
Qinghai	75	69	67	68	67	63	↓↓ D
Ningxia	61	58	60	64	62	63	-
Xinjiang	59	63	65	66	72	77	↑ C
National	2277	2467	2984	3446	3902	3078	
Average (in 1990 constant price)							

(Note: ↑ increase by 5%, ↑↑ increase by 10%, ↓ decline by 5%, ↓↓ decline by 10%, - little change, C; D converge or diverge to the national average)

Source: Fan, 1995)

Figure 4.2 The Comparison of the Growth between Output and Investment (yuan) per capita of Xinjiang 1982-1990



(Source: based on tables 4.4 and 4.5)

Table 4.6 Net Resource Inflows (billion yuan)

	GDP (1)	Final Consumption (2)	Capital Formation (3)	Net Inflow (1+2-3)	Fiscal Subsidy	Foreign Capital
1981-85	40.5	32.43	19.14	11.05	7.49	0.09
		80.0%	47.2%	27.3%	18.4%	0.2%
1986-90	96.17	70.87	48.75	23.45	12.2	0.99
		73.7%	50.7%	24.4%	12.6%	1.0%
1991-95	274.26	164.11	173.58	63.42	16.6	10.84
		59.8%	63.3%	23.1%	6.0%	4.0%
1996	91.21	57.97	45.7	12.45	5.91	2.21
		63.6%	50.1%	13.6%	6.5%	2.4%
1997	105.01	64.03	56.49	15.5	6.84	0.72
		61.0%	53.8%	14.8%	6.5%	0.7%
1998	111.67	67.72	68.58	24.64	8.01	1.34
		60.6%	61.4%	22.1%	7.2%	1.2%
1999	116.86	74.52	58.16	15.82	9.4	1.16
		63.8%	49.8%	13.5%	8.0%	1.0%
2000	136.43	89.99	59.07	12.63	11.9	0.16
		86.0%	43.3%	9.35	8.7%	0.1%

(Sources: Wiemer, 2004 and XSB: Xinjiang's Glorious Fifty Years, 1999b)

Theoretically, China's minority policies are rooted in Marxist-Stalinist thinking about the evolution from capitalism to communism. According to this, ethnic groups should be integrated with each other and with the majority in the transition to communism. However, how to orientate or to what extent to confine local nationalism in order to ensure a peaceful integration of minorities, is troublesome for the central government (Zhou, 2001). Despite its preferential policies toward the minorities of Xinjiang and praise from international

scholars²³, the satisfaction of local minorities, especially the Uyghur, has never been achieved, not to mention the fact that the local Han Chinese also resent unfair treatment by those policies and regard them as providing unfair competition and sacrificing any benefits to local Han people (Moneyhon, 2003; Bovingdon, 2004). The main explanation to this can be traced back to the discussion on the origin of the establishment of autonomous political institution in the region.

4.3 Implications of Autonomy in Xinjiang

There are a few discussions on China's autonomy in the ethnic regions, especially Xinjiang. Moneyhon (2002), for instance, applies international constitutional law to define Chinese autonomy; and Bovingdon (2004) analyzes autonomy in terms of the relations between Han nationalism and Uyghur regionalism.

Cornell (2002: p.246) has commented on regional autonomy as a source of conflict in itself rather than the solution to the self-determination of minorities. Contra theorists like Kjell-Ake Nordquist (2001), see autonomy as "territorial control linked to ethnicity", "a self-governing rule to ethnic population in an intra state region" that provides "a conflict-solving mechanism" which is a "theoretical" as well as "practical option for the parties in such conflicts". Cornell (2002: p.247) argues that the institution of regional autonomy can also "foster the ethnic mobilization", "increase the secessionism" of ethnicity and region and reinforce conflict. He uses the cases of the Soviet Union, Yugoslavia and Czechoslovakia to demonstrate that, on most occasions, autonomous regions develop opportunities for the "institutionalization" of their "distinct identities" and this provides the basis to seek independence. This may be examined from two sides. The central state provides the institutions such as a clear boundary division and political institutions that within the territory foster cohesive autonomous governments and parliaments that can act independently against the central laws and unjustified policies, and control their local media to work for their own propaganda and perhaps seek foreign support. On the other side, it is local independent groups that may be willing and sufficient to enforce local distinct identities. However,

²³ Interviews; field research, 2003 and comment by Bovingdon, 2004.

Cornell comments that there is no clear theoretical framework or case evidence to know when regional autonomy will be a conflict-solving or a conflict-generating mechanism.

In this regard, Bovingdon (2004) thinks that the Chinese are trying to solve Cornell's problem by carefully adopting a series of ethnic policies targeting assimilation rather than disintegration in promising autonomy to her minorities. Moneyhon (2002, 2004) suggests that Chinese policy is effective and efficient in taking control of Chinese minorities in their territories and this has reflected a contradictory combination of "pluralism" and "conservative assimilation". He comments that Mao took note of Sun Yat-sen's comment on Chinese nationalism as family-ism or clan-ism but not real nationalism, thus creating a less cohesive society. So Mao realized that, in order to get society to support the revolution, the CCP had to unify all forces possible from all classes, all nationalities and all ideological doctrines. Therefore, they attempted to constitute a "big fraternal and cooperative family", the Chinese Republic State. In this family, all nationalities have equal rights and self-determination in politics, religion and culture and act cooperatively but are not discriminatory against each other.²⁴ In reality, in the implementation of the policy in the minority areas, the Han as leader in political ideology is acting more as a "big brother" who patronizingly comes to help "young brothers" with their equal rights and nationality development. This is described by Eberhard (1982) as an inflection of Han cultural superiority and assimilation.

In this framework, the CCP is the political leader and all the minorities, along with their religious faith and nationalism, have to serve the nationalism of the Han Chinese as a whole, so any kind of development of one minority along with its territory that could distinguish its nationalism and further promote separatism, is thus "prohibited". Bovingdon says that China looks to the Soviet model for its ethnic policies but is skilfully withdrawing any real political autonomy by providing no political institutions and mechanisms for local people to develop secessionism, seen as the CCP's superpower over autonomous government and multi-level autonomous system. China has provided some self respect and identity for local minorities,

²⁴ Common Programme of the Chinese People's Political Consultative Conference, art.50 (Sep. 29, 1949), quoted by Moneyhon, 2002: p.132.

for instance through the naming of nationalities and regions and by granting certain non-political privileges to ethnic groups, but self government, the most important factor for autonomy, has been carefully avoided by unification within the overall framework of the Chinese polity. In order to compensate the local minorities for self-determination, therefore preferential policies toward ethnicity were designated with economic and “cultural sustainability” on the one hand and “individual nationalism suppression” on the other hand (Moneyhon, 2002). The ethnic preferential policies are built on a foundation of “toleration” (Lee III, 1964: p.166), in returning to serve Chinese political integration. I think here a Chinese term, *qui tong cui yi*, meaning “allowing differences for the common good” can best describe the Han’s method of tackling their relationship with the other nationalities by granting preferential policies to consolidate the republic. In this respect, Moneyhon (2002) said that Chinese ethnic autonomy is a game of “take and give” through “giving” self-determination and autonomous rights to minority areas and “then tying executing the rights to central governmental approval” to “take away” the rights for minorities (Moneyhon, 2002: p.137). Autonomy in China is thus regarded as a “fake” self-determining institution by many western scholars such as Moneyhon (2002).

To the Chinese, autonomy constructs a “legitimate” institution not only to terminate local appeals for independence and separation but also for the Han-led CCP extensively to practise its political domination. Dealing with any local affairs in association with ethnicity has to be heavily framed by political correctness and national security. Autonomy thus becomes an instrument for political integration and cultural assimilation.

Therefore in reality there are many limitations to the implementation of the policies. Religious policy, for instance, seeks to manipulate religious associations for political purposes. The Chinese government sees the Islamic religion as an inspiration for the rise of separatism in Xinjiang, and so the practice of religion is closely watched and there are many regulations on practitioners in terms of age, political belief, etc.. Also, many of the preferential policies granted to minorities in terms of ethnic culture, language and custom imply greater assimilation of the Han and non-Han and less ethnic enhancement. Such Han-Party-Minority Autonomy constitutes an institutional constraint on the region and has

obviously “exacerbated” the region’s conflicts and deepened the Uyghurs’ “discontent” (Bovingdon, 2004).

Economic policy has been used in an attempt to bring the minorities out of poverty, to achieve economic self-reliance and to share the economic wealth with what the coastal regions have gained. In fact Xinjiang’s economic growth is manipulated by Beijing via large subsidies to achieve a middle level in China and always the best in the west, which is regarded as assisting in the political integration of China and accomplishing political stability in the region (Mackerras, 2003). During the process of economic growth, the policies bind the region tightly economically and financially with the rest of China. Beijing on the one side subsidizes the region, on the other side it takes away most of the profits made by the region’s most dynamic economic sector, oil, a strategically important industry to China, and they tightly control this sectoral production via state ownership, which has crippled the capability of the local economy to achieve self reliance.

China’s ethnic policies and autonomous institutions are constantly challenged and sometimes violated by the contradictions inherent in China’s reform. This requires political decentralization for economic development, and this has to some extent been granted in the coastal regions. However, full decentralization in the minority autonomous regions can by no means be approved, as it could be easily and extensively be used by local people for political self-determination, eventually increasing calls for secession. In the framework of Chinese autonomy, any radical institutional reform is stifled. This is the example set by Xinjiang. Without some political relaxation, there cannot be any efficient and effective political institutions, including a dynamic governmental role in economic management, accompanied with economic institutional development. This brings a big challenge to Beijing in how effectively to encourage the local economy to participate or to compete in an increasingly market-orientated national economy. Simply relying on subsidies to achieve local economic growth is unrealistic as it will never satisfy the locality and is a burden to Beijing. In addition, the subsidy obviously lays a fundamental ground for Kornai’s Soft Budget Constraint (SBC), which is seen as the key cause to the failure of reform.

As to the transition of local government in its bureaucratic role, the local party-state government has been completely framed in Xinjiang's autonomic institutions and has been used for political enhancement rather than as an instrument for economic development. So, all performances of local government in regional economic management are undermined and the regional defender role of local government (discussed in chapter 2) is deliberately ignored, which is bad for any initiatives for adjusting the political institution taken by the region itself for economic liberalization. For example, in the economic transition to free markets, preferential policies do not fit with market selection, because employee recruitment by private firms must be based on hard work and skill, not on ethnic quotas. As a result, a large number of state-owned enterprises, because they are not skill-focused, produce no economic wealth for the region and local government has gained no real power in managing the local economy. Xinjiang's local government takes no action to rectify this by withdrawing or modifying those preferential policies, because of the political priority of Beijing's minority policies. This all leads to the frustration of regional development in Xinjiang, to discontent among local minorities, and to more conflict.

In sum, we may say Chinese autonomy constitutes a political framework granting a "fake" self-determination to minorities and restricting institutional reform in ethnic regions and, without some adjustments, this may become a source of conflict in itself, as described by Cornell (2003) and may contribute to increasing separatism by minorities in provinces such as Xinjiang.

Chapter 5 Institutional Construction of Xinjiang's Government in Regional Development

In China's reform, there is great significance in the decentralisation of decision-making from the centre to the local level. Local initiative and local comparative advantages are now better utilized, and provincial government structures and the CCP have been reformed to act responsively, semi-independently and discreetly in making strategies conducive to regional growth. Provincial government is now required to be dynamic, efficient and cohesive in steering the region, as we discussed in chapter 2.

In this chapter the discussion will focus on examining the construction of Xinjiang's provincial government, and in particular its administrative system, institutional construction and leadership. We will investigate the degree to which Xinjiang's government has been developed as an efficient institution fit for its new purpose in China's transition.

Apart from the discussion previously that administrative efficiency depends upon a non-politically attached performance, Weber's theory also states that running an organisation must be according to strict rules in pursuit of that efficiency. In the words of Weber himself:

“the fully developed bureaucratic mechanism compares with other organisations exactly as does the machine with non-mechanical modes of product. Precision, speed, unambiguity, knowledge of the files, continuity, discretion, unity, strict subordination, reduction of friction and of material and personal costs- these are raised to the optimum in the strictly bureaucratic administration” (Weber, 1914-1920, cited by Mommsen, 2004, p.113).

Again according to Weber's theory, superior administrative efficiency also depends on the promotion of technically trained, professional, career administrators. It requires the government organisation to act accordingly to recruit, promote and appoint members on the basis of their merit and technical competence. Mommsen (1992) suggests that success in

bureaucratic administration is due largely to those actors who operate the administrative machinery and who are professional civil servants or managerial staff. “They are expected to devote their full energy to the fulfilment of their obligations, but they have to operate strictly according to rules and must never let personal motives, emotions or inclinations influence their decisions... Impersonal performance of prescribed duties is expected from them, not individual initiative or subjective reasoning” (Mommsen, 1992: p.113). These are all reflected in a series of Chinese reforms and decentralisations on bureaucratic administration since 1978 aimed at giving a rise to the efficiency and rationality of government at all levels in its transactional roles.

However, due to the lack of separation in politician-bureaucrat relations in the administrative system, the efficiency and rationality of governmental operation is still a challenge for China’s top reformers, as well as for the political institutions, especially in a region such as Xinjiang with a very heavy political emphasis on its development.

5.1 The Political Administration and Construction of Local Government

5.1.1 Xinjiang’s CCP and its Regime of Governing Xinjiang

China established her government administrative system in 1949 within an institutional apparatus that, from the centre in Beijing to all of the provinces, has CCP committees as supervisory organs intertwined within governmental departments at the various levels. These party committees are powerful and legitimate agents in decision-making and personnel planning. Although the committee members do not “lead” the work of their respective offices, they “assist” the leaders of departments in improving the job, implementing policies, and monitoring that departments operate in pursuit of the Party’s goals. As we said before, the Chinese governmental operation is not based on Weber’s legal-rational administration but on the principle of a one party state. The administration can easily be subjected to the specific interests of the party. Therefore we can see why recruitment and promotion policies are driven as much by candidates’ loyalty to the Party and their determination to see its work through, as upon their administrative expertise or subject specialism. Liu (2001) cites the works of Derek Waller (1972, 1973) and Robert Scalapino (1972) in a discussion of the

absence of a developing technocracy in Chinese bureaucracy in the pre-reform period. Despite the reform, traditional party methods to some extent still apply for cadre selection nowadays, especially in the areas of political sensitivity.

In 1949, when the CCP and PLA arrived in a region, the party and military leaders took joint responsibility for its administrative and general affairs and eventually constituted the initial personnel of the provincial government. In this way, many regional leaders and civil servants had a military background and transformed themselves into a civil administrative role. They understood their duties perfectly well as consolidating the CCP's control over the region through the combination of military conquest, political propaganda, economic improvement and social well-being. Beijing then set up a central committee and a high level Politburo to organise and recruit these personnel into the central power apparatus (Figure 4.1). The administration from the outset was a centralised-command hierarchical system.

When the Chinese communists entered Xinjiang, they faced not simply economic poverty but also a politically indeterminate semi-independent Muslim state. Although the region had been under the control of Han Nationalists, the Guomindang (GMD), they relied as much for support upon Moscow as upon Nanjing²⁵. Muslim ethnic groups had already shown their discontent with control by Han Chinese warlords and Nanjing's central government, not just in the anti-Han political movement of the "Ili Incident" 1944-1947²⁶, but also in the establishment of a Republic of East Turkistan. But, unlike the GMD and the superficial control of the last years of Imperial China, the CCP, upon their accession to power, sent a large group of veteran political personnel and civil technicians from the centre to help the new autonomous government. This was to assure the overall control of the Chinese communists.

After General Tao Zhiyue, commander of Nationalist Troops in Xinjiang, signed an agreement for peaceful surrender to the PLA, Wang Zhen and Wang Enmao, as the

²⁵ The capital of the government of the Nationalist Party.

²⁶ Ili Incident, basically raised by Uyghur political activists in association with the independence of Xinjiang, took place in the Ili Valley in 1944-47 and showed resistance and discontent by the local Muslim population toward Han control, led by the GMD, over the region.

commander and commissar of the First Army Group, First Field Army (FA) of the PLA, led their troops into Xinjiang. The Xinjiang Military District (XMD) of the PLA, headed by Wang Zhen was established to maintain the military control of the region and handle general civil affairs of the region for the time being.

In December 1949 the People's Government of Xinjiang Province (XPG) was established. The XPG Commission consisted of 33 members. It was chaired by Burhan Shahidi and had a vice Chair, Seypidin Aziz, both Uyghurs from the Ili group²⁷. After the region was formally granted autonomy in 1955, the XPG was then transformed to the "People's Government of Xinjiang Uyghur Autonomic Region (XUAR)" (XAPG), with approximately 54,000-58,000 cadres, including 20,000 CCP members. They were engaged both in the core institutes, including 16 civil bureaux and commissions located in Urumqi, and in sub-regional governmental institutions in autonomous townships, districts, counties, prefectures and village communes. The 16 bureaux were initially: civil affairs, police and security, finance, transport, industry and mines, agriculture and forestry, pastoral farming, education, commerce, trading companies, banks, health and environmental association, financial economy, ethnic affairs, education and culture, and the provincial people's court.

In October 1949 the CCP of Xinjiang also set up the CCP Xinjiang Bureau, consisting of nine members, including a First General Secretary (GS), Wang Zhen, a Depute Secretary, Wang Enmao, and various committees. Xinjiang's CCP was led by a 6-people standing committee and one GS. It initially set up its headquarters in 1949 in Urumqi under the name of the Xinjiang's Autonomous Regional Party Commission (XARPC), with 3,000 members in nine departments: organization, propaganda, unity, personnel, youth work, women's work, discipline and inspection, a confidential commission, and foreign affairs. Although the XARPC also had its own branches located in the sub-regions, the CCP in Xinjiang functioned largely through the apparatus of the XAPRC: their premier Party committees and cells penetrating territorially and institutionally into governmental institutes and social service units like schools and villages, etc.. Many personnel in particular territorially-based governmental institutes and service units concurrently were members of the Party committee

²⁷ Political activists in the Ili Incident.

of the unit: for example, the leader of a unit could be the leader of the Party committee in that unit too.

From January 1950 until the eve of pre-reform era, due to Xinjiang's special character, the CCP Commissions were largely based on the personnel of the XMD's CCP commission. This had three levels of institutions in a geographical administrative hierarchy of the province, districts and towns. Ten political administrative districts were allocated geographically to the supervision of three CCP district commissions. In October 1955, on the establishment of the XAPG, the branches of Xinjiang's CCP commissions below the provincial level developed to nine, and in 1960 the construction of the regime of CCP commission was gradually completed, with one provincial core institute; 11 district commissions, including six in Sub-Regions; four in Autonomous Prefectures; one in the capital city; 83 township committees; and the five cells of the provincial municipality. By 1997, there were 111 CCP commissions below the provincial level, 1412 premier committees and 58,000 cells established in villages, schools, enterprises and various institutes. In regulating its own operation, since 1956 the CCP has held five provincial Party Congresses, in 1956, 1971, 1984, 1991 and 1996, to announce new party leaders, reconstruct the Party core and cell committees and discuss the missions and tasks of Xinjiang's CCP in order to assure that the region and its government was acting under the Party's directions. The same routine is pursued also by the sub-provincial CCP committees and cells (Figure 4.1).

According to Chinese law, including both the 1982 Constitution and the May 1984 Law on Regional Autonomy for Minority Nationalities, specific autonomous rights in the political, economic and cultural spheres, enable a representative minority to exercise autonomy and have freedom to adapt or choose not to implement central government laws which do not suit their needs. But as mentioned before, Xinjiang has the same administrative system as the rest of China and accepts the leadership of the CCP, therefore there are sharp limitations to and paradoxes in the autonomy laws. One is that laws concerning membership of the government do not apply to the CCP, as announced in the 12th Party Congress in 1982 for the separation of affairs of the Party and the State Council (SC) in order to reduce the political intervention of the Party. So, while the government head of Xinjiang must be from the Uyghur or other

minorities by law, the region's CCP GS may be a Han, and on all occasions the secretary determines the decisions of the government, and the same rule is applicable to all of the state's institutions and enterprises.

At the time of Mao's directive of 5th December 1949 to "turn the army into a work force", Wang Zhen transferred the 170,000 remnant soldiers of the Nationalist Army and some from the FA of the PLA, including his own Brigade 359, into civilian workers by re-organising them into the Xinjiang Wilderness Reclamation Army, the forerunner of the Xinjiang Production and Construction Corps (XPCC). The demobilised troops were taught to become a "driving force behind modernisation in Xinjiang" (McMillen, 1981) and to learn that: "...the economic heritage left behind by old (semi-feudal and semi-colonial) China is pitifully small. We have just begun, and we lack experience. We must study, learn from the Soviet Union, ... and free ourselves from arrogance and hastiness" (Zhang Bingying, 1954, cited by McMillen, 1981: p.70). Especially Brigade 359 of the 120th Division of the 8th Route Army, headed by Wang Zhen and Wang Enmao, had been regarded as the living heroic symbol of "the spirit of Nanniwan", underlying the Maoist ideology of both self-reliance and self-sacrifice in the Nanniwan region of Yanan, southwest Shannxi in the 1940s, where they provided supplies to the military through the hardship of land reclamation and economic production in wartime (McMillen, 1981). This spirit was inherited by the Wangs and their followers and is said to have inspired them to devote themselves to pursuing the economic construction of Xinjiang. These demobilised soldiers worked on "land reclamation, water conservancy, agricultural and animal husbandry production, infrastructure production and capital construction" (McMillen, 1981: p.69) in the remote but strategically important areas near the major cities and transportation routes linking Xinjiang to China's interior and the areas where the basic industries, housing, communications facilities, mines and other enterprises, were to be established and expanded. In December 1954, these troops were formally established as the XPCC under the administration of China's Agricultural Ministry and under the XMD for its military affairs. This effectively solved the labour and skilled personnel shortages for developing this huge, economically backward region.

By 1954, along with the soldiers, there were between 7,000 and 10,000 cadres of the FA also demobilised and sent to participate in rent-reduction and anti-landlord campaigns and to assist in socialist collectivisation at the township level. Most demobilised cadres, who used to be veterans in the FA, were now placed in positions of authority in the XPCC and other civil departments of local governments. They involved themselves, not only in economic production and in the socialist political transformation of the non-Han minorities, but also in constituting a loyal personnel network to support the leadership of the two Wangs (Table 5.1). Given the backwardness of Xinjiang's economy, the huge areas of non-fertilised land, and the complex Muslim society, Wang's campaign provided an efficient method for the CCP to consolidate its power and implement its policies through the sheer force of human resources.

In November 1949 the central committee in Beijing required Marshal Peng Dehuai, General Wang Zhen, and the Party Bureau of the Northwest, to recruit party members from the local minorities. Mao had stated early on in the CCP's control in Xinjiang that, without a large number of cadres and activists recruited from the minority nationalities, China could never succeed in thoroughly solving the nationalities 'problem' or in completely isolating the 'reactionaries' among the nationalities (McMillen, 1979). Along with his political concern, Mao obviously recognised that the effectiveness and efficiency of the CCP's institutional operation must count on the native peoples, which to some extent accorded with Weber's rationality of bureaucratic administration in social interaction. The criteria for qualified candidates was to be combined with their personal interests, such as political inclination, as a priority; their personal background, for example poor peasants and working families; their personal experiences, such as joining the democracy and communist movements before the establishment of Xinjiang's CCP, etc.. Thus Burhan and Seypidin, as two local political activists, were recruited to join the CCP at this time and were soon appointed as the members of Xinjiang's CCP Standing Committee. During the land reform and the initial phase of socialist transformation in 1950-1952, there were more than 1,000 minority Party members including Tomur and Ismail and about 16,000 local cadres trained and appointed (Table 5.2). After that, Xinjiang's CCP membership expanded from 2,300 initially in 1949 to 984,689 by the end of 1998, representing 5.73 per cent of the provincial population.

Table 5.1 Party Leadership in Xinjiang, 1949, 1950, 1952, 1955, 1958

Position	1949	1950
1 st Secretary	Marshal Peng Dehuai (Chinese, 1 st FA)	Wang Zhen (1 st)
Secretary	Wang Zhen (Chinese, 1 st ²⁸)	Gao Jinchun (1 st)
Alternative Secretary	Gao, Jinchun (Chinese, 1 st)	Zhang Bangying (Chinese, 1 st)
	Wang Enmao (Chinese, 1 st)	Wang Emma (1 st)
	Xu Liqing (Chinese, 1 st)	Seypidin (Uyghur, Ili ²⁹)
	Rao Zhongxi (Chinese, 1 st)	Xu Liqing (1 st)
	Deng Lichun (Chinese, 1 st)	Rao Zhongxi (1 st)
		Deng Lichun (1 st)
Position	1952	1955
1 st Secretary	Wang Zhen (1 st)	Wang Emma (1 st)
Secretary	Wang Enmao (1 st)	Gao Jinchun (1 st)
Alternative Secretary	Gao Jinchun (1 st)	Seypidin
	Seypidin	Zhang Bangying (1 st)
	Zhang Bangying (1 st)	Wu Kaizhang (Chinese, 1 st)
	Rao Zhongxi (1 st)	Qi Guo (Chinese, worker)
	Deng Lichun (1 st)	Zeng Di (1 st)
	Zeng Di (Chinese, 1 st)	Xin Lanting (1 st)
	Xin Lanting (Chinese, 1 st)	Lu Jianren (1 st)
	Lu Jianren (Chinese, 1 st)	Saifulaev (Uyghur, Ili)
		Iminov (Uyghur, Ili)
		Aisihaiti (Tartar, Ili)
	Aixia (Uyghur, Ili)	
Position	1958	
1 st Secretary	Wang Enmao (1 st)	
Secretary	Seypidin	
Alternative Secretary	Wu Kaizhang (1 st)	
	Lu Jianren (1 st)	
	Zhang Fengqi (?)	
	Li Quan (Chinese, 1 st)	
	Qi Guo	
	Lin Bomini (1 st)	
	Yang Heting (1 st)	
	Tomur Dawamati (Uyghur, Turpan)	
	Xin Lanting (1 st)	

(Note: Minorities in blue)

Sources: *McMillen, 1979 and fieldwork, 2003*)

In 1949, when the large personnel of the Party committee of XMD were transferred into the XARPC, there were only a few members from the Uyghur and other minorities, and the majority of the membership, mainly Han, came from the First FA. From 1955, the key departments of the XARPC were virtually all headed by Han and the top personnel within the institutes at the provincial level located in Urumqi were still mostly Han (Table 5.3). Among

²⁸ 1st refers to the 1st FA.

²⁹ Ili here means the former leader of the “Ili Incident”.

the Han, in particular the Party elite, by the middle of the period 1957 to 1966, there were only two people who came from outside the First FA and most were veteran Party members with long revolutionary experience in China's West. In the period 1955-1966 a large number of young Han university graduates were recruited from China's heartland to work as junior staff in the departments and institutes of Xinjiang's Party commission and the government at all levels, of which intellectuals accounted for 11.5 per cent of the total. As Seypidin said in 1965 (McMillen, 1979), there were over 18,000 CCP primary committees and cells in Xinjiang, with a total membership of more than 220,000. 48 per cent of them were from the minorities and 60 per cent of the members of CCP committees at all levels, but only 5 per cent of the total minority members held leading positions at the township and village level or above. The majority of the secretaries of the Party committees at the district level were from minorities, but the first secretaries were Han. In conclusion, despite the CCP membership of minorities gradually increasing, the key posts of Party committees at all levels, especially above that of the township, remained in the hands of the Han, specifically those who were military veterans.

Table 5.2 Estimated CCP and Cadres Figures in Xinjiang 1949-1965

	1949	1950-51	1955	1956
CCP members	2300	5,-10,000 ³⁰	20,000 (30-40,000) ³¹	62,478-68,000
Han members	-	-	10-11,000	32-41,000
Non-Han members	-	1000	9-10,000	27,833-30,000
CCP branches	-	-	-	25000
CCP cadres	-	23,000	54,-58,000	92-100,000 ³²
Han cadres	-	7-10,000	18,000	40902
Non-Han cadres	-	12,841-16,100	35,695-40,000	51106-63935
	1958-59	1960	1962	1965
CCP members	130-134,000	176,970	-	220,000
Han members	68,000	-	-	114,000
Non-Han members	62,000	60,-61490 ³³	85,000	106,000
CCP branches	8,982	11,000	-	18,000
CCP cadres	117-134,000	-	200,000	190,000
Han cadres	45,-62,000	-	88,500	84,000
Non-Han cadres	62,-72,000	72,000	11,500	106,000

(Sources: McMillen, 1979 and Wang, 1999)

³⁰ Not including CCP members in PLA and XPCC.

³¹ Including CCP members in PLA and XPCC.

³² Not including XPCC.

³³ Uyghur only.

Table 5.3 The Heads of CCP Commission in 1955-1965

	1955	1958	1965
Dir. of Propaganda Dep.	Lin Bomin (1 st FA) Lu Jianren	Lin Bomin	Lin Bomin
Dir. of Unification Dep.		Lu Jianren	Lu Jianren
Dir. of Organisation Dep.	Anwar Hanbaba (Uzb.)	Zhang Fenqi	Xin Lanting
Dir. of Cultural & Educational Dep.		Anwar Hanbaba	Anwar Hanbaba
Dir. of Rural Work Department	Xin Lanting Anwar, Jiagulin (Kaz, Ili Group)	Simayyi Yashengnuofu (U)	Simayyi Yashengnuofu
Dir. of Financial & Trade Dep.		Xin Lanting	Xin Lanting
Dir. of Politic & Legal Dep.		Anwar, Jiagulin	

(Note: Minorities in blue)

Source: compiled from McMillen, 1979)

However, in terms of the CCP's minority membership, the proportion is considerably lower. In 1997, there were some 95,800 CCP members in Xinjiang, among whom about 35,800 were from the minorities, that is 37.37 per cent, in comparison to the region having 61.58 per cent of its population from the various minority ethnic groups.

This structure of CCP committees is apparently largely unchanged even now. Here we will examine, as examples, two sub-regional committees from the northern and southern parts of Xinjiang and three party cells within the region's governmental institutions.

First, the County of Miquan is located to the north of the capital Urumqi. In 1948 its population was dominated by Hui at 63 per cent, with Han only 27 per cent, but in 1989 this had reversed to Han 63 per cent and Hui 32 per cent. The CCP committee was set up in 1950 and led by a Han cadre, Nui H, from central China, with a team constituted mainly of Han. From 1956 to 1985 the county held five CCP congresses and elected members for the CCP committee from time to time (Table 5.4). Each time the Han membership increased as the Han population was growing in the county, and the Han-dominated leadership was naturally reinforced. We may say that, because of the geographical location of Miquan County close to the capital Urumqi, it could not avoid a large proportion of Han immigrants and domination by Han personnel in the CCP. Now let us look at a county far from the Han-influenced Xinjiang's northern areas.

Awati County is located on the northern slope of the Tian Shan Mountains to the northeast of Aksu City. It had a 99.4 per cent Uyghur population in 1949, decreasing slightly to 85 per

cent in 1990. The first CCP committee of the township had four members, including one Uyghur, and was set up in 1950, led by a Han from the 2nd FA. From 1955 to 1989 there were seven local party congresses held to determine the personnel changes of the county CCP (Table 5.5). As we can see in the Table 5.5, before the reform, Han CCP membership dominated, and then after the reform, Uyghur CCP membership increased. This was a result of the Xinjiang CCP's policy of recruiting more minority cadres and CCP members. Even so, the First GS and one vice secretary were Han, implying that decision-making remained in the hands of the Han. The Awati County's CCP Committee represents one of two common ways in which Xinjiang's CCP maintains its control in regions of large minority population. The alternative is for the First GS and one or two vice secretaries to be from the minority but for the majority of committee members to be Han, so again the latter dominate the decisions of the committee.

Table 5.4 The Party Committee of Miqan County since 1956-1985

	1956	1964	1970	1980	1985
1 st GS	Nui H (Han)	Nui H	Wang Y (Han)	Hou P (Han)	Wu Q (Han)
Vice secretaries	Liu W (Han) Yang H (Hui)	Yang CF (Han) Yang H (Hui) Yang M (Han)	Dong (Han) Nui H Tian S (Hui)	Gao L (Han) Li D (Han) Ma C (Hui)	Hai R (Hui)
Party committee	Nui H (Han) Liu W(Han) Yang H(Hui) Sheng Z(Hui) Qi J (Hui)	Niu H Yang CF Yang M Yang H Ma P (Hui) Liu Z (Han) Hao J (Han)	Wang Y Wang C (Han) Nui C (Han) You L (Han) Tian S Zhu H (Han) Dong S (Han) Ma D (Hui)	Hou P Gao L Li D Ma C Ma Like (Kazakh) You L Lu C (Han) Zhou D (Han) Yang L (Han)	Gao L Zhou D Xiu H (Han) Ma C Wei F (Han) Wu Q Qu Z (Han) Ma (Hui) Wang

(Source: based on Miqan County Ladge, 1998)

Let us now examine the CCP leadership of three civil service bureaux: the Xinjiang Commercial Bureau, the Xinjiang Coal Industry Bureau, and the Xinjiang Trading Goods Inspection Bureau, which were governmental institutes located in Urumqi and used to play a key part in Xinjiang's planned economy, but are now long gone since China's administrative reform of 1993, when they were merged into other governmental civil departments or transformed into state firms.

The CCP leaders listed in the tables were also concurrently holding leadership roles in bureaux operations (Tables 5.6, 5.7, 5.8). The tables display a clear structure of leadership

personnel in the CCP committee in which Han obviously dominated decision-making. This type of structure is representative of all of the state's core and upper level institutes and enterprises in Xinjiang up to now.

Table 5.5 The Party Committee of Awati County since 1956-1985

	1956	1958	1962	1971
1 st GS	Zhang C (Han)	Li W	Zhang Z (Han)	Liu G (Han)
Vice secretaries	Abas (U)	Zhang B Abas (U)	Zhang B	Liu C(Han) Abla Saber (U)
Party committee	Zhang C Abas Zhang B (Han) Ahmat (U) Cao (Han) Li W (Han)	Li W Zhang B Abas Jin (Han) Li Z.C (Han) Ahmat Cao (Han)	Zhang Z Zhang B Ahmat (U) Jin Lu (Han) Cao Li Z.C.	Liu G Liu C Abla Saber Li Z.L. (Han) Mahamti (U) Lu (Han) Bewuhan (U)
	1980	1985	1989	
1 st GS	Mamut (U)	Mamut	Liu (Han)	
Vice secretaries	Wei J (Han) Abla Ashan (U) Li Z (Han) Chang Lu (Han) Mamat Y (U)	Duan C (Han) Abdulati (U)	Gan (Han) Amut (U)	
Party committee	Mamut Wei J Abla Ashan Li Z Chang Lu Mamat Y Mahamat (U) Qi J (Han) MaoLa (U) Bewuhan Mamat Sayiti (U)	Mamut Duan C Abdulati Abla (U) Usman (U) Gou (Han) Tan Z (Han) Abdulati Yahpu (U)	Liu Gan Amut Abdulati Yahpu (U) He (Han) Matniyazi (U) Tula (U) Yimin (U) Erxidid (U)	

(Source: based on Awati County Ladge, 1999)

From the above discussion, we can safely say that minorities are under-represented in Xinjiang's decision-making system and in the provincial CCP's units. The pattern is found right across the region. Kashigar, for instance, has a 90 per cent minority population and 70 per cent of the cadres are from minorities, but more than half of the CCP committee members are Han or Hui³⁴. In Turpan, 78 per cent are from minorities, but only 50 per cent for CCP members. In Urumqi and any large city in Xinjiang's north, governmental institutions such as the key bureaux and commissions, banks, financial offices, legislative and police offices and enterprises are all largely composed of Han. Only the United Front Work Bureau, the Ethnic

³⁴ Although Huis are defined as a minority, in Xinjiang they are in fact not distinguished themselves from but close to Hans.

and Religious Affairs Department, and the Cultural and Media departments etc. are occupied largely by the minorities.

Table 5.6 The CCP Cell Leaderships of Xinjiang Commercial Bureau

Party Cell	1953-55	1956-1959	1960-1966	1972-76	³⁵ 1978-1980	1980-83	1983-90
1 st GS	<u>Gao YS (H)</u> Director <u>Abduhami (U)</u> Director (1955-56)	<u>Gao YS</u> Director	<u>Cai H (H)</u> Director <u>He J (H)</u> Director (1966-7)	<u>Gao YS</u> Director	<u>He C (H)</u> Director	<u>Zhang (H)</u> Director	<u>Tuhuti (U)</u> Director
Vice-S	<u>Abulizi K (U)</u> Vice-d <u>Liu (H)</u> Vice-d (1953-67)	<u>Abulizi K</u> Vice-d <u>Liu</u> Vice-d	<u>Liu</u> Vice-d <u>Wang S (H)</u> Vice-d (1959-62) <u>Long (H)</u> (1959-62)	<u>Jiang (H)</u> Vice-d	<u>Gao (H)</u> Vice-d	<u>Gao</u> Vice-d	<u>He T (H)</u> <u>Xu (H)</u> (1986-90) Both Vice-ds

(Source: based on *Xinjiang Trade Ladge*, 1999)

Table 5.7 The CCP Cell Leaderships of Xinjiang Trading Goods Inspecting Bureau

Party Cell	1963-72	1974-81	1981—87	1988-92	1992-94	1995- ³⁶
1 st GS	<u>Wang D.B (H)</u> Director	<u>Wang D.B</u>	<u>Wei (H)</u>	<u>Wang Z</u>	<u>Wang G (H)</u> Director	<u>Kulashi (Kazakh)</u> Director
Vice-S	<u>Li (H)</u>	<u>Du (H)</u> Vice-d	<u>Wang Z (H)</u> <u>Zhang X (H)</u> <u>Du</u> Director	<u>Zhou (H)</u> Director	<u>Yang (H)</u> <u>Kulashi (Kazakh)</u> Vice-d	<u>Lu (H)</u>

(Source: based on *Xinjiang Goods Trading Ladge*, 1999)

Table 5.8 The CCP Cell Leaderships of Xinjiang Coal Industry Bureau

Party Cell	1958-60	1960-62	1962-67	1978-83	1983-89	1989- ³⁷
1 st GS	<u>Kong (H)</u> Director	<u>Yang Z</u> Director	<u>Bai (H)</u> Director	<u>Yang Z</u> Director	<u>Wang (H)</u> <u>Tursu</u> both Vice-ds	<u>Tursu</u> Vice-d
Vice-S	<u>Yang Z (H)</u> <u>Zhang (H)</u> both Vice-ds	<u>Zhang</u> Vice-d	<u>Yang Z</u> (1962-70) Vice-d	<u>Yasen</u> Vice-d	<u>Yasen</u> <u>Yu (H)</u> Both Directors	<u>Yu</u> Director
Members	<u>Li (H)</u> <u>Fen (H)</u> Both Vice -ds	<u>Li</u> <u>Fen</u> Both Vice-ds	<u>Yasen (U)</u> (1962-70)	<u>Song (H)</u> <u>Wang S (H)</u> <u>Xiao (H)</u> <u>Jiu (H)</u> <u>Zhang (H)</u> <u>Tursu (U)</u>	<u>Wang S (H)</u> <u>Xu (H)</u> <u>Jiu</u>	<u>Wang S</u> <u>Xu</u>

(Source: based on *Xinjiang Coal Ladge*, 1999)

³⁵ 1966-1976 during the CR, in most institutes of China the CCP committees were usurped by Revolution Committees.

³⁶ Up to the date recorded in the ladge.

³⁷ Since 1988 the Bureau was separated from governmental institutions and established as a state firm under the name of the Xinjiang Coal Industry Company, which then was later changed in 1989 to the China Xinjiang United Coal Mine Company under the direct administration of the China Coal Co.

By way of mitigation, we might argue that the early Han domination of CCP committees is because of a shortage of minority CCP members but after forty years this excuse is wearing thin. Most leading posts are still by and large in the hands of Han, though since the 1995 reform, numbers of minority members are increasing, and 55.6 per cent of personnel in the XARPC are now minorities (Table 5.9).³⁸ According to a statistic of the year 2001, minority leaders at or above provincial level are 31 persons or 55.3 per cent of the total numbers at the same level; under the provincial and above township level it is 447 persons, or 42.5 per cent, and at the township level, it is 3600, 34.4 per cent. Table 5.10 lists the numbers of Uyghur and other minorities and Han holding the top leading posts in XARPC and XAPG. This provides clear evidence of the dominance of Han personnel in decision-making.

Table 5.9 Minority Representation in the CCP Central Committee

Central Committee	%
8 th 1956	5.2
9 th 1969	4.6
10 th 1973	5.6
11 th 1977	5.7
12 th 1982	8.0
13 th 1987	11.2
14 th 1992	10.3

(Source: Sautmen, 1997)

The above discussion quite contradicts Mao's statement in favour of recruiting more local minorities for the CCP and exploiting them to serve the Party and the region, and it contradicts too the state's political promises to the region. Since 1949, CCP institutions have been constructed across this region and have acted in Muslim society, challenging its Islamism. But it failed to hire many from the local Muslim nationalities to run the region. This raises questions, firstly, about what is the real implication of CCP's political institutions functioning in Xinjiang; secondly, as the CCP is now at last showing some determination to increase minority membership of the CCP in Xinjiang (Mackerras, 2003), whether these CCP minority members can really be expected to serve their region by implementing the CCP agenda; thirdly, whether CCP Han members coming to Xinjiang through propaganda recruitment are ever likely to commit themselves to a province with such social complexity and cultural differences from their own home regions.

³⁸Xinjiang Statistical Bureau (XSB): Xinjiang's Glorious Fifty Years, 1999a.

Table 5.10 Leadership of Xinjiang's Sub-regional below Provincial Level 2001-2003

	Party Commission	Government		
Urumqi city	GS: H Vice: 2 U, 3 H Members: 5 H, 2 U, 1 O	Governor: U Vice: 1 Hu, 4 H		
Karamay city	GS: H Vice: 1 U, 2 H Members: 1 U, 4 H	Governor: H Vice: 1 U, 3 H		
Shihezi city	GS: H Vice: H Members: U, 11H	Governor: H Vice: 1 K, 3 H		
Changji (Hui AR)	GS: H Vice: 1 Hu, 3 H Members: 2 U, 5 H	Governor: Hu Vice: 1 Hu, 1 U, 1 K, 4 H		
Ili (Kazakh AR)	GS: H Vice: 2 K, 1 U, 3 H Members: 2 K, 5 H	Governor: K Vice: 3 K, 3 H		
Bortala (Mongol AR)	GS: H Vice: 1 H, 2 M Members: 2 H, 3 M	Governor: M Vice: 2 M, 1 U, 3 H		
Bayingolin (Mongol AR)	GS: H Vice: 1 M, 3 H Members: 1 M, 1 U, 1 K, 5 H	Governor: M Vice: 1 M, 1 U, 3 H		
Kizilsu-Kirghiz (AR)	GS: H Vice: 3 U, 4 H Members: 1U, 5 H	Governor: U Vice: 2 U, 3 H		
Hami	GS: H Vice: 1 U, 4 H Members: 2 U, 8 H	Governor: U Vice: 2 U, 4 H		
Turpan	GS: H Vice: 1 H, 1 U Members: 2 U, 3 H	Governor: U Vice: 2 U, 3 H		
Aksu	GS: H Vice: 3 H, 2 U Members: 4 H, 2 U	Governor: U Vice: 2 U, 4 H		
Hotan	GS: H Vice: 2 H, 2 U Members: 4 H, 2 U	Governor: U Vice: 2 U, 4 H		
Kashigar	GS: H Vice: 2 H, 1 U Members: 3 H, 1 U	Governor: U Vice: 2/3 U, 5/4 H		
Tacheng	GS: H Vice: 2 H Members: 3 H	Governor: U Vice: 1 U, 3 H		
Altay	GS: H Vice: 1 K, 2 H Members: 2 K, 3 H	Governor: U Vice: 2 U, 5 H		
Statistic	GS: Minority: 0 Han: 100%	Vice: Minority: 36% Han: 64% Members: Minority: 27% Han: 73%	Governor: Minority: 87% Han :13%	Vice: Minority: 36% Han 64%

(Note: H for Han, U for Uyghur, Hu for Hui, K for Kazakh, M for Mongol, O for an unclear nationality but no-Han.

Source: author, fieldwork, 2003)

The CCP political administration and leadership, based on single party rule, has penetrated every corner of the country including Xinjiang and is deeply ingrained in the society. This gives it supreme power in manipulating the Han and non-Han populations in order to achieve its political goals, including ‘manufacturing’ the governments of this autonomous region (Schurmann, 1966). It is worth noting that CCP’s mission in the minority regions like Xinjiang is not quite the same as in China’s other provinces: here “under CCP’s leadership it seeks to approach a socialist construction” (cited in Wang 1999c: p.232). The underlying agenda is that, by means of Han-controlled CCP leadership and decision-making, and by maintaining domination in the committees and cells of the various governments and public institutes, a legitimate means has been found of *de facto* withdrawing “the permitted autonomy” to local people, and integrating the region with the rest of China. As a result, the operations of Xinjiang’s leadership, governmental administration and public services are heavily politically coloured and national unity-orientated.

Always having the CCP supreme leadership in the hands of the Han not only contradicts the stated regional autonomy of Xinjiang, considered by Beijing to be an important tactic in the consolidation of the CCP in the region, but in fact it has annoyed the regional minorities and is turning the minorities away, especially any Uyghurs who had thought they could join China’s mainstream if they were politically recognised as a full part of China by the Han and given genuine regional autonomy.³⁹

In order effectively and efficiently to facilitate Han hegemony in this minority region, the CCP has carefully recruited and employed a large number of minority people in the CCP and XAPG units and trained them to serve CCP’s goals. However, the Xinjiang CCP’s personnel policy, in promoting these minorities, especially Uyghur cadres and CCP members, reflects a paradox and, again, the “give and take” strategy that creates a dilemma.

Since being recruited into the CCP, these minority cadres receive benefits in terms of the economy and politics far above the non-party members of their fellow people, and more than

³⁹ Discussion by Uyghurs at http://www.uyghuramerican.org/index.php/uaa/research_and_reports/ accessed in Oct. 2001.

many of their Han colleagues. They enjoy privileges granted by Chinese minority preferential policies, such as greater opportunities for job promotion working in high authority institutes in Xinjiang and even in Beijing. There is also career development, including training and further education in China's prestige party schools and universities, and economic subsidies for themselves and family members. In return, these minority cadres have to work for the Han-led CCP and CCP-led local government and serve the party's goals.

Despite the fact that the CCP has successfully recruited and trained many minority cadres, however, it is a different matter effectively to exploit these cadres and to 'win their hearts and minds'. After all, they have totally different cultural and social roots from the Han and most will have been brought up to see CCP control in Xinjiang simply as Han "colonisation and assimilation". The economic benefits, financial incentives and other perks showed by various minority preferential policies to these minority cadres are not enough for most, especially in the reform era.

The first major challenge for the CCP is the cultural and religious influence of Islam upon these minority cadres. It tries to convert Xinjiang's Muslims to Communism, but the very presence of Islam has been problematic. Yu (1985) and Murvar (1985) have both argued that Patrimonialism, formed in China from her past cultural heritage, helps the formulation of a phenomenon: the party leading the state and the nation believing in the party. But in Islamic societies, Patrimonialism has been an even stronger influence in social and political administration, including a belief in the ultimate goal of a common nation of Islam (Murvar, 1985). This makes the co-existence of Communism and other ideologies difficult or impossible.⁴⁰ Despite the CCP successfully gaining political power over Muslims in Xinjiang and convincing impressive numbers of the Muslim population to act on the CCP's proposals, its ideology and practical operation are always in conflict with and challenged by Islamic monotheism.

In the past a criterion in the recruitment of minority CCP members has been an insistence on non-religious belief. The communiqué from a work conference held in Urumqi in May 1996

⁴⁰ Unfortunately "Weber's projected volume on Islam never materialised" (Murvar, 1985).

to discuss Xinjiang's stability, for instance, stated this specifically: "Communist party members and party cadres are Marxist materialists and atheists. They shall not believe in any religion or take part in religious activities."⁴¹ However, to minority CCP members, the issue of religion cannot be wished away, as the great majority of Uyghurs consider themselves to be Muslims first. Many loyal CCP members are tormented by a decision whether to cease party activism or turn their back on religion, as there is no other alternative. If they choose the latter, they are regarded as traitors locally and cannot be accepted by their own community.⁴² In the urban areas, although a larger proportion of the minority population converts to Communism than in the countryside, they still have strong roots in their own community, and this affects their manner and attitudes toward the tasks assigned by the CCP, marking them out from their Han colleagues. It is in effect impossible in this region for minority cadres to be "good" communists, regarded by their CCP Han leader and colleagues, and ignore their religion and their ethnic nationality. As a result, it affects them in "effectively" handling assigned Party jobs within their community. The dilemma is most common and intense among these minority CCP members in strongly religious villages and counties in the south of Xinjiang.

This can be examined through three phenomena in the recruitment and performance of Xinjiang's minority cadres in the remote rural areas of the southern region. Firstly, there are recruitment difficulties. In Mao's era, owing to the CCP's strenuous political propaganda and strict policy encouraging CCP minority membership, large numbers of minority members across the region from villages to villages were recruited by those local CCP cells. However, since the reform, as the grip of the CCP has relaxed, fewer locals have joined. Han personnel have stayed in post at the upper level of townships in the CCP apparatus but its administration and functioning at the grassroots has become slack and irregular. A survey by the Xinjiang Social Science Academy (XSSA) shows that in one Uyghur village in Awati County, there were a total of 27 CCP members, only three of whom were under the age of 30 (Table 5.11). In January 1999, 25 minority members in a village of Yechen County withdrew their membership to return to their Muslim faith. Secondly, Party administration is irregular.

⁴¹ BBC monitoring service: Asia-Pacific, 9 May 1996, from Xinjiang Television, cited by Mackerras, 2001: p.290.

⁴² Interviews, 2003 and also supportive reference found in the research of Yee, 2003.

South Xinjiang provides a good example, where many minority members of the CCP cells in remote villages now rarely come to regular party members' meetings or receive Party training and instruction. One of Party members in Awati County had not attended any party activities since joining the Party two years before.

Thirdly, Islam is taking a leading role. As political restrictions have relaxed, religion has experienced a boom in the vast areas of remote countryside without local Party committee control and monitoring. There has been a resurgence of Muslim fundamentalism, which in turn has generated more anti-Han and separatist activities since 1980. In theory, any party cadres and members are not allowed to attend religious activities. However there was little control on mosques and religious schools being utilised by Uyghur nationalists and separatists. In practice many minority CCP members, including cadres, not only fail to stop such activities but also become religiously active themselves, against the CCP rule of atheism, and even worse, they participate in separatist activities, against the CCP requirement for unity. In Pishan County in South Xinjiang there are 25 CCP cadres and all attend religious services. In Shache County 50 per cent of CCP members practise the religion. In one of the villages in Awati County, the GS and every member of the village CCP attend services and pray in public. In 1997, there were rumours spreading in Awati County encouraging local Muslim people to join a "Holy War" against the Han. However, although local minority CCP members didn't involve themselves in it, they also didn't take action to stop it or report it to their superiors.⁴³

Table 5.11 The Age Structure of 27 CCP Members in Awati County in 1998

Ages	-30	30-45	45-50	60
Numbers	3	9	7	8
Percentage	10%	34%	26%	31%

(Source: survey of Xinjiang's Social Science Academy (XSSA), 2000).

The second challenge the CCP faces in Xinjiang is its own attitude towards minority members. The construction of the CCP's institutions has shown a systematic bias against the minorities, leaving the majority of Muslim people to believe that the CCP has given no real empowerment to minority CCP leaders and cadres, and has in effect cheated them of their

⁴³ Fieldwork, 2003 based on the survey of XSSA, 2000.

legally “granted” autonomy. This has created a political environment of complexity and hostility among the membership of the CCP and governmental teams. Although some of them may have expressed their willingness to participate and to give up their religion and nationalism in order to join in the CCP teams, few express contentment, and this is exacerbated by the CCP’s lack of trust in them and their marginalised position, hardly a compensation for the condemnation of their own community. So, unless there is a large opportunity available for some individuals to pursue their own personal interests, to achieve their career ambitions and to profit financially, most choose to act for the benefit of their own nationality and perform their CCP tasks slackly and uncooperatively. Some even act against the Party. A large minority of CCP members are seen as getting less collaborative, more “power hunger” and “troublesome” in Xinjiang since the reform, making the CCP leadership and its leading government less efficient and cohesive, in turn creating more political struggle.

The issue for promoting more minority cadres and recruiting minority governmental staff is raised frequently in Party meetings by minority cadres. “(T)he minute one raises ‘autonomy’ in Xinjiang, people, and especially comrades from the minorities, think immediately of the ratios of cadres and civil servants. The two have practically become synonymous. This has become a ‘big and intractable problem’ for local government to resolve” (Ma, 2003, cited by Bovington, 2004: p.45). In Sautman’s investigation (1997: p.20), Turpan’s minority cadres held out against the domination of a Han leadership and regarded the central government as “all talk and no do” in promoting minority cadres. According to the survey by XSSA, in Xinjiang’s five macro-sub-regions, many Uyghur, including cadres themselves, consider that they have not been fairly and full utilised (Table 5.12). Such discontent and conflict between Han and non-Han, specifically Uyghur, cadres remains intense and constant, and makes entire cadre teams and local governments non-cohesive, fragmented and unable to achieve their goals and implement state policy. Public condemnation by Uyghur cadres is frequent and intensive of Chinese policies concerning Han immigration and economic development. For instance, one Uyghur leader of a county near to the Tarim oil field after drinks at a formal welcome dinner is said to have shouted at official guests visiting from Beijing and

Urumqi there to discuss oil exploration and exploitation by the Petro China, that they were stealing the treasure of his home town in order to make coastal regions like Shanghai rich⁴⁴.

Table 5.12 Do You Think Minority Cadres are Fully Utilised? (%)

	Agree	Disagree	Hard to Say	Number of People
Uyghur	41.8	50.7	7.4	349
In which cadres:	39.9	54.6	5.5	271
Han	73.5	16.1	10.4	298
In which cadres:	75.0	16.8	8.2	232
Others	51.8	27.3	20.9	110
Total	55.8	33.6	10.6	757
In which cadres:	54.6	37.4	8.1	570

(Source: survey of XSSA, 2000)

Minority CCP members in Mao's era have been strictly trained and taught in institutes like the party schools in Beijing and Urumqi to carry out party or governmental jobs among their own people with a much stronger sense of maintaining peace and political stability than the new cadres of the post-Mao era, who possess advanced educational qualifications and professional skills but have a much lower political inclination to further the interests of the CCP. Despite the CCP's carefulness in the selection of politically reliable minority cadres, the new generation has become much less effective in reconciling the worsening relations between Han and non-Han groups and in facilitating political harmony. Instead, in many institutes of the CCP and government, minority members band tightly together in groups based on the same religion or nationality and support each other in handling the perceived unfair treatment and discrimination from their Han colleagues. They know that power remains in Beijing and with their Han colleagues and they know they are just an instrument for facilitating Han's control over their people and them too. They also know that merely increasing the number of minority cadres does not mean that they themselves will eventually hold power. So, only through self-support and solidarity will it be possible to gather strength against Han's domination and win consideration and rights from their Han colleagues. In many offices a Uyghur is the 'leader' and utilises his power to create "agency" for his ethnic colleagues and this is seen by the Han as being "difficult and problematic". Public condemnation from the minority cadres of their Han colleagues' behaviour, even for any trivial matters, takes place frequently. The two groups of people may work in the same unit

⁴⁴ Interviews, 2003

but they prefer to live in separate accommodation blocks. Working relationships are superficially polite and friendly, but at times there is mutual hostility. Corruption among the minority cadres is said to be rife, although the evidence of this must be treated critically. Some see it as a way of “making the Han suffer”.⁴⁵ In 2004 and 2005, Uyghur high ranking cadres were listed among those indicted for serious corruption by the government.⁴⁶ Minority leaders of villages are often the richest in their village⁴⁷.

In theoretical explanation, as Weber’s efficiency depends on social interaction with organisational performance, empowering local people in handling their own affairs means greater efficiency for local governmental administration in this ethnic region in which local cadres have the necessary knowledge, willingness and cultural background linking to the society. Beijing’s policy in recruiting and employing minority cadres doesn’t meet the requirement, described by Weber, for expertise and devoted administrators. It is not only contributing to forming a politically over-complex local government but also indeed a potential danger for the Han CCP leadership and for its consolidation in Xinjiang that a large proportion of its membership is from the Muslim minority and is active at the grassroots level. The CCP’s political racism and disarray has served only to “increase the fractiousness of the region” (Bovingdon, 2004: p.3) and put the CCP in a political dilemma.

Employing and recruiting Han personnel are also a challenge for the CCP. Many Han came to Xinjiang in response to CCP political propaganda or reassignments by job units, especially soldiers, new university or college graduates and government cadres. Due to the strict personnel administrative system, most have no choice but to obey these arrangements and they have to settle in this region remote and different from their homeland. Beyond such compulsion, the motivations for people coming voluntarily to Xinjiang are twofold: political inspiration and rewards, and financial incentives.

Before the reform, CCP cadres, including both Han and non-Han in Xinjiang, were trained and promoted from the grassroots level on the basis of criteria such as possessing the desired

⁴⁵ “We are spending Han’s money.” Interviews, 2003.

⁴⁶ <http://news.sohu.com/> accessed in 2004 and Nov. 2005.

⁴⁷ Interviews, 2003

communist ideological level and personal political inclination. After becoming CCP members and cadres, they regularly received theoretical training in order to 'purify' their thoughts and fulfil the desired political qualities. Cadres were therefore promoted, not necessarily on the basis of expertise and skill in their jobs, but also because of their political determination. The emphasis of the administration on non-technocrat selection in the pre-reform period enhanced CCP's political consolidation. In Xinjiang, many demobilised PLA Party cadres and members were trained and transferred to the township or village level to provide political and technical leadership and personnel. They were advised to settle down and to make personal self-sacrifices and they were regarded as the most reliable CCP members to be in key posts at the lower level. There were material incentives, such as a holiday paid by the state to allow these Han cadres and workers to visit their home provinces every few years, and their salaries were relatively higher than those of cadres in China's heartland. But the political and 'spiritual' rewards were what encouraged most to settle down willingly in these harsh areas. They helped to consolidate CCP control and facilitated its effective functioning, even in the non-Han regions. Xinjiang's CCP in the early years regularly launched movements of self-discipline and self examination, for instance on themes such as "Anti Great Han Chauvinism" and "High Moral Thinking", in order to keep these Han cadres focused on the Party line and on improving relations with the non-Han population (McMillen, 1979). At that stage, local minorities seemed willing to accept the leadership of CCP committees and cadres, and minority cadres were part of the teams, even though they knew it was under Han leadership.

But demoralisation set in during the "Cultural Revolution" has accelerated in recent years. In 1988 the traditional selective criteria, based on cadres' political, ideological level and personal morality, were abandoned. Instead, along with personal expertise and intellect, personal ambitions and material incentives have become more important for Han to come to work in Xinjiang's local governmental and the CCP's affairs.

Without an appropriate legal regime to monitor their activities, cadres have abandoned the traditional principles and integrity required by CCP: responsibility, self-discipline and self-

sacrifice⁴⁸. On the record, corruption among Xinjiang's Han higher elites and cadres is not so severe as those cadres in the coastal provinces (Liu 1983; Lu 2000). But CCP members with traditional commitments have long gone. Seeing that their counterparts in China's coastal belt receive much higher incomes, young Han cadres, including home-grown ones, have lost interest in serving Xinjiang. Besides, political restrictions over the affairs of the locality confine their freedom in decision-making and action. They have not just lost interest in working on this land but also no longer seem to have a sincere vocation to represent the CCP and to take responsibility for serving the region, understanding the minority culture and customs, and keeping on good terms with their non-Han colleagues. By way of example, an audit of the implementation of the "returning cultivated land to forests" programme, a policy advocated for the re-construction of the natural environment, has shown that local Han cadres, following orders, mechanically implemented the policy to plant trees on every type of land, much of which they must have known was suitable only for grass.

Discrimination encourages these young cadres to look down on their non-Han colleagues and to apply harshness in handling ethnic affairs. Han cadres insultingly call their Uyghur colleagues "chantou" (turbans), and refer to "stubbornness", lack of "understanding" and collaboration. It is not uncommon to meet Han CCP cadres and leaders at or below township level who have no knowledge of the state's minority policies and possess no understanding of Muslim religious influence in society. Religious affairs are handled by them mechanistically and prejudicially, which ends up in conflict. For example, in December 1999, a Han secretary of a township in south Xinjiang shut down a local mosque on an inspection tour, simply because a Uyghur worshipper in the mosque pointed out his mistake and ignorance regarding the legal age for minorities to attend a service. Even worse, in March 2003, six religious leaders were accused of illegal religious activities simply because they had prayed for a dying person.⁴⁹ Both scandals resulted in resentment and riots by Uyghur people. Also, very few Han cadres bother to master a minority language in their job (Tables 5.13, 5.14).

⁴⁸ Fieldwork, 2003

⁴⁹ The investigation in Xinjiang's religious policies and activities by XSSA, 2000.

Table 5.13 Han/Uyghur Cadres and their Proficiency in Chinese and the Uyghur Language (%)

	Do not Speak	Poor	Fair	Good	Numbers of Cadres
Han (speaking Uyghur Language)	31.7	48.8	17.1	2.4	41
Uyghur (speaking Chinese)	2.1	6.4	17.0	74.5	47

(Source: compiled from Yee, 2003)

Table 5.14 Languages (%) Spoken by Cadres in North and South Xinjiang

		Uyghur	Chinese	Both Languages	Cadres
South	Uyghur	77.8	4.0	18.1	248
	Chinese	1.9	95.4	2.8	108
North	Uyghur ⁵⁰	62.1	14.1	21.1	71
	Chinese	0.8	96.9	0.8	129

(Source: survey by XSSA, 2000)

These cultural clashes and lack of social unification raise in the minds of many Han the idea of leaving Xinjiang. This has become a popular trend among both old and new generations of the CCP Han members nowadays⁵¹. According to statistics in a 2001 government report, between 1979 and 1997, due to the unstable political environment in Xinjiang and the economic attraction of the coast, 40,500 cadres, mainly Han, left the province and only 7,300 cadres arrived, a ratio of 6:1. An investigation by the XSSA revealed that many young Han CCP cadres resented being rotated to work in poor and remote minority towns or villages. A large number managed to leave the poor counties and stay in the capital or rich cities. Of those remaining in poor, non-Han towns, it is common for their families and relatives to move to cities or the capital to be with other Han and have better living conditions, while the cadres themselves remain in post without feeling any urge to improve the poor conditions of these remote towns. This all leaves CCP control and functions weakened and inefficient in the remote sub-regions of Xinjiang⁵². Local people and Uyghur cadres constantly complain about those “mobile” and arrogant Han cadres for their irresponsibility, harshness and simplicity. They think that the Han cadres come just to govern the region and look after their own interests, rather than serving the people. Such behaviour by Han CCP members is hardly likely to convince Uyghur and other ethnic colleagues to believe in the CCP any more, or submit to its leadership.

⁵⁰ Some speak the Kazak language.

⁵¹ Interviews, 2003 and two supportive references: Song, 2001(a and b); Wang Zhen; and the Contemporary China's Celebrities (ed.), 2001(a and b); Wang Zhen.

⁵² Data collected on fieldwork in 2003 and supportive reference by Yee, 2003.

5.1.2 The Construction of XAPG's Organisations and Institutions

As we discussed before, China's administration varies from region to region and the administrative reforms undertaken have involved bargaining, negotiation and exception between the centre and localities to balance different interests. The results of the reforms are therefore never consistent with the original plans. Because of Xinjiang's special status, not only is its administrative system different from other regions, but all reforms on bureaucratic administration of the region are exceptional and do not fit with the standard requirements.

On the establishment of the XAPG, there were only 16 bureaux and commissions within its administrative apparatus. After forty years, the number had expanded to 80, and this number does not include sub-organisations such as the Think Tank Bureau, which are affiliated to each bureau and commission, and it does not include the public service sector, such as educational institutes in the government's financial budget. Since the 1990s, China has undertaken a series of reforms of the institutional structure of the administrative system with the aim of reducing its large and bureaucratic administrative and public service sectors, thereby creating a lean and efficient functioning system. However, by 1997, there were 44 administrative institutes in the XAPG's apparatus. In 1998, under the XAPG's geographic area, there were five autonomous prefectures, eight districts and three provincial-municipalities, and 87 cities and townships.

China developed a system under the name of *Bianzhi*, equivalent to the Soviet Nomenclatura system, to "control and describe the positions and offices over which the party committee has authority" (Brodsgaard, 2002: p.361). Different from the Soviet Nomenclatura, the *Bianzhi* covers the personnel arrangements and the officially listed number of staff on the state's payroll. The state institutions include three categories: administrative organs, service organisations, and economic enterprises. The administrative organs include all bureaux and commissions within the governmental and Party apparatuses that have authority over the corresponding service organisations, for example the Education Bureau has administrative power over decisions on key personnel arrangements and financial budgets in local

educational institutes. Service organisations have their own administrative departments under the supervision respectively of upper administrative organs and do not have power over other bodies. Service organisations are not-for-profit and their officially listed staffs receive pay from the financial budget of their respective governments. Economic enterprises used to have all of their officially listed employees, including workers, technicians, managers, on fixed salaries on the state payroll through the budgets of the different levels governments, but, after the enterprise reform, many large enterprises became private or semi-private firms, leaving only a few state enterprises such as China Telecom Company, and Petro China. Their key personnel, such as administrative staff and key technicians, experts and managers, receive a basic salary on the government payroll but other contracted staffs are paid from the profits of their companies. Companies are also responsible for any bonuses paid to staff. So, all of the employers and employees on the state payroll are encompassed by the *Bianzhi* system and are said to be “eating imperial grain.”

The population in the *Bianzhi* system, as a proportion of the entire Chinese population, increased from a ratio of 1:50 in 1978 to 1:38 in 2000. This is considered by the Chinese authorities as governmental agencies still being too highly bureaucratized and overstaffed, especially by comparison with ratios of 1:2999 and 1:911 in the Ming and Qing dynasties (Brodsgaard, 2002: p.386). According to research by Chinese scholars (Chen, Chen and Zhang, 2002), in March 1996 the *People's Daily* reported that there were 36,730,000 staff on the governmental payroll at the end of 1996, an increase of 72 per cent since 1978, compared to an increase of 27.1 per cent in the national population in the same period. The financial expenditure on overheads reached 104.08 bn yuan in 1996, 15.5 times that in 1980. In the 6th FYP, the overhead was 6.8 per cent of financial expenditure, in the 7th it increased to 8.8 per cent, in the 8th to 11.9 per cent, and since 1996 the percentage has been 13.1 per cent. The burden of central finance on governmental overheads is heavy and increasing. In many places, 80 per cent of the growing financial revenues are used for salaries.

The *Bianzhi* varies at the provincial level, according to the population and politico-economic status of the region (Table 5.15). Beijing, Shanghai and Tianjin, as municipalities, have large bureaucratic bodies relative to the size of their populations. Regions like Sichuan, Guizhou

and Henan are populous provinces, thereby having comparatively lower ratios of people eating imperial grain, though the administrative bodies of those regions are by no means less staffed. The provinces with traditional heavy industries and SOEs, like Jilin, Heilongjiang, Shanxi and Inner Mongolia, have a higher ratio of state employees, while the reform-advanced provinces, like Guangdong, Jiangsu and Zhejiang, have lower ratios. Xinjiang and Tibet have the highest ratios of state employees among all of regions after the three municipalities. The *Bianzhi* ratio to Xinjiang's population is 1:26, while that for the nation as a whole is 1:38.

Table 5.15 Provincial Level *Bianzhi* in China in 2000

Province	Population (millions)	<i>Bianzhi</i> (thousands)	Ratio Population	Index (national=100)
National	1295.33	34040	1:38	100
Beijing	13.82	1219	1:11	370
Tianjin	10.01	460	1:22	185
Hebei	67.44	1851	1:36	103
Shanxi	32.97	1093	1:30	123
Inner Mongolia	23.76	823	1:29	128
Liaoning	42.38	1444	1:30	128
Jilin	27.28	938	1:29	132
Heilongjiang	36.89	1250	1:30	123
Shanghai	16.74	791	1:21	206
Jiangsu	74.38	1733	1:43	88
Zhejiang	46.77	1129	1:41	95
Anhui	59.86	1200	1:50	71
Fujian	34.71	904	1:38	103
Jiangxi	41.40	997	1:42	86
Shandong	90.79	1316	1:39	95
Henan	92.56	1934	1:48	74
Hubei	80.28	1644	1:37	103
Hunan	64.40	1606	1:40	90
Guangdong	86.42	2159	1:40	109
Guangxi	44.89	1142	1:39	90
Hainan	7.87	231	1:34	109
Chongqing	30.90	655	1:47	79
Sichuan	83.29	1807	1:46	79
Guizhou	35.25	739	1:48	73
Yunnan	42.88	1057	1:41	90
Tibet	2.62	100	1:26	142
Shanxi	36.05	1124	1:32	116
Gansu	25.62	662	1:39	95
Qinghai	5.18	165	1:31	119
Ningxia	5.62	192	1:29	128
Xinjiang	19.25	753	1:26	142

(Source: Brodsgaard, 2002)

The reason for Xinjiang's highly bureaucratic structure is explained, firstly, by its large proportion (84 per cent) of state-owned enterprises (SOEs), in which there has been slow

progress of reform because the socialist administrative system still dominates and they retain large numbers of workers on the state payroll. Secondly, Xinjiang's large administrative bodies and public service sector contributes to the high ratio of state employees in this less populous region. Xinjiang is the biggest province of China in area and is located on a sensitive frontier with multiple minorities, which requires more personnel in security, and the civil service generally. Xinjiang also is the province with the sparsest population in the country. Despite the lowest number of geographical administrative divisions, in total 87 divisions townships or above in comparison with 1,598 in Zhejiang province, the government of each sub-region operates with more or less the same scale of governmental organs and personnel as in other provinces. Many of Xinjiang's counties have a small population but a large area, which requires more or less the same sized administrative force as in other provinces, not to mention those minority sub-regions with autonomous administration, which have fixed proportions for the different nationalities involved in government organisations. An official report in 2001 stated that there were 652,000 cadres of all kinds in 1997, of whom 331,500 were from the minorities. There were 158,600 working for the Party and governmental administrative organs, 404,800 working public service units, and 88,800 working in state enterprises.

The number of staff working in the government and Party administrative institutes and cells increased from 5000 in 1949, to 85000 in 1955 and then to 74500 in 1978. Before 1972, there was an annual increase of 1-2 per cent. From 1972 to 1975, when a large number of Han immigrants were allowed to return to their home regions, the number of employees in those institutes was in fact sharply reduced. However, since the reform, the increase has been unrelenting. Firstly, in the first a few years after the CR, since large numbers of cadres were rehabilitated, the numbers of employees increased dramatically. In Xinjiang, in 1977-78 alone, the number of CCP and governmental administrative staff increased from 74,500 in 1977 to 82,700 in 1978 and further to 110,500 in 1982 (Table 5.16), a 10 per cent rate of annual increase. Secondly, the administrative organs have expanded constantly since the reform, despite China undertaking a series of profound administrative reforms in 1982, 1988, 1993 and 1998 in an attempt to make reductions, in which central level governmental organs

were cut from 100 to 60 and the provinces and autonomous organs cut their departments from 50-60 and 40-30 respectively in 1982.

Table 5.16 Numbers of CCP and Governmental Staff in Xinjiang 1978-1988

Years	Numbers
1978	74500
1979	82700
1980	94500
1981	102300
1982	110500
1983	114200
1984	125400
1985	140200
1986	152200
1987	156600
1988	163900

(Source: XSB: *Xinjiang's Glorious Fifty Years*, 1999b)

The first round of administrative reform in Xinjiang was undertaken in 1983 but the rate of staff increase remained at 15-18 per cent per year. In 1984-86 new governmental organs were required by Beijing, like the new Xinjiang Security Bureau and the separation of the Xinjiang Construction Bureau from the Xinjiang Planning Commission. As new organs were constructed, new staff were therefore recruited and the overall numbers continually increased. By the end of 1987, China launched a second round of its profound reform of governmental administration, although this only started in Xinjiang in 1990. All local parties and governments were instructed to rationalize overlapping organs. In particular, according to Zhao Ziyang's plan, the government at all levels would provide lean and efficient public services under the restriction of the Party's jurisdiction. In this round, the number of Xinjiang's administrative staff continued to increase at a rate of 4.5 per cent annually. In 1993 the third round of administrative reform began. Again it was late in Xinjiang, starting in 1997. This time Xinjiang cut 22.9 per cent of its *Bianzhi* and the numbers of departments at the provincial level was reduced from 60 to 48 (Table 5.17). The fourth round began in 1998 in China as a whole, and in 2000 in Xinjiang. Now the number of departments in Xinjiang was reduced by nine and staff by 46.5 per cent, quite modest by comparison with other provinces (Tables 5.18, 5.19).

Table 5.17 Provincial Level Bianzhi in China's Regions after 1993

Province	Bianzhi before Reform	Bianzhi after Reform	Reduction (%)	Number of Departments
Beijing	-	-	-	58
Tianjin	-	-	-	57
Hebei	8.26	6760	18.0	46
Shanxi	7849	5900	25.8	47
Inner Mongolia	7347	5500	25.1	45
Liaoning	8200	6160	24.9	46
Jilin	6909	5360	22.4	46
Heilongjiang	9461	6300	33.4	48
Shanghai	-	-	-	53
Jiangsu	-9722	7300	24.9	47
Zhejiang	7435	6160	17.1	45
Anhui	8032	6160	23.3	48
Fujian	7597	5650	25.6	45
Jiangxi	6983	5650	19.1	43
Shandong	9918	7500	24.4	50
Henan	9470	7400	21.9	47
Hubei	7728	6400	17.2	45
Hunan	9896	6560	33.7	47
Guangdong	9589	7500	21.8	46
Guangxi	7840	5900	24.7	47
Hainan	4557	3850	15.5	32
Sichuan	10045	8330	17.1	50
Guizhou	6263	5300	15.4	45
Yunnan	7336	5960	18.8	44
Tibet	-	-	-	38
Shannxi	-	6000	-	47
Gansu	7402	5460	26.0	45
Qinghai	4827	3660	24.2	34
Ningxia	4412	3400	22.9	38
Xinjiang	7527	5800	22.9	48

*(Source: Brodsgaard, 2002)***Table 5.18 Numbers of State Administrative Organs before and after the Reform in Some Provinces and Regions in 2000**

Region	Original Numbers	Numbers after Reform	Numbers of Reduced Organs
Beijing	67	45	22
Shandong	67	46	21
Liaoning	52	41	11
Shanghai	56	43	13
Sichuan	35	26	9
Heilongjiang	67	41	26
Jiangsu	67	41	26
Jilin	54	40	14
Henan	57	47	10
Xinjiang	48	39	9

(Source: compiled from Chen, Chen and Zhang, 2002)

Table 5.19 Proportion of Staff Reduction of Some Provinces and Regions in 2000

Regions	Numbers Reduced %
Beijing	50.0
Jiangsu	49.0
Hubei	48.0
Jilin	48.0
Fujian	48.0
Xinjiang	46.5
Shanghai	50.0
Anhui	48.5
Jiangxi	48.0
Zhejiang	48.0
Guangxi	47.5
Guangdong	49.4
Shandong	48.0
Sichuan	48.0
Liaoning	48.0
Yunnan	47.5

(Source: compiled from Chen, Chen and Zhang, 2002)

So, in summary, although China's administrative reform emphasized the reduction of state organs and staff in order to create leaner and more efficient agencies, in reality the numbers of governmental staff are on the increase. The phenomenon is intense in the underdeveloped regions of China and in particular in Xinjiang, substantially due to its ethnicity.

One major problem with all administrative reforms is that when one organ on the list is dismantled, not all of the staffs are made redundant. For fear of causing social instability, redundant staff on most occasions are either transferred into the remaining government organs or allocated into public service units. So the number of departments is reduced but the number of staff is not. For example, in the 1988 reform, the Price Bureau was transformed to a Price Department under the administration of the Xinjiang Planning Commission; its government staffs were transferred to the *Bianzhi* of the Commission and its public service staffs were allocated into service units of the Commission. This phenomenon is less common in the coastal or richer regions where redundant staff can find work in one of many prosperous private enterprises, but in Xinjiang there is less choice and state employment, with its secure income, is regarded as an "iron rice bowl", and, anyway, the salaries are considerably higher than in most local enterprises. From an informal survey, many postgraduates from Xinjiang's universities still seem eager to have a government job. Considering Xinjiang's ethnicity, redundancies among the minority groups are difficult.

From 1978 to 2001, the various reforms have reduced the number of government organs by 50 per cent on average in the whole of China and by 46 per cent in the more cautious Xinjiang. Since there is a rule of maintaining at least 10 per cent of the staff from the minorities in each organ, many of the redundancies and transferred quotas have fallen on the Han staff. However, since many of the Han are key staff and possess the required experience and skills, it is difficult to make them redundant or transfer them. By comparison, Uyghur cadres are regarded as “low quality, low skilled and of poor intellect”. Surveys undertaken by XSSA (2000) and Yee (2003) present these views held by many Han (Tables 5.20, 5.21).

Table 5.20 Do You Agree that most Uyghur Cadres are Honest, Industrious and Capable? (%)

	Strongly Agree	Agree	Hard to Say	Disagree	Strongly Disagree	Numbers of People
Uyghur	20.0	56.6	15.9	7.6	0.0	145
Han	14.4	39.4	25.0	20.7	0.5	188

(Source: Yee, 2003)

Table 5.21 Do You Agree that most Uyghur Cadres are Reasonably Utilised?⁵³ (%)

	Marginalised and Holding Posts but no Power		Many Capable but not Recognised		Large Quantity but Low Quality Many Posts but Doing Nothing		Number of People
	Yes	No	Yes	No	Yes	No	
Uyghur	69.9	30.1	62.1	37.9	48.4	52.6	256
Han	4.8	95.2	10.9	89.1	95.5	4.5	147

(Source: survey of XSSA, 2000)

Judged from these two tables above, more than 70 per cent of Uyghurs consider the cadres from their nationality to possess good work capabilities, whereas 54 per cent of the Han have the same opinion in Table 5.20 but 95.5 per cent of the Han cadres (Table 5.21) think the opposite. Here we have to take into account the preliminary condition of the two surveys. Yee (2003) only focused on the residents of Urumqi, in which people’s living conditions and educational standard are much higher than in other regions of Xinjiang; whereas the XSSA survey took place in five sub-macro-regions: Hotan Region, Kashigar Region, Aksu Region, Ili Kazak Auto Prefecture and Changji Hui Auto Prefecture and was done within cadres of Han and Uyghur, so the XSSA survey is more practical and has better credibility in representing Xinjiang overall. The XSSA survey reflects Han chauvinism and discrimination

⁵³ The survey was done only within cadres of Han and Uyghur.

that leads them to underestimate the capability of minority cadres. The explanation was one that tends to support Han cadres' continuing domination: "The economic and cultural backwardness of the minority peoples results from historical reasons and the location in remote areas definitely influences the psychological make-up of minority nationality cadres in their enduring nature, public nature and complexity"(Yao, Zhongwu, 1992, cited by Sautman, 1997: p.19). Yee (2003) also surveyed the Uyghur's opinion of Han cadres. More than 60 per cent held positive opinions about Han cadres, a higher proportion than the Han of their fellow Han (Table 5.22).

Table 5.22 Do You Agree that most Han Cadres are Honest, Industrious and Capable? (%)

	Strongly Agree	Agree	Hard to Say	Disagree	Strongly Disagree	Numbers of People
Uyghur	20.9	39.6	28.3	11.2	0.0	187
Han	15.2	44.9	21.7	15.2	2.9	138

(Source: Yee, 2003)

Because of Han prejudice and because of minority cadres showing less enthusiasm for the hard work discipline and higher education,⁵⁴ in comparison with Han, both of which affect their ability in tackling assigned jobs, many government and party agencies still expect to retain more Han than minority staff. At the end of each round of reform, less than the planned number of Han cadres were made redundant and all of the minority cadres were retained. It is the same for new recruitment: the maximum number of Han candidates is employed and, according to the quota, some posts are left for the minority. The administrative reform in Xinjiang therefore is more strongly a political phenomenon than a rational administration according to the principles of Weber's bureaucratic theory.

Apart from overstaffed governmental administrative organs, Xinjiang's public service units are also bloated. As we mentioned before, by 1997 there were 404,800 staff working in public, non-profit-making sectors like hospitals, universities and research councils, etc, taking up nearly two-thirds of the *Bianzhi* population on the state payroll. Xinjiang's radio station, TV channel, newspapers and book publishing houses are all established, controlled and financed by the local government. In order to provide a service covering this large province and serving people from the different minority groups, the national and provincial

⁵⁴ Bovington, 2004 and fieldwork, 2003.

People's Radio Stations provide broadcasts in six languages and Xinjiang TV provides all of its programmes in three languages. Macro-sub Regions, Auto Prefectures and Municipalities all have their own local TV stations and radio with various channels in two or three languages broadcasting news and entertainment. By 1998, there were six provincial and 31 sub-provincial radio stations covering 82.9 per cent of the area of the region; and there were 18 TV stations and 63 channels broadcasting around the region, country and world, all in at least two languages and covering 84.5 per cent of the area.⁵⁵ By 1999, Xinjiang had 87 newspapers with a total distribution of 193.37 million copies in the year. Of these, 53 were specialised newspapers for the state and Party and 34 for others. 44 out of 87 were in Chinese, 27 in Uyghur, 11 in Kazak, and 1 in the Xibo language. The same variety of language services is used in Xinjiang's culture and art organisations, film and TV programme-making, publishing and ethnic language translation, needing large personnel of technicians, workers and experts. The expense is met from the local governmental financial budget and administration. Each year 20-30 per cent of the Xinjiang government budget goes on the operating expenses of these local cultural, education and healthcare services. The linguistic and ethnic complexities of the province are therefore tangible burdens on local government.

As far as human resources and educational standards are concerned, the quality of Xinjiang's cadres and staff are considered to be declining. All of the state institutions seek to employ people with a university qualification. From 1955 until the CR, the personnel of governmental organs were largely of non-Xinjiang origins and graduates of universities in China's heartland, with some demobilised PLA high ranking officers with equivalent education or work experience. During the CR, these were replaced by radical factory workers and revolutionaries. However, as soon as the CR finished, they were dismissed and the old staff returned and new employees were recruited who were university graduates. During and after the 1990s, as Xinjiang entered a period of relative economic decline vis-à-vis the coastal regions, it has been more difficult to attract university graduates from the heartland to the hinterland. So, the positions in government organizations have gradually been taken over by graduates from Xinjiang's universities. Despite Xinjiang having established 42

⁵⁵ Not including satellite channels.

comprehensive and subject-specialised universities and colleges since 1955, none of them are considered as good as those located in China's heartland.

China ranks her universities into 13 groups in terms of the quality of teaching, research and graduates. Beijing University, Qinghua University (Beijing), Fudan University (Shanghai), or Tongji University (Shanghai) are all ranked in the first and best group, while Xinjiang University, though regarded as the best comprehensive education institute in the region, is only ranked in the 13th group, the lowest. Each year the universities belonging to the 1st or 2nd groups take the top students who have achieved the highest scores in the university entrance exams. Nearly all of the top Han students, including a large number of top minority students from Xinjiang refuse to go back home since there is no longer a compulsory distribution policy, and they look for the best opportunities in prosperous regions like Beijing, Shanghai, Guangdong, etc..

Since 1982, graduates from Xinjiang University have begun to dominate the personnel of provincial governmental organs, including 90 per cent of those aged 25-50. Graduates from Xinjiang Agricultural University dominate the personnel of governmental organs at the township level. In 2004, 14 new staff were recruited by Xinjiang Planning Commission and all of them graduated from Xinjiang University, though the required minimum educational level for new employees has now reached the postgraduate level. Six out of eight *Bianzhi* taken on by Xinjiang's West Development Department of the Commission were Xinjiang University graduates. The leaders and key personnel of government at township level are largely from Xinjiang Agricultural University. I interviewed three out of seven vice governors from one county located in Xinjiang's north and they are all graduates of this university. By comparison, in China's coastal regions, like Zhejiang Province, personnel of local governmental teams at the township level are likely to be graduates of provincial universities or universities in Shanghai, like Fudan University, Tongji University or Zhejiang University, which are all ranked in the 1st or 2nd group of universities in China.

Since the reform, the minority government employees have also been required to have a university qualification. But as the minorities generally in China have much lower

educational standards than the Han, we can safely presume that the minority cadres in Xinjiang also have lesser qualifications. Despite lower entrance exam scores and a quota of minority students fixed at 60 per cent each year, still there is relatively low uptake from these groups and few travel to universities beyond Xinjiang.

During interviews in Xinjiang with some key officers of governmental units, they invariably confirmed worries about the quality and competence of their personnel. From their point of view, local Han graduates have received an inadequate and low standard of education in factual knowledge, practical technology training and ideology. Some Han and non-Han students have never had a chance to travel beyond the boundary of the region and, as a result, they are often narrow-minded and inflexible. Uyghur and other minority students enter university with low scores and complete their courses, again with low requirements and low assessment scores. This means that a large number of minority students enjoy the preferential policy without making much effort. Such a programme cannot develop their full intellectual talents. Some minority scholars criticise the Chinese preferential policy of lower entrance scores for the minorities because in the long run it results in less competition and self-development for the ethnic nationalities as a whole. These relatively inferior educational institutes have provided a large number of sub-standard personal for Xinjiang's government and this has undermined its quality and capacity.

The poor performance of local party-state administration will never be improved without addressing irregular staff recruitment and bureaucratic slackness. We have seen that a good example is the inability, no matter how many reforms are undertaken, to curb the over-bureaucratic nature of local government and to downsize the number of its staff. The results have been greater complexity, high social costs and inefficiency.

In summary of this section, Xinjiang's ethnicity is the source of political sensitivities in the region, which reinforces the CCP's political control locally in order to minimise conflict. However, with gradual economic liberalisation since the reform, some people in China's central and coastal regions are debating whether one party rule should be allowed to restrict economic growth, a signal for political decentralisation in an attempt to break through the

institutional constraints on economic liberalisation. However, in a region like Xinjiang, the Party's supremacy is unshakable, as it is regarded by Beijing as the logical means of maintaining control in this 'autonomous' minority region. As a result, the Party-state relationship stifles local government, which, as a result, is unable to achieve either the economic liberalisation of North's theory or the rational, independent and professional bureaucracy of Weber's theory. Instead it has directed the institutional transformation of local government more toward political security and the consolidation of power.

From this examination of CCP power over the region's governmental administration in terms of personnel arrangements and decision-making authority, combined with an examination of the CCP and the construction of government, we have found that the emphasis on political administration is causing inefficiency and irrationality in provincial bureaucratic administration. As a result, the bureaucratic administration of local state is poorly regulated and far removed from the principles of Weber's Legal-Rational Bureaucratic Theory. In fact the local state, especially the provincial government, has become problematic itself and appears to be incapable of generating economic liberation.

5.2 Xinjiang's Leadership in Regional Development

As per the discussion in Chapter 2, China's economic power is decentralised to the local government rather than to specific economic agents. The central state can control the reform in the localities through exploiting provincial governments. Local leaders receive Beijing's instructions and make decisions to pursue both central commitments and local benefits.

So, in Cheung's (1998b) argument, the decentralisation of decision-making power from the centre to the locality has challenged these local leaders not only to act normally in the administration of party-state-nation, but also to be local leaders in steering the region toward a harmonious form of social and economic development. Weber's ideal-types of leadership comprised three classic models: traditional, legal-rational and charismatic. Despite his models corresponding to different social settings and predicting the efficient and effective performances of these three types of leaderships in their respective state organisation, they

fail to explain the phenomena of Chinese leadership in the pre-reform or reform eras. As Liu (2001) has argued, there is no clear line between the political leaders and administrators in China's administrative system. Provincial leaders, especially governors, on most occasions are CCP GSs too. They are constantly struggling with their "dual" role to balance their orientation, and acting neither solely as "central agents (administrator)" nor as "provincial defenders (decision-maker and entrepreneur)", but are constantly "reconciling conflicting pressure in order to survive" (Lieberthal and Oksenberg, 1988: p.347).

To assess Chinese provincial leadership, we have to understand the nature of authority, how it came into being, whether it fits with the current situation of the region in the whole context of China's development and what the impacts and results of the leadership are on regional development.

To Beijing, the appointment of provincial CCP leaders is judged not simply by their competence of being leaders of a particular region but also whether they are in line with the current political context. In particular, in the reform era, despite Chinese administrative reform leaving the state to seek power outside the CCP, the political leaders still cast the final vote, especially in critical situations and in politically sensitive regions. Appointments also rely on individual agendas with multiple dimensions, such as a candidate's upbringing, education, work experience and personal ties with Beijing central elites.

To local leaders, formulating a leadership style in a specific region depends on them seeing themselves as both administrators or leaders, judging the region's politico-economic position in China's framework, detecting Beijing's policy inclination towards the region, and moreover, clarifying how all of this fits with their own career aspirations. According to Liu's (2001) summary based on the research of Oksenberg, Lieberthal and Goldstein, there have been four types of leaders in China since 1949: military fundamentalist, radical conservative, eclectic modernizer and radical reformer. Cheung (1998b) argues that there are three types of provincial leadership in the reform era with regard to regional political and economic restructuring: the pioneer, the bandwagoner and the laggard.

In the framework of Chinese party-lead administrative system, it is not just natural that governors are submissive to the leadership of the CCP, but this has been especially emphasized in ethnically sensitive regions. In particular, in Xinjiang, the GSs have been given more jobs than their counterparts in the Han regions, including, along with political decision-making and central policy guiding, extensive responsibility for regional bureaucratic administration, central policy implementation and economic performance. In other provinces these jobs are shared with the governor. This has made the GSs extremely powerful but also forever struggling with their multiple roles. So Xinjiang's development to some extents depends on the profile of leadership offered by the GS, as well as the governor.

In this section we will look closely at what impact the special circumstances of Xinjiang have had upon the leadership of the GSs and governors, and examine whether these leaders have preformed according to the situation required, what efforts they have made on behalf of the region, and whether they have facilitated regional development since 1949.

5.2.1 Xinjiang's Leadership before the Reform

On the establishment of Xinjiang's CCP in 1949, Wang Zhen as the commander of the XMD was naturally appointed as the GS. Burhan, a local Uyghur political activist from Ili Group, undertook the governorship of the XPG.

Wang Zhen (1908-1993), of Hunan origin, joined the CCP in 1927 and fought in Mao's Red Army during the Long March of 1935-38. After this experience he committed himself to be a Maoist loyalist and veteran militant. Later on at the beginning of the reform in 1980 he played a key backstage role in Beijing in bringing Deng Xiaoping back to supreme power but he generally supported China's conservative leaders in their fight with the new liberals in the reform, for instance in the crushing of the Tiananmen protests of 1989. In the years 1949-1955, in order to stabilize Xingjian and consolidate CCP control, as the top commander of the XMD, he conducted a series of "iron-wrist" repressions of the anti-Han and Eastern Turkistan Independence movements led by Emin, Abdimit and the Kazakh rebel, Osman, and with other active Islamic elements in Xinjiang's west and south after 1949. Wang's action effectively silenced any anti-Han resistance and confirmed CCP control but it also sowed the

seeds of hatred among the non-Han population. The second campaign he launched was to demobilise large numbers of military forces and transform them into a large productive force to meet the labour shortage for the coming economic growth.

Wang, as a military fundamentalist, identified his role perfectly well in showing Beijing's determination on the control of this region to the local people through his military action and human resource transformation and proved him to be a Han militant-political leader of Xinjiang, who met the requirement of Beijing for a strong political leader for the region at the initial time to consolidate the CCP's control over this non-Han region. Although some leaders of the central state considered his action on the minority population overdone, from the viewpoint of Chinese politics, his leadership has to be considered successful and was appreciated especially in the 80s-90s when Xinjiang's anti-Han separatism was on the rise. He was then asked to pay a few visits to show a "threatening" image to the local people in order to restore order.

Burhan (1894-1989) had been born and raised in a poor Uyghur-Tartar family in a Tartar community in Russia. With his family, he moved to China in 1914 after receiving a school education in Russia. In the 1930s he went to the Soviet Union and then to Berlin for advanced studies, and in the former he showed an interest in communist ideology and was inspired by the Soviet model of economic construction. Later on he received further education on socialism from a few Russian specialists with whom he worked in Sheng Shicai's government as director of the Xinjiang Agricultural Products Company and a committee in the Construction Department. He worked for Xinjiang governments under the Han warlords and GMD governors such as Yang Zenxi, Jin Shuren, Sheng Shicai and Zhang Zhizhong. In his view none of them sincerely regarded Xinjiang as home, even Yang Zengxi, who governed Xinjiang for 17 years without any military force and made certain developments in terms of ethnic culture, economy and political democracy. Burhan saw his compatriots constantly suffering under the dictatorship of these warlords and governors, so after the collapse of GMD coalition government in 1947-1949, he, as the deputy governor and Zhang Zhizhong, the last Han GMD governor of Xinjiang, decided to hand over Xinjiang peacefully to the PLA and to accept the leadership of the Chinese Communists (Burhan,

1984). After the XAPG was established in 1955, Burhan was then invited to Beijing to work in China's Political Consultative Commission as the Depute Chairman (Burhan, 1984).

As a purely local Uyghur leader who has a great interest in building up a socialist state out of his Muslim community for the better future of his people and home land, Burhan was exploited to act exactly according to Beijing's requirements for the establishment of the CCP administrative system in Xinjiang. He was useful for his leadership, obedience and submission to the CCP leaders, and for his diplomatic representation of minority interests.

After the XUAR was established, Seypidin Aziz was appointed as the chairman of the XAPG. Wang Zhen resigned from First Secretaryship of Xinjiang's CCP but remained as top commander of the XMD and the XPCC, and Wang Enmao (1913-2001) was his successor as party leader.

Wang Enmao recognised the region's special difference from other regions and realised that effectively integrating the region into China's Republic depended more on an efficient regional administration than political or military administration. His role was identified, not simply as a political leader in the CCP's image but more importantly as a regional leader and professional administrator for the region's interests, more or less in equal weight. A few features examined in his leadership support the argument that he acted as a local leader, pursuing regional administrative efficiency along Weberian lines, moving the region toward harmonious development.

His leadership style was formulated from his own experience as leader of China's northwest FA headed by Marshal Peng, mobilised in China's west for a long time and therefore knowing how to handle relations with local minorities. On examining Wang's decisions for Xinjiang, we can see he didn't have any vital power to produce policies beyond the overall framework of China's socialist construction. Both he and Wang Zhen were in relatively low ranking positions in China's hierarchical administrative system, compared to the Marshals and other provincial leaders, who had already been high ranking before 1949 and were influential in the power pyramid to the extent that they could extract special treatment from

Beijing for their home or governing regions. All the two Wangs could do, besides holding tightly on to local CCP control, was to make justified policies according to Beijing's targets and implement Beijing's will in accordance with the social environment of the region.

Firstly, with Wang Zhen's military support behind him, he confirmed that CCP leadership was unshakable and that Xinjiang could have regional autonomy on these terms. Actually it was he who in the first place turned down recommendations by 50 local minority elites on how the political transformation should proceed: whether to join the Soviet Union, become a province of the Chinese People's Republic or become an independent state. That was shown in his report to the central CCP in Beijing on 3rd August 1951 and in his speech in a special meeting of the CCP Xinjiang Bureau on 13th-19th April 1951, which is discussed in Wang's book (1999c). He managed to build a loyal personal network in the high elite committee to support his leadership (Table 5.1).

Secondly, he understood that if the CCP wanted effectively to consolidate power in this land remote from the Chinese heartland but close to Russian and Central Asian influences, the only way was firstly to hold back the fast speed of Chinese socialist political transformation in this Muslim region and to retain the essential characteristics of its Islamic society largely intact, for the time being at least. Therefore, socialist measures such as land reform, rent reduction and agricultural co-operativization were undertaken much slower, more cautiously and flexibly than in other provinces. Land reform and rent reduction were confined to arable districts to start with. Religious land and pastoral districts went untouched. There were no harsh actions against religious leaders, landlords and herd-owners and all ethnic democrats were protected (Wang, 1999c).

Thirdly, as far as he was concerned, efficient integration of the region into China would be a matter of social and economic benefits granted to local minorities in terms of local culture and religious preservation, the improvement of living standards and the maintenance of a harmonious society. He strenuously emphasized the need for good relations between Han and non Han populations by implementing Beijing's ethnic policies on showing respect for all nationalities, considering the political stability of minority regions', and minority cultural and

language reservation and economic development, as had been decided at the First National Congress on 20th September 1954. He required that all Han people had to show respect for indigenous culture, including language, religion and customs and made no attempt to change the religious-centred life of the Muslim people. Han cadres and workers had to be well disciplined and engage in self-criticism for their “Great Han Chauvinism” in order to maintain good relations with non-Han people and to sacrifice personal benefits to increase economic growth by settling in remote, hostile places (McMillen, 1979).⁵⁶ At that time most leaders posted in the minority regions handled relations with local minorities with great caution in order to avoid the rise of Han chauvinism and discrimination against ethnic groups. China’s Government Deputy Chair Liu Shaoqi in his report on the “Draft Constitution of 1954” clearly stated that it was not because the Han had “a comparatively higher political, economic and cultural level” that they could be superior to the minority groups; on the contrary, the Han should use their skills and knowledge to help minorities with the development of their culture, economy and politics⁵⁷. At the Xinjiang Party Congress of May-July 1957, Wang condemned Han chauvinism and advocated a “brotherhood” relationship with all minorities as a priority. He himself had developed a “father and son” relation with Tomur Dawamat, the son of a poor peasant Uyghur family (Toops, 1992: p.78).

Fourth, he reckoned that promoting economic prosperity and improving living conditions for the local people would have a more positive long-term impact on the willingness of Muslims to accept the CCP than indulging in harsh criticism of rich ethnic property owners for their exploitation of the poor. So, the integration of the minorities economically with China’s overall development became his major strategy. Thanks to China’s central planning system plus the rapport of Sino-Soviet relations, large-scale resources were attracted to the region. This kick started Xinjiang’s economic growth and provided economic assistance in terms of technicians and technology and financial aids. The stimulus for fast economic growth was also, alternatively, by keeping private plots in farming and offering material incentives and work points for economic production in the region (McMillen, 1979). Moreover, the XPCC

⁵⁶ Some of this narrative is from interviews conducted by the author in 2002 and 2003.

⁵⁷ <http://www.people.com.cn/GB/33831/33839/30513/30518/2568742.html> accessed in July 2005.

also made a great contribution to economic growth through the hard work and scarification of its members.

Xinjiang's economy thus made early, impressive progress. By the end of the first FYP, Xinjiang had large-scale modern industrial units, including 400 big or medium plants, an increase of 33 fold since 1949, and the total output value of industry had reached to 44.4 billion yuan, 65 times that of 1949 and 10 times higher than that of national average in the same period. In agriculture, grain production had reached 3 million tons, three times that of 1949, and cotton reached 58,000 tons, 11 times that of 1949. The region's agricultural production had not just achieved self-reliance but was also exporting products to China's heartland. The XPCC, with its large labour supply and semi-military operation, and funds provided by Beijing, helped to set up the first modern industrial plants for cotton textiles, steel and iron, flour and sugar processing, etc.. The construction work was carried out largely by Chinese labour.

The new government opened schools and colleges so that a higher proportion of the population than ever before was able to attend, for example 366,000 in primary schools in 1955, a 70 per cent increase on 1950 (Table 5.23). A group of advanced higher education colleges was established in subjects such as agriculture, medicine, mining and there were no fees and low entry scores for minority students.

Table 5.23 Numbers of Students in Schools and Colleges in Xinjiang in 1949, 1953, 1956, 1965

	1949	1953	1956	1965
Primary School	197850	356440	456657	1039027
High School	2925	18712	47619	121771
College	336	1714	2445	7740
	306 of which were minority	956 of which were minority	2112 of which were minority	3129 of which were minority
College Teachers	13	233	833	1624
	11 of which were minority	84 of which were minority	271 of which were minority	346 of which were minority

(Source: Wang, 1999b)

The majority of the non-Han population showed concern for the purity of their traditional society rather than the political significance of the XUAR. They were satisfied with the fast

social and economic developments triggered by the CCP and with the moderate ethnic policies that allowed them to continue their religious and cultural practices. Local Muslim-Soviet relations remained strong. The Soviets brought economic support but there was also political influence from the Russians, especially while Russian-supported leaders such as Burhan and Seypidin were still in power.

At first there was no opposition to the large numbers of Han immigrants, who settled in the XPCC. They were in three main categories: first there was a group of specialists such as oil engineers, accountants, nurses, statisticians, metal workers construction company managers, university professors and physicians; second a group of demobilised soldiers; and, third, a group of youth regarded as “rightist” intellectuals sent for reform by physical labour from education institutes in China’s heartland (Schwarz, 1963). They were seen as helping with shortages of labour and of the skills and knowledge lacking locally.

However, Wang’s “gentle but firm” manner in administration of the region put him in a dilemma between his choices as a political leader and as a rational administrator in China’s politico-determined system. Schurmann (1966) explains such conflicts between the Chinese Party leadership and administration in the pre-reform era: in order to achieve the goals based on their personal perceived ideologies, the leaders used the single Party system of political monopoly to attack middle level administrators and so run the government and the society against the grain of western notions of the legitimate administration of a state, as outlined in Weber’s theory. Such a one Party-state administration resulted in irrationality and disaster in governing the region.

On 31st July 1955 Mao reported on the problems of China’s agricultural co-operativization and ordered it to be speeded up. Wang was singled out for criticism, as having “small women’s feet” for holding up the socialist transformation of Xinjiang (Wang, 1999c: p.206). The Socialist Commune Movement, soon joined by the “Great Leap Forward” (GLF) in 1958, brought economic recession, but in Xinjiang, due largely to Wang’s moderate policies of holding back the co-operativization movement and retaining private plots, economic growth still showed an increase and the society remained stable. However, the GLF resulted

in a “Great Famine” caused as much as anything by 800,000 hungry peasants from China’s heartlands pouring into Xinjiang in 1959-60 alone, and these migrants were partially encouraged by Beijing and the XPCCs to make up the labour requirement (Schwarz, 1963). Because Xinjiang’s economic prosperity had been less affected by the GLF, it was especially attractive to the migrants. However, the local minorities saw these people as intruders, especially when the age-old discrimination among new Chinese immigrants towards minorities started re-emerging (Schwarz, 1963: p.70; Tyler, 2003: p.148). The pursuit of a socialist commune system in pastoral communities led to the destruction of Kazak herding groups, the loss of pastoralist properties and the inefficient management of pastoral resources by the communes. Resentment among minority pastoralists grew, especially among the Kazaks, towards the Han (Banks, 1999).

To make matters worse, deteriorating Sino-Soviet relations in 1960 caused the withdrawal of Russian technicians and cut off financial support to Xinjiang. Russian propaganda encouraged Uyghurs and Kazakhs to join the Soviet Union and assured much higher living standards than in China. This eventually led to 60,000 ethnic people fleeing to Russia in 1962, the so-called “Yita Incident” (Bovingdon, 2004). After a few border military clashes with Russia, the borders were sealed and all contacts between Xinjiang and Russia was cut off. Xinjiang was completely “isolated”.

Then, the following “Cultural Revolution” (CR) destroyed Wang’s carefully constructed administrative institutions in this sensitive region. Wang had constantly appealed to Beijing for cautious action toward Xinjiang in view of its frontier location, multi-minorities complexity, and sensitive political situation and he also gave a “cold” welcome in Urumqi to the Red Guards (RG) on their arrival from Beijing, but he himself was accused by leftists in Beijing as a “capitalist” and branded as ruling a “revisionist independent kingdom”, and soon removed from power to exile in Nanjing (McMillen, 1979: p.189-192). Despite Xinjiang later on being put under the protection of Prime Minister Zhou Enlai from severe deconstruction by the Red Guards, still a lot of minority cadres and religious leaders were criticised along with their Han colleagues, attacked and removed from power, including Iminov, who was Russian-supported. He had been commander of the Uyghur national army

in the “Ili Incident”, and was vice Chair of the government in Xinjiang at the time (Tables 5.1, 5.24).

Table 5.24 Xinjiang Leadership in 1965

XUAR People’s Government	XUAR Communist Party
Chairman : Seypidin Aziz (Uyghur, Ili)	1 st Secretary: Wang Enmao (Chinese, army)
Vice Chair: Xin Lanting (Chinese, army)	Secretary: Seypidin Aziz (Uyghur, Ili)
Guang, XXX (Chinese, central)	Lu Jianren (Chinese, army)
Panthan Sugurpaev (Kazakh)	Li Quan (Chinese, army)
M. Iminov (Uyghur, Ili)	Qi Guo (Chinese, worker)
Aisihar (Tatar, Ili)	Lin Bomin (Chinese, army)
Tomur Dawamat (Uyghur, Turpan)	Alternative Secretary: Tomur Dawamat (Uyghur, Turpan)
Tian Zong (Chinese)	

(Source: compiled from *Toops*, 1992)

On closer examination of the performance of Wang Enmao as Xinjiang’s leader, his style from 1955-1968 was “practical, on-the-spot experience” and conservative in integrating the region into Chinese politico-social development and “pursuing moderate and pragmatic policies” ... “without unduly provoking the sensitivities of the majority non-Han (and primarily Islamic) indigenous population” (McMillen, 1979: p.310; 1984: p.571). Despite being rooted in China’s political-determined administrative institutions, his leadership, emphasizing rational regional administration, made the CCP administration in this Muslim region successful in consolidating CCP rule, while also creating a harmonious social and prosperous economic development, thus satisfying most of the local population. McMillen (1979: p.312) reckons that Wang had achieved five-sixths of the integration of this non-Han region into China’s Republic by 1969. Wang had set a successful model of effective and efficient leadership and administrative institution in Xinjiang. This approximates to Weber’s rational-style for an administrator whose actions are separate from political interruption, not subject to the interests of specific classes, and which takes into consideration interaction with the social environment.

His success in governing the region was also interpreted as a politically strong leadership that was combined with two styles “legal” and “charismatic” authority. Weber thinks the modern bureaucratic administration needs a legal leadership to have authority to control and supervise the organisation for efficiency (Freund, 1968). In Wang’s case, being CCP GS and

the chief commander of the XMD legitimated his control overall and allowed him the scope for charismatic leadership.

During the CR, Long Shujin was the leader of a Revolutionary Committee (RC) of the region, an organisation replacing the XAPG and the CCP in 1968, and Seypidin and eight other members were vice chairs. The RC continued operating until the eve of reform in 1978. In 1973 Seypidin took over as chairman and he was also as First Secretary of Xinjiang's CCP. The Committee was expanded to 14 members, most of them Han Chinese (Table 5.25).

Table 5.25 Xinjiang Leadership in 1973

XUAR People's Government	XUAR Communist Party
Chairman: Seypidin Aziz (Uyghur, Ili)	1 st Secretary: Seypidin Aziz (Uyghur, Ili)
Vice Chair: Yang Yong (Chinese, army)	2 nd Secretary: Yang Yong (Chinese army)
Xiao Siming (Chinese, central)	3 rd Secretary: Xiao Siming (Chinese, army)
Song Xizhe (Chinese, party)	Secretary: Liu Xing (Chinese, worker)
Pei Zhouyu (Chinese, central)	Ismail Amat (Uyghur, Hotan)
Hu Liangcai (Chinese worker)	He Linzhao (Chinese, army)
Ruzi Turdi (Uyghur, peasant)	Song Xizhe (Chinese, party)
Zheng Jianhua (Chinese)	Zhang Shigong (Chinese, worker)
Ziya (Kazakh, herdsman)	Alternate Secretary: Lin Bomim (Chinese, worker)
Li Chuanjun (Chinese, army)	Sawdanov (Uyghur, army)
Li Zhaoming (Chinese, army)	
Tao Kaiyun (Chinese, army)	
Wu Zunlun (Chinese, army)	
Tomur Dawamat (Uyghur, Turpan)	

(Source: compiled from *Toops*, 1992)

Long Shujin (1917-2003) was appointed by Beijing and again he was a Han military veteran from central China⁵⁸, who had no practical experience of the northwest, let alone of a minority region. He worked along with the Beijing leftists and required a radical speed up of the integration of minorities politically and culturally into China without giving any consideration to Xinjiang's ethnic characteristics. Long made no attempt at an appropriately regional administration in terms of economic production and social unity, allowing the political movement to consume all of the institutions and resources that Wang Enmao had stored up. Ethnicity and custom were "backward and an obstacle to progress" and were criticised and attacked by the Red Guards. Any religion-related practices and independent activities were severely punished. Many mosques were destroyed and Muslim customs were

⁵⁸ Long was a military follower of China's Northeast FA headed by Marshal Lin Biao, who was considered by Mao as his successor at the beginning of the CR and then became Mao's rival at the end of the CR. Long's removal from power in Xinjiang was due to the death of Lin Biao in 1973.

forcibly changed in humiliating ways, including being made to raise pigs (Bovingdon, 2004). All private economic activities and work incentives were labelled as “capitalism” and were abolished. Two years of economic recession, 1965-67, proved this to be incompetence, although the Chinese press attributed it to bad weather. Long was removed after Beijing realised the consequence of his “wild” leadership and Seypidin appointed his successor.

Seypidin Aziz (1919-2003) was born in Atushi near Kashigar and had a modern educational upbringing. He went to Russia in 1935 for studies and was influenced by Russian socialism. After his return, he was elected First Secretary of the Tachen Uyghur Literature Committee and became a local political activist, for which he was put in jail. Soon after he was released, he joined the “Ili Incident” and worked in the government of the “East Turkistan Republic” as the Minister of Education. In 1946 he took on the same role in Zhang Zhizhong’s coalition government. In September 1949 he was invited to Beijing to join the first National Political Consultative Congress and was selected as a member of the National Law Committee, the National Security Committee and Central Ethnic Affairs Committee. He was appointed as the governor of the XAPG in 1955 after Burhan, and stayed in power until 1978. He is the only person so far of a minority origin to have been appointed as First GS of Xinjiang’s CCP and he was Party leader from 1973 to 1978 (Bo, 2004)⁵⁹. He stayed in power as governor for 23 years, longer than any Uyghur leader in contemporary history and worked for the Nationalist government, for the short-lived Ili government, and for the CCP. In the CCP government he collaborated with Wang Zhen, Wang Enmao and Long Shujin in the most turbulent periods, not to mention that he alone had been the top leader of the CCP and the XPCC.

Seypidin’s success in becoming the governor of the XUAR was firstly because his political hard line appealed to Beijing and he had shown his willingness to collaborate with the CCP; secondly because there was a vacancy for him since Beijing desperately sought a young Uyghur representative, politically reliable and capable of leading the government after a number of prestigious and influential Uyghur politicians from the “Ili Group” died in an air crash on the eve of 1949, and finally and also, crucially, because he was a member of the Soviet Communist Party with a strong political backup by the Russians. As a Uyghur, his

⁵⁹ My interviews were a valuable source of historical fact.

longevity of holding top political jobs in Xinjiang is explained by his decision to become a political rather than regional leader serving the interests of the state rather than of his homeland. He was seen to be willing to accept subordination to the domination of the CCP (McMillen, 1979) and to maintain the same political line as Beijing.

From the very beginning, Seypidin managed well as a governor, fulfilling his role as collaborative, obedient and implementing CCP decisions with executive skill. He knew that his close ties to the Russians would help him to become an ethnic representative, an active public figure and a model for Beijing's ethnic policies, and, in order to reinforce his political career, he also used these ties to serve Beijing by strengthening contacts with the Soviet Union. He paid visits there to seek economic support, for example by signing agreements over Russian oil and transport companies in Xinjiang under the new government in 1949-1957. Seypidin also spent more time in Beijing than Wang Enmao, to represent Xinjiang in various national and Party congresses and to promote ethnic policies as Beijing's spokesman (McMillen, 1979).

After Sino-Soviet relation deteriorated, Seypidin strengthened his bonds with Beijing and displayed a clear "political line" in anti-separatism, once again in tune with his political masters. His loyalty was eventually rewarded with the leadership of the CCP, the government and the military in Xinjiang after the peak of the CR has passed. According to McMillen (1979), Seypidin worked closely with Beijing's high elites and observed their internal struggles. As an outsider, he fully understood that to prolong his political career, his political choices and personal networking would be crucial. This is described by Lieberthal and Oksenberg (1988) as the "survival principle".

Seypidin's leadership and administrative style was mediated by strong political agency. Because of this, he could not or did not intend to act rationally in accordance with Weber's description of an ideal administrator, in a non-political performance. His style was created partially by Chinese politically determined institutions, and his own personal interests obviously did play a crucial part in his leadership. Once he had gained power as a leader for the CCP, government and the XPCC, he did not use it to pursue the interests of his fellow

people through regional administrative efficiency and rational leadership, for instance through economic development and attempts to improve living conditions.

Firstly, it was difficult for him to trigger economic growth since the entire country at that time was required to be involved in political movements rather than prioritizing economic production. Most economic activities, including transport construction and key industrial production had come to a standstill. China's centralised economic system and social chaos left no incentives for a region alone to manage its own economic growth. There was no foreign investment, no private plots, no trade with the outsiders, especially in Xinjiang where the borders were sealed, and the distance from China's centre turned Xinjiang into an economic "dead corner".

By 1973 Xinjiang's basic agricultural outputs of grain, cotton, cooking oil and sugar, had declined, to the point where even local consumption could not be met, and reliance was therefore increasing on imports from other regions, such as Shanghai. There were shortages in the state markets and urban residents were living on a strict ration system to obtain their basic needs from public stores. Xinjiang relied entirely on Beijing's subsidies to survive.

Secondly, Seypidin made no attempt to change the situation, though he could possibly have managed at least to encourage economic self-reliance by exploiting all of the well-established local economic units. All he did was to maintain the political line of the region in tune with that of the centre, ignore economic production, and constantly ask for large state subsidies to sustain Xinjiang by reminding Beijing of its strategic position. Beijing had to bail Xinjiang out by continually enhancing investment in capital construction. In 1974 this was more than five times that of 1955.

At the end of the CR, Seypidin was removed from power in Xinjiang and given a high but powerless post in Beijing. In the press he was accused of a close alliance with the "Gang of Four", thus holding back the economic and social progress of Xinjiang (McMillen, 1979, 1984; Toops, 1992). Although he had indeed developed close contacts with and supported the "Gang of Four", his outspokenness for his nationality contributed to his fall from the

power (McMillen, 1979). Early in the First FYP, he complained that Xinjiang had retained less revenue from state enterprises (20 per cent) than it should have done, and, together with Wang, he asked for more autonomy for the region (Lo, 1961). Seypidin had also attempted to ask in 1956 for an increase in the number of ethnic cadres, but was warned that “nativization” of the government would be regarded as “anti-revolutionary” (Lo, 1961; Bovingdon, 2004). He publicly suggested that Xinjiang had taken too many Han migrants and, as a result, he made enemies. From the start of the CR to 1973, China organised a third wave of population migration to the remote frontier regions, such as the west and northeast. These were mostly the urban unemployed and high school graduates, who were forced to leave home for rustication in poor areas to receive the “new-social education” ordered by Beijing. Xinjiang received about 1 million rusticated youths, including the radical RGs in 1967. After 1973, the majority of immigrants to Xinjiang were poor peasants, as the urban registration system of Xinjiang was comparatively easy for those people settling in the towns and cities. During the destruction of China’s Production and Construction Crop in 1975, he demobilised most units of the XPCC, and this also contributed to his downfall.

5.2.2 Xinjiang’s Leadership after the Reform

After Seypidin, Beijing appointed a Han leader, Wang Feng, previously the First Secretary of Gansu province, to head the CCP and government in 1978. But he didn’t stay long in the post because, firstly, he had no “on the ground experience in Xinjiang” and had not yet set up a network of personal ties to the province’s high authorities who might support him for his future career (McMillen, 1984: p.572).

Secondly, in 1980 there was a movement to correct the wrong-doings of the CR in the minority regions by improving their living conditions and allowing a revival of religious-led social activities to non-Han populations. Mosques were reopened and religious practice was allowed. The return of Arabic script enabled the minorities to read their traditional literature and re-establish their old ties. Transport connections between Xinjiang’s north and south were being restored in order to facilitate the economic improvement in the poorest areas

(McMillen, 1984). This all echoed the proposals of Hu Yaobang⁶⁰, after his visits to Xinjiang and Tibet in the summer of 1980, when he saw poverty and underdevelopment, for the removal of the many restrictions on ethnic societies and realising more autonomy for the regions.⁶¹

Early in 1980, a Uyghur drunk died in custody in the police station in Aksu, and this sparked violence between locals and rusticated Han youths in Kashigar, quickly escalating into a series of bloody anti-Han riots across the major cities of South Xinjiang. This conflict exposed the long-term discontent of local minorities with the massive Han immigration and stagnant economy, and also the discontent of the Shanghai youths with conditions in the region and with the prospect of unemployment if they returned home. It was reported that hundreds of civilians and soldiers were killed or wounded. After returning from the visit in Xinjiang, Wang Zhen and a few of the remaining “old veterans” argued with Hu over his proposals. Their argument was that if “you give (the Uyghur) autonomy, they will turn around and create an East Turkistan” (Yuan Ming, cited by Ferdinand, 1994b: p.276; Bovindom, 2004: p.21). Facing such chaos and lacking powerful control by a prestige leadership in Xinjiang, Beijing and the CCP under the leadership of Deng Xiaoping recognised that Wang Enmao’s “understanding but firm” leadership was effective in dealing with all kinds of minority affairs in Xinjiang (McMillen, 1984: p.571).

In October 1981 Wang Enmao returned to the CCP leadership in Xinjiang. Soon, in December, he gave special reports, both in the 5th People’s Congress and in the 4th Political Consultative of the region, in which he stressed that national unity was the priority for the province’s future. Using his old methods, he restored the CCP’s institutions in Xinjiang by reorganising and reunifying the party, governmental and military units. He brought back his old allies, reduced and downsized the slack, oversized government institutes; strengthened the military forces and consolidated the border defences. He also confirmed the strategic role

⁶⁰ Hu at the time was the youngest leader of the central CCP and eventually became GS of the CCP of China, 1984-1987. He was regarded as one of radical and contradictive reformers and his death triggered the “Tiananmen Incident ” in 1989.

⁶¹ Hu’s speech of 1980 is available on the Tibet Information Network, <http://www.tibetinfo.net>, accessed on 2nd March, 2004.

of the XPCC by turning it into not only the biggest economic production unit locally but also a semi-military force for suppressing any potential anti-Han separatist activities (McMillen, 1984; Wang, 1999c).

Secondly, Wang granted more power to non-Han cadres and promoted non-Han cadres, including Tomur, to the Party committees. He also gave considerable freedom to locals to practise religion and develop their Islamic culture. Classic and modern literature and art relating to minority culture and social developments reappeared. On an inspection tour of 26 cities, counties and XPCC units, factories and enterprises in southern Xinjiang, he criticised the increase of Han chauvinism during the CR but also required minority peoples to work hard by their own efforts. His attitude was echoed in a famous slogan: “Xinjiang’s minorities and Han cannot be separated” (Wang, 1999c: p.312). In early 1983 ethnic-Han relations were said by Governor Ismail to have “improved” (Toops, 1992).

Thirdly, he was determined to bring back economic prosperity and to improve the living conditions of all minorities. He advocated the economic reform that was being promoted by Deng’s party and he started changing the operating systems of factories and agriculture. He asked Beijing for its continuing financial support whilst at the same time advocating that the region should develop its own strengths by the exploitation of its rich resources (McMillen, 1984). Wang successfully adopted the responsibility system of family units, taking control of agricultural fields, grasslands, herds and production resources, and he promoted technological innovation in agricultural production, which stimulated growth. By 1984 Xinjiang had terminated its commune system and, the year before, it had ended the import of basic agricultural goods, achieving self reliance in grain, cotton, cooking oil and sugar. The output value of agriculture was increased by an average 9.7 per cent annually (Wang, 1999a). Along with the agricultural improvement, manufacturing industries were also able to increase their total output value, at a rate post 1978 of 14 per cent annually for light industry. Transport improvements ended the isolation of southern Xinjiang and linked its economy to the rest of the region. Private activities and trades were encouraged and abundant food and daily goods were available in the markets (Huang, Liu, Wu and Zhu, 1990; Wang, 1999a).

In October 1985 the government staged a large demonstration in Urumqi to celebrate the 30th anniversary of the foundation of the XUAR. Wang Enmao and Ismail both declared that the social and economic situation of Xinjiang had achieved stability and had developed since 1978 (Toops, 1992). This helped in Wang's decision, at the age of 72, to announce his resignation from the Party leadership and to join the Xinjiang Consultants Think Tank. He didn't withdraw totally from power until 1991, however, and, in fact, he continued to act behind the scenes.

In December 1985, the XUAR People's Congress announced that Ismail, appointed as the governor in 1979 and renewed in 1983 (Table 5.26), had finished his position as governor early and was to be re-assigned to a new job in Beijing and to be replaced by Tomur. At the same time it was announced that Song Hanliang was to be Wang's successor (Table 5.27). The former announcement irritated Uyghur university students in Xinjiang, who boycotted classes and marched in Urumqi, with support from 200 Uyghur students from Beijing Universities, who marched to Zhongnanhai⁶². The students' demands included no nuclear tests in Xinjiang, the strengthening of minority education, no one-child policy for minorities, and the retention of Ismail. In their view, Ismail was more educated than Tomur, and had served the interests of the Uyghurs better than Tomur, without total submission to CCP orders. They felt that Ismail, coming from Xinjiang's south, could fully understand and represent the Uyghur, more than Tomur, who came from the Han-influenced north (Toops, 1992).

Ismail Amat was born in 1935 in Hotan to a poor peasant family and his rise during the land reform of 1954 served him later on as a selected, politically reliable youth among others sent to the Central School of the CCP in Beijing to study advanced Marxism-Leninism. Upon his return in the early 1960s, he took a series of jobs from Depute GS of his county to the Deputy Director of the Department of Political Work in Culture and Education in the XAPG in Urumqi. He was recommended by Seypidin, but had less interest than Seypidin in personal ties with top authorities. He had had more education, better than other Uyghur leaders (Toops, 1992). As a follower of Seypidin, he became the number two Uyghur in power

⁶² Also from my personal experience.

during the CR (Table 6.25). After Seypidin’s removal, Ismail was appointed governor, which accounts for his inactivity in the CR and his lack of close relations to Seypidin (Toops, 1992).

Table 5.26 Xinjiang Leadership in 1984

XUAR People’s Government	XUAR Communist Party
Chairman: Ismail Amat (Uyghur, Hotan) Vice Chair: Tohiti Sabir (Uyghur) Song Hanliang (Chinese, academy) Tomur Dawamat (Uyghur, Turpan)	1 st Secretary: Wang Enmao (Chinese, army) Secretary: Ismail Amat (Uyghur, Hotan) Tomur Dawamat (Uyghur, Turpan) Qi Guo (Chinese, worker) Li Jiayu (Chinese) Janabil (Kazakh) Standing Committee: Tan Shanhe (Chinese) Zhang Sixue (Chinese) Amudun Niyazi (Uyghur, LunTai, middle school) Yang Huasheng (Chinese, army) Badai (Mongol) Wang Zhenwen (Chinese) Fu Wen (Chinese) Li Shoushan (Chinese) Song Hailiang (Chinese, academy)

(Source: compiled from Toops, 1992)

As the governor, Ismail was required to be subordinate and collaborative. Under Wang’s leadership, his job was to manage Han-minority relations, to develop the region’s economy and to be a spokesman echoing the policies of the CCP. Unlike Seypidin, he didn’t have pre-Communist Ili experience or Russian support, but he gradually created his own agency to become a local leader (Toops, 1992). Coming from Hotan, he fully understood the underdevelopment of southern Xinjiang and in 1984 recommended that this region should develop its economy as a solution to Xinjiang’s social instability and the sensitive relations between the Han and non-Han.⁶³ This was a response to Hu Yaobang’s and Zhao Ziyang’s comments on developing Xinjiang’s economic potential on their visits in 1983. He also, like Seypidin, publicly expressed concern about the rights of the Uyghur and on the “colonization of Han”. He pointed to the increasing population of Han in Xinjiang, and insisted that all Uyghurs should be offered jobs before Han migrants. That resulted in his downfall (Toops, 1992).

⁶³ Ismail’s speech in the National Unification Meeting of 5th May 1984.

Tomur Dawamat was born in 1928 to a poor peasant family in Toksun, in north Xinjiang. He was involved with the land reform and joined the CCP in 1952. He was sent to Beijing in 1956 for studies at the Central Nationalities College and, on his return, he was appointed as the first Party Secretary of Toksun County, the first ethnic man to be a Party Secretary in that region. He became the vice Chair of the XAPG in 1964 (Table 5.24). According to Toops (1992), Tomur's rise was strongly related to his hard, pro-Han line and his relationship with Wang Enmao. It is said that he was given his Communist education by a Han work team in Toksun and then selected by the party to be part of the new Uyghur elite, which was supported by Wang. He developed close bonds with Han cadres. During the CR, he stood up for Wang and lost power in the Party committee in 1976, although he stayed on in the agricultural office in Urumqi.⁶⁴ After 1980, on Wang's return, Tomur was restored to the Party committee and became the second highest ranking Uyghur leader in the region.

Table 5.27 Xinjiang Leadership in 1985

XUAR People's Government	XUAR Communist Party
Chairman: Tomur Dawamat (Uyghur, Turpan)	1 st Secretary: Song Hailiang (Chinese, academy)
Vice Chair: Tohiti Sabir (Uyghur)	Deputy Secretary: Tomur Dawamat (Uyghur, Turpan)
Jin Yunhui (Chinese, army)	Janabil (Kazakh)
Mao Dehua (Chinese, academy)	Li Shoushan (Chinese)
	Amudun Niyazi (Uyghur, Luntai, middle school)
	Zhang Sixue (Chinese, army)
Zhong Lianhui (Chinese)	Standing Committee: Badai (Mongol)
	Keyum Bawudun (Uyghur, academy)
	Tang Guangcai (Chinese)
	Xue Gang (Chinese)
	Huang Baozhang (Chinese, economy)
	Ren Guoyin (Chinese)
	Chan Dazhen (Chinese)

(Source: compiled from Toops, 1992)

In the view of many Uyghurs, Tomur was the very model of a Han-trained political leader, a collaborator who implemented CCP policies without criticism. In the troubles of the 1980s he stressed National Unity as the priority⁶⁵, which was viewed by the Uyghurs as putting him on the side of the CCP and the Han, and against them (Toops, 1992). After the 1990 rebellion in Baren Township, Tomur visited the site and blamed those Uyghurs who had provoked the violence, in contrast to Ismail who expressed understanding of the problems of the people in

⁶⁴ Fieldwork, 2003 and McMillen, 1984, p.230.

⁶⁵ Tomur, the report on the situation and tasks, 27th Dec. 1982.

this region of economic backwardness. Tomur developed personal ties to powerful men like Wang Enmao to assure his promotion. He stuck to Wang and the CCP and is viewed by Toops as the political reality of the pragmatic Uyghur leadership.

Tomur and Ismail fit two different models of native leaders of the region. Ismail tried to act rationally through activities orientated to the interests of the region, rather than engaging in politics on the lines of the “survival principle”, whereas Tomur’s strategy was very different. He survived, but at the expense of his fellow Uyghurs.

Song Hanliang (1934-2000) was born in Zhejiang province and graduated in geology from one of the universities in Shannxi. No sooner had he graduated in 1954 than he came to Xinjiang, following Beijing’s encouragement. He worked with Soviet specialists on the discovery and development of a new oil field in Karamay in 1957 and led research on Xinjiang’s oil reserves, oil exploitation and oil industrial development in Xinjiang’s Oil and Geology Bureau. He was made vice director of the Bureau and was rewarded by the country several times for his outstanding scientific research, before becoming the vice Chair of XAPG in 1983 and then the GS of Xinjiang’s CCP in 1985 (Table 5.27).

Judged from Song’s personal background, he obviously fits in the category of those technocrats who receive a science training and are experienced in the technical field but eventually work in bureaucratic administration to make policy for the region. His rise was due largely to his outstanding academic background tuning into the national campaigns that “science raises a country” and China’s bureaucratic administration reform after the 13th Party Congress in 1987. The reform called for the division of the civil service into three broad dimensions: a relatively small “administrative executive” with a leadership function; a much larger “specialist/technical” service; and a “supportive” or “service” function. There was a decentralisation of central Party control, the promotion of local CCP leadership and government functions, and the recruitment of technocrats into cadre teams (Burns, 1989; Liu 2001).

At first sight Song was equipped with qualities for becoming a regional leader and qualified administrator. He was highly regarded by both the Uyghur and the long settled Han. His leadership was imbued with social interaction, a sign of his experience as a Han who for a long time had lived and worked in Xinjiang and understood the region and non-Han Muslim people thoroughly. His academic achievements facilitated his talent, rationality and capability in making justified policies and administering the region. Under Song's leadership the restrictions on Xinjiang's ethnic groups were further removed and Islamic social influence and religious freedoms increased. Many new mosques were built; for example Yiecheng County had 775 in 1965, 352 in 1980, and 903 in 1990.⁶⁶ Religious leaders gained respect and influence.

Song took regional development seriously by promoting openness and concentrating on economic reconstruction. In December 1988, during a period of improving relations with the Soviet Union, it was Song who suggested to Beijing that it was time for the promotion of development in China's west. "Link Xinjiang with the Great Islamic Circle (GIC)" was a slogan suggested in this period. It was Song, no doubt due to the nature of his academic background, who advocated "Science and High Technology promoting Xinjiang" as a tenet in conducting the regional policy in Xinjiang's 7th and 8th FYPs. In the light of Xinjiang's natural conditions, Song suggested the application of high-technology for local resource industries, to increase the value of their products and for agriculture in order to reduce poverty, and economic restructuring to stimulate local productivity, openness and marketisation. Because of Song's efforts, Xinjiang established several science institutions and special teams to undertake resource surveys, make economic plans and recruit more postgraduates from the universities of central China to service Xinjiang's economic development and to counter the large numbers of highly skilled Han who had left the region since 1978. Song also recognised the importance of the private enterprises led by Wenzhou businessmen and others from the provinces of Guangdong and Zhejiang investing in remote

⁶⁶ Fieldwork, 2003

minority cities and towns. He formally expressed his thanks to the people from his home province for bringing economic productivity to poor areas⁶⁷.

Many Han saw Song as an incorruptible and down-to-earth Party Secretary, but he was viewed more as an economist and policy-maker than as a political leader and decision-maker. For instance, according to Beijing's ethnic religious reform, he gave freedom to ethnics for their practice of religion without clarifying and monitoring the practices, for instance of advocating Jihad against the Han Chinese and the CCP.⁶⁸ He understood the region and recommended effective solutions, but he was seen a weak political leader and lacked the power to help determine, monitor and finalise his plans, which obviously failed to meet the requirement of a "professional politician" in particular in a region like Xinjiang, in which political strength and administrative capacity share the equal weight in successful governance.

As we have seen, China's reform is partial and regionalised. Although many political institutional constraints over the economy have been removed or relaxed in most provinces, political restrictions over Xinjiang's government's performance, regional political administration, and even economic management, have been reinforced due to the increasingly violent anti-Han sentiment among the indigenous people, especially the Uyghurs. In addition, from 1978-1999, Beijing launched the "three-ladder-step" campaign and ignored western regions like Xinjiang in its preferential policies. Song's inactivity and lack of background ties meant a lack of powerful allies and Beijing paid little attention to his plea for policy preference. Without state backup in terms of financial support and institutional incentives for generating economic growth, Song's campaign was considered as theoretically correct but unrealistic and difficult to finalise.

The 1989 Tiananmen Incident created chaos in China and provided an opportunity for Uyghur independence movements. In May 1989 Han students demonstrated in Urumqi in sympathy with Tiananmen Square, and, at the same time, a march was held by Uyghurs

⁶⁷ Comments by a director of development and reform institute of Zhejiang, <http://www.cmgsi.com.cn/images/116/11932.htm>, accessed in Dec. 2004.

⁶⁸ Fieldwork, 2003

mirroring a protest by Hui Muslims in Ningxia province to express anger at the publication of a book, *Sex Customs*, which was said to “contain insulting misrepresentation of Islam”. The Muslim demonstrators eventually attacked, burned and bombed the CCP headquarters in Urumqi. Soon after, in April 1990, there was an organised, armed rebellion in Xinjiang’s Baren Township, Aktao County of Kizilsu-Kirghiz Autonomous Prefecture (10 kilometres south of Kashigar). Seven members of the armed forces were killed, including one Uyghur army soldier and one Han officer, and 100 civilians were injured, forcing the XMD to send in troops to suppress the riot.

The GS of China’s CCP, Jiang Zhemín, and President Yang Shangkun, accompanied by Wang Enmao, Song and Tomur, visited Xinjiang and Kashigar in 1990, and in 1991 they gave “urgent directives to restore order, rally the minorities under party rule, strengthen control and pluck by the roots the shoots of ethnic disunity and rebellion” (Harris, 1993: p.118). In such an unsettled situation, the 7th Xinjiang People’s Congress reasserted its principal aim of “national stability and unity” as the guide for its approach to regional development. In February 1992 during the Chinese New Year this was shattered when bombs went off in two buses in Urumqi, causing 14 casualties, followed in September 1993 by a series of bombs in Kashigar and Yining.

Song’s campaign was interrupted by this political instability. He proved to be incapable of controlling Xinjiang’s social unrest. He himself showed weakness and subordination in decision-making and a lack of charismatic leadership and determination in governing the region. He repeated the importance of the leadership of Wang frequently and seemed to imply his subordination to Wang’s domination. His speech in the 4th Party Committee Meeting⁶⁹ stated that Xinjiang’s CCP should make efforts to study the experiences of old comrades, especially Wang Enmao, who had mastered a high standard of Marxist-Leninist theory and who had experience in governing. Song also said that Xinjiang had to retain the socialist system in pursuit of its economic growth and stick to the CCP’s core leadership. In the shadow of Wang’s virtual power, Song’s government recommended profound reforms to

⁶⁹ www.xjjj.com accessed on 1st June 2005.

enterprise, the market economy, etc., but they inherited Wang's manner in the implementation of state policies, and therefore acted slowly, cautiously and conservatively. In 1985-1995, Xinjiang's economy, in comparison to the coastal regions, experienced a slow rate of GDP increase, less than the national average (for a full discussion, see chapter 7).

Song's leadership was "weak, indeterminate and lacked backbone" (Cheung, 1998b). Because of his political weakness, Song was unable to conduct the region's economic development toward the path he had identified of stretching the "parameters of central policy to the maximum latitude". In this regard, his leadership in managing regional economic reform was in a style somewhere between laggard and bandwaggoning (Cheung, 1998b). Bandwaggon leaders are "unwilling to adopt new policies or alternatively tend to operate within the confines of central policies" and "seldom deviate from central policy in the initiation and implementation of economic reform" (Cheung, 1998b). A laggard "does not favour change at all and is unwilling to depart from existing institutions or policies." ... and is "sceptical of market-orientated reform and clings to some of the Maoist policies such as collectivized agriculture or the planning system" ... and "acted conservatively because of their inability to adapt to the new political and economic environment" (Cheung, 1998b: p.26). His leadership style can be likened to the "eclectic modernizer", which is regarded as more suitable in the most successful coastal regions without political restrictions in the reform era (Liu, 2001). However, in a region like Xinjiang, such a style only produced failure.

In 1991, Wang Enmao eventually quit power and Song also had to resign in 1993 due to serious ill-health. The First Secretaryship of the CCP was taken by Wang Lequan⁷⁰, a native of Shandong, who had been appointed vice governor of Xinjiang in 1991.

Reflecting on Wang Enmao's leadership during the reform era, we can see that, after his return in 1982, he tried hard to re-apply his moderate leadership in order to restore social calm and to re-establish harmonious relations between the Han and non-Han. But, as China entered in a new phase of development, with political decentralisation and openness, his old-

⁷⁰ Recommended by Hu Jintao, www.chinesenewsweek.com accessed in Feb. 2004.

fashioned approach turned out to be inadequate and inappropriate. Openness led the door to be opened for isolated minorities to seek greater political recognition, and the policy of removing restrictions on religious activities and promoting ethnic culture and cadres, and improving living conditions, did not solve any of the fundamental problems. Wang's efforts did not go beyond the limitations of his own political ideology. This time his cautious and conservative manner in dealing with radical economic reform, for instance the need to transform socialist economic control over local productive sectors in the region, though having a political rationale, in practice served only to hold the region back from participating in all kinds of marketisation and achieving financial independence, and it had a negative impact on the local state, which lacked incentives to take up a dynamic economic role in China's reform. In addition, without Beijing's preferential policies and strenuous financial support, and without removing further institutional constraints in Xinjiang, Wang's strategy became invalid and his leadership, laggard according to Cheung's classification (1998b), became inefficient in governing the region. In addition, his dominance and influence over government undermined Song's rational administration and shaded Song's leadership.

In December 1995 it was formally announced that Wang Lequan had taken over the leadership of the CCP, as recommended by Hu⁷¹, and that Abulahat Abdurixit was to be made the new governor (Table 5.28). Tomur, like his predecessors, moved to Beijing after completing his full premiership.

Wang Lequan (1944-) rose from participation in "Rural Socialism Education" in his home region of Shandong in 1966-67 and spent more than ten years as the leader of an agricultural commune, a village revolutionary committee, and of the CCP of a village commune in the south of Shandong. From 1982 to 1988 he became Vice Secretary of the Shandong Youth League (YL) and at the same time he was trained at the Central School of the CCP in Beijing. During this period, he gained notoriety when he recommended to Beijing that a young disabled woman from Shandong should become a nationwide model of "outstanding self-supporting youth" in a campaign of Socialist Civilisation Education, advocated by the Central YL headed by Hu Jintao. He thus gained a "political bonus" for himself, and for Hu

⁷¹ Hu now (2006) is China's president.

too, and the personal connexion laid the foundation for his future career. After that, he soon became the CCP secretary of Shandong's sub-region in 1987 and then vice governor of the province from 1989 to 1991.

Table 5.28 Xinjiang Leadership in 1995

XUAR People's Government	XUAR Communist Party
Chairman: Abulahat Abdurixit (Uyghur, Yining)	1 st Secretary: Wang Lequan (Chinese, Shandong)
Vice Chair: Wang Youshan (Chinese)	Deputy Secretary: Tomur Dawamat (Uyghur, Turpan)
Zhang Yuechuan (Chinese, Jiangxi)	Abulahat Abdurixit (Uyghur, Yining)
Wuber Abdula (Uyghur)	Janabil (Kazakh)
Li Donghui (Chinese, settled in Xinjiang)	Jing Yuhui (Chinese, settled in Xinjiang)
Aishati Klimube (Kazakh)	Keyoumu Bawudun (Uyghur, academy)
Jahemijit Naser (Uyghur)	Zhang Wenxue (Chinese, Sichuan)
Yusub Asa (Uyghur)	Standing Commit: Pan Zhaoming (Chinese)
	Wang Chuangyou (Chinese)
	Hailijiemu Slamu (Uyghur, female)
	Li Fengzi (Chinese)
	Abdreyimu Amit (Uyghur)
	Zhang Yuechuan (Chinese, Jiangxi)
	Chen Deming (Chinese)
	Wu Dunfu (Chinese)

(Source: *Xinjiang Year Book*, 1996)

Wang was transferred from his home region to the west in the rotational nomenclatura system of China's cadre training, which aids Beijing's top-down control and prevents any localism of leadership (Edin, 2003). In addition, such geographical transfer at the same administrative level ensures the training of reliable provincial cadres, who might be destined to move up to Beijing in future on the hierarchical ladder of the CCP (Edin, 2003).

Wang took the leadership at the time when violent separatist riots, mainly led by Uyghur, were on the rise in Xinjiang. In 1996 and 1997 a series of bus bombings took place in Beijing and Urumqi during the traditional New Year, at the time of the death of Deng Xiaoping. Hundreds were killed and wounded. Shortly after, there was a series of assassinations targeting local Han and Uyghur cadres and those minority religious leaders close to the Han.

Wang, in response to a central instruction, determined to extinguish all violent movements and stressed that the major danger to Xinjiang's instability was separatism and so it was necessary to 'strike hard' against any such nationalism. Wang's "strike hard" campaign was

approved by Beijing as a strategy to be associated with international anti-terrorist policy in central Asian countries. This had been initiated in 1996 when the Shanghai Cooperation Organisation was established, initially with five members - China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan - later joined by Uzbekistan, to sign a treaty for a mutual tension-reduction and security. After the 11th September 2001 attacks in America, China negotiated with the US to add numbers of East Turkistan terrorist organisations to the list of recognised international terrorist groups.⁷² Since then, the campaign of “anti-terrorism and anti-separatism” has been promoted on a large-scale and there is no doubt that it has furthered China’s geopolitical objectives.

Restrictions on religious activity have been reinforced since Strike Hard. There was a slow down in mosque construction and, according to unofficial reports, some informally permitted mosques have been demolished. The government now closely monitors and ‘guides’ the activities of Islamic religious leaders (imams). From March to December 2001, the government implemented an imam “patriotic re-education” campaign in Xinjiang. They were required to attend 20-day sessions to study patriotism, Communist Party ideology, and how to combat separatism.

Wang became a member of Beijing’s CCP Central Committee in the 15th Central People’s Congress (CPC) and was then promoted to be one of the 25 members of CCP’s Politburo in the 16th CPC in 2002. This makes him the highest ever ranking Xinjiang politician in the CCP hierarchy. It implies that Beijing has put stabilising the west, including Tibet, at the top of its priority list. Wang Zhen, Wang Enmao and Song had all appealed to Beijing to deal with Xinjiang’s instability in the 1980s. However, they had no means of getting Beijing’s attention until the violent riots escalated. Wang’s “Strike Hard” campaign came just in time and won him another “Political Bonus”.

His political campaign has obviously irritated the Uyghurs, though their anger is concealed. Even some Han think that overstressing separatism and terrorism will turn the minority

⁷² <http://www.whitehouse.gov/news/releases/2001/10/20011019-4.html>, accessed on 16th June, 2004.

further away⁷³. Rather, improving relations between minorities and Han would be better achieved by social integration and regional economic development. But, “Strike Hard” has come to play an increasingly dominant role, as seen in one of his speeches in the spring of 2005, in a meeting of Xinjiang’s Political Consultative Committee: “Xinjiang’s top task is not economic development but anti-separatism. It is wrong to presume that only economic improvement will persuade the separatists not to act. We must clear up any separatism, from root to shoot.”⁷⁴ In guiding Xinjiang’s regional economy, in 1996 the province’s 9th FYP revealed that the region’s economic development would be centralised by building up two bases, oil and cotton, Wang’s new economic policy of “one Black and one White (one Red)” (BW(R)). He presumed that the region would benefit from a concentration on massive production of these two core products, although “one Red”, the tomato, had to be added in the 10th FYP of 2001 after a slump in cotton sales in 1998.

Wang has switched away from his predecessors’ policies, and, by following Beijing’s orders so closely, he has displayed the simplicity of his governance and politico-orientated leadership, which has over shadowed his administrator role, another crucial part of efficient leadership for Xinjiang. Wang’s leadership is subject to political priority as against Weber’s rational, ideal-style for administrative efficiency. It is not surprising to see the disapproval of his economic policies by economists and moreover complaints about his political policies, not only by the non-Han population.

The “BW(R)” policy and its implementation was criticised by many researchers as unrealistic, unjustified and superficial, ignoring the region’s economic and environmental conditions and the context of national market economic transition (see the detailed discussion in Chapters 6 and 7). Xinjiang’s heavy SOE-domination, especially in the most productive oil sector, implies no protection for local property rights and the extraction and export of local wealth. This in turn provides no incentives for the locality to pursue economic growth through the completion of self-reliance. Lu (2003: p.634) clearly states that such policies make the sector (state) rich but the region poor. Furthermore, the policy also creates yet more

⁷³ Interviews, 2003

⁷⁴ www.chinanew.com, 16:00 on 14/01/2003, accessed on 18th April, 2005.

social unrest as the local minorities see “resource-exploitation as a drain on their regional wealth for the sake of the east’s prosperity.” In addition, many Han have complained that since Wang gained power, he has given many benefits including tax exemptions, special preferential policies on bank loans and land rents specifically to the enterprises from his native region, which were seen by Xinjiang’s people as very non-Xinjiang-oriented regionalism.

Wang’s prominence nationally, supported by Beijing, has meant that criticism of his policies has been muted. The context of the Western Development Programme (WDP) (1999) provides an institution continually to allocate large investments to sustain Xinjiang’s economy, to help him with “Strike Hard”, and to bail him out of his incompetence in steering the local economy. His priorities for the Strike Hard political campaign have been institutionalised and his political leadership is even more secure.

In summary, judged from Wang’s background and promotion experience, he is a highly skilled Chinese CCP politician, whose ability to enhance his own political career was developed from his skilfully established personal ties with China’s high authority elites and from his clear, central political line, which by no means makes him a skilled regional administrator, or an effective policy-maker. His attempts at unifying this multi-national society have been non-tactical, though certainly radical in his harsh “Strike Hard” campaign, without realising that his tough stance will only control violence and separatism temporarily and that in the long-term it might be counterproductive.

Abulahat, the new governor from 1994 to 2003 after Tomur, was born in Yining to a Uyghur family in 1942, so most of his upbringing was in socialist Xinjiang. He graduated in 1965 from Xinjiang’s Industrial College in electronic gas studies and soon after he was offered a job at the Institute of Xinjiang’s Construction and Survey Designation. He worked there as an engineering technician. By 1980 he had risen to be the vice Director of the institute and then the vice Director of XUAR’s Planning Commission in 1983. In 1991 he became vice governor of XAPG and then governor.

Abulahat's should be seen as a "pragmatic Uyghur Leader", who is regarded by many Han as gentle and cautious with a "low ethnic nationalist mood", a recognised mark by Beijing for obedience to the political line in tune with Chinese political requirement for an ethnic leader. This can be explained by his experiences of living in a Chinese-dominated community since he was 19 years old and working for a long time in an academic institute dominated by non-political Han, thereby understanding the philosophy and principles of dealing with Han and working out a survival strategy. His selection and promotion to be leader of the region was due largely to his being collaborative and tolerant, which is specifically required for undertaking the job of governor.

Abulahat managed his post well, in particular under the domination of Wang Lequan's leadership. He had not only had little power but also few opportunities to express his own opinions. All he could do was just to switch Wang's emphasis slightly by emphasising Xinjiang as a stable place for investment, which was somewhat at variance with Wang's report of 1,000 people being arrested for participation in terrorist activities.⁷⁵ Many Uyghurs called him a Han puppet, as they had done with Tomur, Ismail, and others, jeopardising Uyghur interests to benefit his own career.⁷⁶ Abulahat is again recognised by his people as a political leader rather than a regional leader standing firmly for his region.

On the 1st Sep 2001 at the ceremony of Urumqi Trading Fair, after Wang Lequan's speech addressing the region's security, where he claimed that "(A)lthough national separatists and religious extremists have never stopped their efforts for launching destructive activities, their efforts never affect Xinjiang's stability...", Abulahat responded rather differently. According to him, "the struggle between splittism and counter-splittism has never stopped in the history of Xinjiang. At present, society is stable and the economy is developing at a high speed. The situation of Xinjiang is better than ever in history."⁷⁷ Nine days before 9/11, he told a Hong Kong newspaper report that "by no means is Xinjiang a place where violent and terrorist accidents take place very often." He invited more investment from Hong Kong. But on other

⁷⁵ <http://www.wsws.org/articles/2002> accessed in July, 2005.

⁷⁶ Fieldwork, 2003

⁷⁷ <http://216.239.59.104/search?q=cache:Gqnlf49D8MJ:www.mail-archive.com/multi-1%40taklamakan.org/msg00861.html+Abulahat+Abdurixit&hl=en> accessed in May 2005.

occasions he has had to stress Xinjiang's separatist tendencies and in April 2001 he told the *Xinjiang Legal Daily* that the Strike Hard campaign in Xinjiang would specifically target "national splittists," "violent terrorists," and "religious extremists." In January 2002, Abulahat announced that artists, writers, performers, historians, and others who advocate separatism through art would also become targets of Strike Hard.⁷⁸ In 2003 he safely completed his full term of office and his reward for his "yes-man" approach was a new post in Beijing.

In summary of section 5.2, in examining the performance of Xinjiang's CCP or governmental leaders in governing the region, we have seen that their leadership has shifted towards a more politically-orientated and central-state-directed approach and away from rational and rule-based practices. This is due to the priority of the single party state on political administration and especially its worries about Xinjiang's ethnicity and violent separatist actions over recent years. As a result, the CCP has further entrenched, not only its Han-led super authority over the institutions and leadership of the region, but also the performance of the leaders themselves in focusing on political administration. This can be seen especially in the leadership of the latest CCP leader, Wang. The power of local Uyghur leader as a governor of the autonomous region is institutionally weakening. On this basis there seems to be no immediate hope for the kind of rational administration based on non-political attachment, emotionless and impersonality but rule-based legalisation, as described by Weber.

In considering Xinjiang's special features and the nature of Chinese political institutions, efficient government of the region requires a GS such as Wang Enmao, who understands the region and creates an image of himself as a local leader defending the region, with the capability to balance his multiple roles and make policies that exploit the opportunities in the Chinese reform, and with the political and economic capital to bargain with Beijing. So far, no such leader, except Wang Enmao himself in the pre-CR era, has yet come forward.

⁷⁸ <http://www.cecc.gov/pages/virtualAcad/uighur/xinannrept02.php> accessed in May 2005.

Our conclusion from this chapter must be that Xinjiang's government itself has become part of the problem rather than part of the solution for the province's economic transition. Such a government cannot act in the required dynamic, authoritative role to steer the region out of its traumas and toward a respectable prosperity and harmony. The solution is connected to China's partial reform. Economic reform without the parallel political reform is not a strategy that will work in Xinjiang, and the present unbalanced mix of policies is holding back economic reform, as predicted by Kornai and North. This chapter has addressed many of the problems of Xinjiang's local government and the causes of its incompetence and inefficiency and of its poor leadership in managing the economic growth and facilitating reform from the politico-orientated organisational construction. This supports the core argument of the thesis that partial reform is not ideal and that it may ultimately create further fundamental problems, which Chinese reformers will have to solve sooner or later.

Chapter 6 Local Government, Financial Management and Regional Enterprises

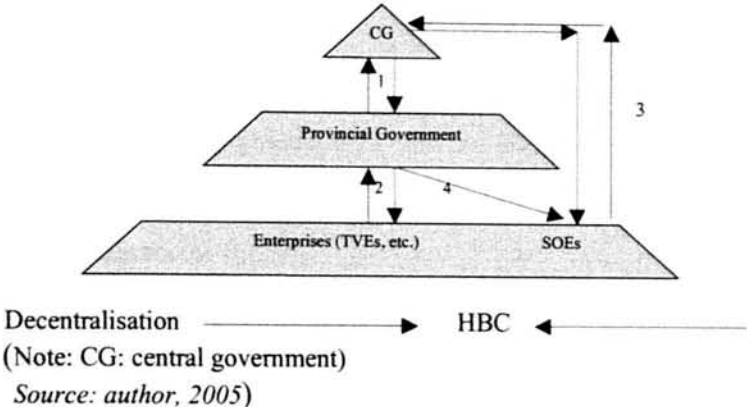
As we discussed in chapter 2, China's reform decentralized responsibility for the regional economy to the local state. Scholars, including Yang (1994), Oksenberg and Wong (1991), and Tong (1989), have emphasized the importance of fiscal decentralisation and its dynamic means of granting real power to the local state. In the words of Yang (1994: p.63), the implication of fiscal decentralisation is to reduce central intervention, in order to "stimulate the initiatives of localities". Given that this thesis places particular emphasis upon the local state, we are interested in the amount of power delivered by the series of fiscal reforms, in any new capacity in producing policies, and in the extent to which performance has changed in managing the local economy.

In this chapter we will, first, examine China's fiscal reforms and their impacts on the financial behaviour of local government. Second, by examining the financial budget and revenue productive sectors, we will address any defects in the financial management of the region and the response of local government to the defects, and seek causes in relation to property rights and incentives for flexibility in local government financial and bureaucratic behaviours. Therefore we will return to the theoretical debate about the characteristics of China's institutional decentralization and the consequences for the regional economy.

In their theory of federalism Chinese-style, Qian and Roland (1998) use a three-layer hierarchy to reveal the relationship between the government's incentives for hardening budget constraints (HBCs) and the local desire for decentralisation of fiscal authority through reconstructing and privatizing locality-based state-owned enterprises (SOEs) in response to central HSCs (Figure 6.1). In general, since the decentralisation, local and central governments have acted against each other in securing their own budgetary grants that drive the two actions taking place: the introduction of HBCs from the centre to the localities, including locally and centrally state-controlled enterprises; and bargaining for more fiscal decentralisation from local government and enterprises to the centre, as shown in paths 1 and

3 of Figure 6.1. The same two actions take place too between local governments and locally based enterprises, as shown in paths 2 and 4.

Figure 6.1 The Path of Decentralisation and HBC in China



As we know, China’s coastal economy is dominated by township and village enterprises (TVEs) and other semi-private firms, in which property rights were declared during the decentralisation to be under the local government domain. So the local state in that part of the country has gained power by winning financial independence through revenues from well developed non-state sectors; and it also now has incentives to discipline its own financial management and act against control from Beijing, although the centre has also gained incentives through its HBCs over such localities. The decentralisation and the HBCs take place simultaneously between the central and local states and then between the local state and enterprises, displayed in paths 1, 2 and 4 in Figure 6.1.

However, in the inland regions, any large local economic enterprises are predominantly SOEs, in which the property rights, especially of industries that are strategically significant, are still held by the centre. Here the actions of HBCs and fiscal decentralisation have taken place directly between the central state and the SOEs, bypassing the provincial government (path 3 in Figure 6.1). As a result, not only are there difficulties in generating enough income for the regions where local revenues are entirely dependent on those enterprises, but also their local governments gain no actual power from the development of the enterprises seen as a financial independence and autonomy and therefore are not empowered to act like their

coastal counterparts. Consequently their competence in making decisions about steering local economic development is limited. Without efforts made by local actors, a local economy cannot achieve its best, according to Hayek (1945). Instead there are perverse incentives for the central government to use soft budget constraints (SBCs) to bail out poor regional economies and to ignore or excuse the poor performance of local governments.

These SBCs, as described by Kornai, mark out a major problem in socialist economies because they are seen as causing shortages for the entire society. SBCs take place when the central government, for political reasons, protects enterprises or low levels of public administration from their financial failures, based on the principle of a trade-off between political consequences and economic costs. As a result, these enterprises indulge in state financial protection and thus continually perform badly and don't develop proper financial discipline. China's partial and gradual economic transition, without a parallel political institutional reform, has been criticized by Kornai (1990, 2000) as continually laying the ground for the occurrence of SBCs, which in his view will therefore hold back the economic transition. In general terms, the problem is also identified by North (1990) as a failure of the state's credible commitment to markets.

The SBC syndrome is very relevant when considering China's financially deficient western provinces, which are dominated by large SOEs but also have complicated societies with multiple ethnicities present. The capability of these regions' governments to manage their local economic growth is restricted, not entirely because of a low competence of the institutions of government, but because of lack of institutional incentives to release the talent of the local state as a result of the partial nature of reform.

Qian and Weingast (1997) have suggested that a solution for the tension between the commitments of the government to produce public goods and also to preserve market incentives is to apply a decentralisation from the centre to the locality. They argued that government, in order to preserve these market incentives, needs, on the one side, not to extract too much wealth from the locality and, on the other side, to punish economic failure.

The former, according to North (1990), is the problem of “state predation” and the latter is the problem of Kornai’s SBCs.

This chapter borrows Qian’s and Roland’s (1998) three-layer framework in order to argue that China’s partial reform leaves the central government continuing to hold the ownership of the profitable enterprises of Xinjiang, thus strangling market forces but also encouraging the draining of wealth and resources to from the region. It leads to SBCs and “state predation” operating both at the same time. As a result, the locality has lost initiatives and the local government has “no incentive to take risks and make efforts”, leading to a vicious circle of inefficient local government and poor future prospects.

6.1 Xinjiang’s Financial Performance in China’s Fiscal Reform

6.1.1 Xinjiang’s Financial Performance before the Reform

Before 1980, China’s fiscal system could be characterised as having been centralised, in line with the centralised banking and investment systems of the centralised planning politico-economic system. There was centralised revenue collection or centralised fiscal transfer. That is, all taxes or profits were remitted to the central government and then transferred back to the provinces according to expenditure needs approved by the centre, sometimes called “eating in one kitchen” (*yi zhao chi fan*).

The establishment of such a system, understood as the state’s fiscal management and budgeting process and therefore a key, integral part of China’s command economic institution, enabled the centre to achieve a balanced development and to distribute and channel national resources to targeted regions.

In this period, despite adjustments made following a few economic crises, the major features of the fiscal system were as follows (Oksenberg and Tong, 1991; Ma, 1997; Dai, 1999; Li, 2000; Wei, 2000b; Li and Yie, 2001):

- 1) All local revenues were remitted to the centre.
- 2) All local expenditures were distributed by the centre.
- 3) There was no correspondence between revenues and expenditures.

The relations between central and local governments may be seen in the implementation of the system: the centre could either restrict or increase provincial power by tying provincial spending to arranged expenditures or by providing incentives to provinces from the extra-budgetary funds or from setting revenue-sharing rates specialised to particular regions, according to its own interests.

The problems that resulted from this system may be summarised as follows:

- 1) The national stability and regionally equalised development were administratively “manipulated” through the centre using the centralised fiscal system. All resources and investments were transferred horizontally from region to region and vertically from sector to sector without concern being given to locality and market rules and without well-coordinated adjustment systems, and, as a result, the regional economies were subordinated to national events. Consequently, the local government’s power to direct regional productive factors and economic growth was seriously undermined.
- 2) Much of the revenue transferred was wasted in inefficient projects or in ineffectively generating economic growth in budget-deficit provinces at the expense of budget-surplus provinces in which the necessary funds for regional economic growth were lacking.

From 1950 to the eve of the reform, Xinjiang’s financial administration was the same as other provinces under the centralised control of financial institutions, though, in considering its historic underdevelopment, multi-minority population and political autonomy, Beijing had granted not only considerable financial autonomy to the region, so that Xinjiang’s autonomous government could retain all financial revenues except for the custom tax, salt tax and incomes from all SOEs, but also an institution of financial subsidization specifically designed for economically-lagging minority regions like Xinjiang and Tibet, etc., with the aim of generating fast economic growth in those regions. It was seen that, although the centre

determined Xinjiang's budgetary expenditures and retained the budgetary surplus, the centre also covered its financial deficits. Moreover, with regard to minority regions' inheritance of historical economic underdevelopment, in 1955 the centre set up a special fund, a form of institutionalized subsidy, for these regions. It was indicated in "the instruction of the State Council (SC) on the draft of state budget of 1956" that there would be an extra fund set at 2-3 per cent of provincial expenditures in a budget for each region and province, and 4 per cent for Xinjiang and Tibet. In 1963 the SC again granted a new preferential policy in "the draft of improving minority regions' financial administration", in which Xinjiang and other minority regions could retain all revenues and budgetary surpluses, receive extra funds 2 per cent higher than other provinces, and extra mobile funds as 5 per cent of budgetary administration fees. They also received extra subsidies from the state and tax exemptions or reductions in tax payments for local minority enterprises. Despite the destruction caused by the Cultural Revolution (CR) in the period 1965-1977 and its resultant chaos in China's financial administration, Xinjiang and Tibet remained on this state financial lifeline and enjoyed large fund transfers by the state to subsidize fully their financial management without worrying about budgetary constraints.

Under this institutionalized subsidy, Xinjiang's finances have operated with increasing deficits but with no proper system to discipline her financial behaviour. Although the province achieved large revenue increases in the first decade of communism, rising from 22.18 million yuan in 1950 to 633.12 million yuan in 1960, an annual rate of increase of 42 per cent; however, as a result of massive infrastructures and industries constructed to improve the local economy, expenditure also rose, from 66.96 million yuan in 1950 (leaving a deficit of over 40 million yuan) to 958.37 million yuan in 1960 (a deficit of over 300 million yuan), an annual rate of increase of 38.4 per cent. From 1962 to 1978 there was a continuous economic recession in the CR, during which financial revenues increased only modestly at a growth rate of 16 per cent annually. In detail, in 1961 and 1962 revenues declined by 46 per cent and 18 per cent, followed by 36 per cent annually during the first three years of the CR. From 1972 to 1975, the rate of decline was 39 per cent annually, affected by the Third Front Programme (TFP), although in the same period expenditure continued to grow at 11.7 per cent annually (Figure 6.2). So, even in the 1950s, Xinjiang's

of the minority regions, supports our idea that it was a combination of the financial institution and preferential policies that gave rise to the incapability and slackness of these governments in managing local economic growth.

On top of this, the central state also extracted any surplus revenue and left the local state with no incentives and no real financial power. Even the growth of the 1950s was manipulated by Beijing and “transactions were not entirely one-way” (Lo, 1961: p.95). According to Lo’s research (1961), in 1959 Seypidin complained in his report on Xinjiang’s achievements, that Beijing had only returned 20 per cent of the taxes paid by Xinjiang’s SOEs. This is viewed by the Uyghurs not only as a drain of their wealth achieved from their own sources but also a means of faking the autonomy promised to them in terms of financial self administration. This wealth extraction, labelled by North as a problem of “central predation”, along with Beijing’s subsidies created a “self-contradictory” double effect in the local politics of inertia and dependence.

6.1.2 Xinjiang’s Financial Behaviour after the Reform

After 1978, a series of changes in fiscal and financial administration took place, especially during 1980-1984, echoing the national economic reform of 1978. Based on preliminary experiments of adjusting total remittances to the centre, by revenue sharing between particular provinces and the centre, a nationwide reform of fiscal policies and systems resulted in the decentralisation of revenue and expenditure responsibilities in a revenue sharing system. That is, the centre and provinces could share increased revenues, and the provinces could decide their own expenditures, which were to some extent linked to revenues. “Eating in separate kitchens” (*feng zhao zhi*)⁷⁹ was the term used to describe the character of this new system.

The essential elements of the new fiscal system were as follows:

- 1) The revenue sources were divided into three sorts: state-fixed revenue from the state-owned enterprises that were levied by the centre; local-fixed revenue levied locally;

⁷⁹ The term was, after it first appeared in China’s newspapers, broadly used in all research books or articles to mark this specific reform.

and shared revenue that would be shared between the centre and localities according to agreed rules. The shared revenue referred to the income of local enterprises that were directly administered by the SC.⁸⁰ The provinces could retain increased profits mainly from the third revenue source at a four-or five-year fixed rate.

- 2) The expenditures were classified into central and provincial. The localities could decide their expenditures according to budgets.

In addition, official government budgets appeared in two forms: budget and extra-budget (Wei, 2000b; Wang and Hu, 2001). The difference between budgetary and extra-budgetary revenues is that the former is collected by the Ministry of Finance but the latter is collected by government departments as fees. The establishment of China's special "extra-budget" has an aim of providing a small flexible fund outside budgets for localities and enterprises, and their origins can be tracked down to the early days of communist China. Over the decades extra-budgetary funds have expanded gradually, generated by several types of fiscal power decentralization (Wang and Hu, 2001). Logically, extra-budgetary expenditures should be accounted for in the centre's total expenditure (Zhang and Zhou, 1997). The extra-budgetary revenue consists of three components: income managed by local government; fees collected by the largely non-economic units of government; and retained earnings shared between firms and their supervisory agencies. These extra-budgetary revenues are used to finance road and building maintenance, education and scientific research, etc.. Apart from the official budget, there is an off-budgetary revenue and expenditure that is decided by government units, particularly at township and village levels of government, without the authorization of the central or provincial level governments (Ma, 1997).

The new fiscal system was implemented accordingly:

- 1) Guangdong and Fujian were permitted a fixed sum remitted to or retained from the centre for five or four years, retained large savings from expenditures that thereby increasing revenues, and enjoyed great fiscal autonomy.

⁸⁰ Before 1980 China's SC directly controlled enterprises took up a small portion (3%) of the total 83,000 public industrial enterprises, compared with other socialist countries (Wong, 1986b).

- 2) All minority autonomous regions received large transfers from the centre, apart from retaining most sums collected locally as well as increased revenues.
- 3) All other provinces shared revenue with the centre at varied rates specific to each province. However, shared and fixed rates were determined by the centre.
- 4) As a result, approximately 80 per cent of the shared revenues were remitted to the centre and 20 per cent retained in the localities.

The new fiscal reform decentralised financial power and generated local enthusiasm to some extent. Thus Guangdong gained great financial incentives for generating economic growth under the new system including a new fiscal policy especially preferable to her. However, central revenue was declining and some rich regions, such as Shanghai, Beijing and Tianjin still remitted a large portion of local revenues, and they were major sources of central revenue (Table 6.1) (Li, 2000). As a result, the centre suffered a deficit in collecting revenues and provided incentives that weren't shared fairly across the country.

So in 1988, along with the deepening of China's transition to a "socialist market economy", the third new reform of the fiscal system was launched and the new fiscal systems were classified as six types (Ma, 1997; Wei, 2000b; Li, Yie and Wang, 2001):

- 1) Increasing revenue sharing at a certain growth rate (10 localities including Zhejiang province) (*shou ru di zeng bao gan*).
- 2) Fixed quota remittance without an annual adjustment (three provinces including Shanghai, Shandong) (*ding e shang jie*).
- 3) Fixed quota remittance with growth adjustment (three provinces including Guangdong) (*shang jie e di zeng bao gan*).
- 4) Fixed rate of revenue remittance but rates vary from region to region (three provinces) (*ding e feng chen*).
- 5) Fixed rates of revenue remittance with growth adjustment (three localities including Beijing) (*ding e feng chen jia zeng zhang feng chen*).
- 6) Fixed central subsidies (ten mainly minority provinces including Xinjiang) (*ding e bu zhu*).

Table 6.1 Revenue-Sharing Rates of China's Provincial Units 1980-1983 (% , billion yuan)

Province	Arrangement	1980	1981	1982	1983
Beijing	SOR	+28.1	+26.95	+35.49	n.a.
Tianjin	SOR	+30.6	+31.07	+34.92	n.a.
Shanghai	SOR	+8.6	+8.46	+10.51	n.a.
Hebei	DR	+27.2	+27.2		
	SOR			+67.5	+63.5
Shanxi	DR	+57.9	+57.9	+75.4	
	SOR				+82.6
Liaoning	SOR	+30.1	+30.0	+30.0	+34.2
Jiangsu	SOR	+39.0	+37.0	+38.0	+35.7
Zhejiang	DR	+13.0	+13.0		
	SOR			+56.0	+51.8
Anhui	DR	+58.1	+58.1		
	SOR			+77.0	+76.15
Shandong	DR	+10.0			
	SOR		+48.9	+48.9	+51.5
Henan	DR	+75.4	+75.4		
	SOR			+82.0	+77.8
Hubei	DR	+44.7	+44.7		
	SOR			+69.0	+63.8
Hunan	DR	+42.0	+42.0		
	SOR			+75.0	+70.3
Sichuan	DR	+72.0	+72.0		
	SOR			+85.0	+83.7
Shannxi	DR	+88.1	+88.1		
	SOR			+100.0	+100.0
Gansu	DR	+53.2	+53.2		
	SOR			+80.0	
	MS				-169
Guangdong	Lump-sum payment*	+10.0	+10.0	+10.0	+9.76
Fujian	Lump-sum subsidy*	-1.5	-1.5	-1.5	-0.63
Jilin	DRS	-3.0	-3.0	-3.0	-2.34
Heilongjiang	DRS	-8.87	-8.87	-8.87	-9.00
Jiangxi	DRS	-1.38	-1.38	-1.38	-1.50
Inner Mongolia	DRS	-11.68	-12.86	-14.14	-13.83
Guangxi	MS	-2.97	-3.27	-3.59	-3.08
Guizhou	MS	-5.26	-5.78	-6.36	-5.97
Yunnan	MS	-3.30	-4.77	-5.25	-4.48
Tibet	MS	-4.96	-5.46	-6.01	-5.81
Qinghai	MS	-4.02	-4.42	-4.86	-4.52
Ningxia	MS	-3.0	-3.3	-3.63	-3.55
Xinjiang	MS	-8.95	-9.84	-10.83	-11.21

(Notes: **SOR**: sharing overall revenue

DR: dividing revenue refers to local sharing income

*: Guangdong and Fujian remitted or received a fixed sum to or from the centre

DRS: receiving subsidies in the dividing revenue arrangement

MS: receiving subsidies with various rates of funds from the centre

Gansu: changed from a remitting to receiving fund province in 1983

Source: Oksenberg and Tong, 1991)

Since economic power was decentralised to the locality, the varying capability of local government in conducting regional economic growth accounts for their balancing or otherwise of their financial budgets and the generation of local funds. Some, especially those on the coast, have managed to generate significantly greater revenues from their locality-based enterprises, such as TVEs, while others went to great lengths to negotiate with the centre over the rate of revenue remittance for their locality, which made, like before, the implementation of the new fiscal system inconsistent with the plan and distorted from the original expectations. These rates or sums of remittance or retention varied from region to region according to the effectiveness of the locality in lobbying the centre (Ma, 1997; Dai, 1999). As long as the negotiated remittance quota was met, localities could retain as much revenue as possible, by creating different unofficial local rules to exempt the tax from the centre. The same phenomenon also applied to all types of enterprise that were taxed at different rates based on the form of ownership. The enterprises eagerly negotiated with their line ministries for the lowest remittance instead of making efforts in productivity improvement (Ma, 1997). Wang and Hu (2001) have pointed out that it was also the centre that held the major responsibility for allowing tax exemptions by means of a series of preferential policies for particular regions. China has long been suffering budgetary deficits since Mao's era, but now the centre has greater difficulty in collecting budgetary revenues from localities to meet its own deficits, not to mention the difficulties in the extra-budgetary control.

In the past whatever budgetary or extra-budgetary revenues went through the centre would then be transferred to the key regions, but now the drastic increase and retention of extra-budgetary revenues in the hands of local government, especially in coastal regions, has stimulated extra-budgetary expenditure that is not authorized by the centre, not to mention that off-budgetary revenue and expenditure has increased too and is completely out of reach of the centre. As mentioned by Wang and Hu (2001) and Wei (2000b), the more the centre tries to control extra-budgets, the more the localities levy fees from somewhere for local development. A fight for fiscal power sharing between localities and the centre is always accompanied by the expansion of extra-budgetary funds.

By 1991 the amounts of extra-budgetary revenue and expenditure almost matched those of the official budget. The coastal regions were capable of generating more extra-budgetary funds and benefited greatly (Wei, 2000b). As a result of this fiscal chaos, the centre-province relationship was viewed as a weakening of the central control of the budgeting process and revenue sharing, while the rich provinces were increasing their own budgetary authority and fiscal autonomy. The latter has provided great incentives for local actors to eliminate any bureaucratic slackness and pursue maximum economic growth.

The struggle for extra-or budgetary funds was only partly between the centre and these rich regions. One consequence was that poor regions suffered a decline of fund recruiting capacity. The large SOEs located in their territories were still in the ownership of the central state, so these could not be cash cows for the localities. Moreover transfers of funds from Beijing were reduced in real terms as a consequence of the decline in central revenue collection, again making matters even worse – in effect a hidden resource flow eastwards. Poor regions were receiving transferred resources from the centre through “quota subsidies, grants, income subsidies and other welfare” (Wei, 2000b: p.67), while the price distortions⁸¹ were channelling a net flow of resources and raw materials to the east (Zhou, 2000; Wei, 2000b). The poor provinces not only had no resources seen as extra-budgetary and even budgetary funds to participate in the fight for financial autonomy but also remained dependent on the central revenue transfers more than ever before, thereby reinforcing their lack of fiscal autonomy and their poor management of economic growth. Overall, the incentives provided to the localities by the centre generated an unfair economic boom in some regions, and this was followed by overheating nationwide of investments and sharply soaring inflation and budget deficits. Declining central fiscal controls and declining government revenues (30 per cent in 1978 down to 14.5 per cent in 1993)⁸² troubled the centre in consideration of rising political and economic instability (Ma, 1997).

⁸¹ By using state fixed price in the period of socialist planning economy, the Chinese centre efficiently distributed energy resource and industrial raw materials including staple agricultural goods to the coastal area where major manufacturing industries located (Table 6.2). The fixed price “tended to underprice energy and raw materials and overprice manufactured goods” (Yang, 1997: p.62-63). This is so-called “price distortion” or “price scissors”.

⁸² Reports on China’s economic transition and economic policies by China Economic Research Centre of Beijing University, Ed. (2001).

Table 6.2 Agricultural Product Prices Controlled by the State Council

Product Prices	Number of Items	Items
Official price set by the State	17	Rice, wheat, corn, soybeans, peanuts (& oil), rapeseed (& oil), cottonseed (& oil), sesame (& oil), sunflower (& oil), cotton, tobacco, sugarcane, sugar beet, cocoons, brick tea
Price guideline set by the State	11	Hogs, timbers, wool, jute, bluish dogbane, tea leaves, rosin, musk, liquorice, encomia, kalahoa (herbal medicine)
Sale prices		
Official prices established by the State	14	Wheat flour, rice, corn, soybeans, soybean oil, peanut oil, rapeseed oil, sesame oil, tea tree seed oil, sunflower oil, cotton, lumber, soybean waste
Price guideline established by the State	4	Pork, tea leaves, lumber, musk
Ex-factory prices ⁸³ established by the state	6	Logs, fire logs, lumber, plywood, rosin

(Notes: 1. In March 1979, purchase prices were raised for eighteen agricultural products by 20% including grain and cotton.

2. In November 1979 retail prices for eight supplementary food products including pork, beef, eggs, vegetables and milk, were increased by an average of 20%. At the same time, workers were given allowances to offset these price increases.

3. In 1979 ex-factory prices were raised for some heavy industrial products. For example, coal rose 30.5%, pig iron 33.0%, and rolled steel 20%.

4. In 1981 synthetic fabric prices were lowered and liquor and tobacco prices were raised. In 1981 price for textile products were completely adjusted; synthetic prices were lowered, and cotton fabric price were raised.

5. In 1984 freight rates for railway and water transport were raised.

Sources: author, compiled from National Statistical Bureau (NSB): *China Price Yearbook 1990*; Yabuki, 1995)

During the first round of fiscal reforms in 1980-1987, state subsidies, in particular to China's minority regions, were changed to allocate the fixed quota subsidy by establishing an initial fund based on the deficit made by each province in the base year, and then subsidies were increased by 10 per cent each year afterwards until 1987. This replaced the traditional practice of paying for any size of deficit made in a year (Table 6.3). By 1987, over 38 years the state had invested in or subsidized Xinjiang to a grand total of 38.08 billion yuan, a sum equal to 268.8 per cent of its total revenues. Then from 1988 to 1994, the annual increase of 10 per cent was abolished and each year the state only subsidized Xinjiang and other minority regions by fixed sums based on the financial deficit in 1988. To regions that needed more financial subsidies, the state allocated extra but only via specific funds, such as the Frontier Construction Fund. Beijing, via these fiscal reforms, attempted to reduce its

⁸³ "Ex-factory" price refers to the price of products that have left the factory but not yet enter the distribution system, so the prices do not include a wholesale markup (Yabuki, 1995).

subsidies to the minority regions, hoping to enhance local financial self-reliance and discipline their financial behaviour.

Table 6.3 Five Autonomous Regions Receiving Gradually Increasing Subsidies from Beijing

Region	1985	Annually	1986	1987	1988	1989
Inner Mongolia	17.83		19.61	21.57	23.72	26.10
Xinjiang	14.50		15.95	17.54	19.30	21.23
Tibet	7.50	10% increasing	8.25	9.07	9.98	10.98
Guangxi	7.16		7.87	8.66	9.53	10.48
Ningxia	4.94	→	5.43	5.98	6.57	7.23
Yunnan	6.37		6.97	7.67	8.44	9.28
Guizhou	7.34		8.17	8.99	9.89	10.88
Qinghai	6.11		6.72	7.39	8.13	8.94

(Source: compiled from Yabuki, 1995)

The consequences of the two reforms came out as quite the opposite of the expectations of the state with regard to the poor regions. First, the reform meant further difficulties for Xinjiang, which had been troubled by financial deficits since 1950 and was not yet ready to eliminate them by its own efforts. Xinjiang's fiscal revenues from 1979 to 1994 continually increased at a rate of 19 per cent annually but, at the same time, expenditures were increasing too at a rate of 9 per cent annually (Figure 6.4). Simply judged from the two lines in figure 6.4, we can see increasing trends in both, but the rate of increase for expenditure is far greater than that of revenue. As we mentioned before, at the beginning of the reform Xinjiang's financial deficit was already 987.53 million yuan and the amount of expenditure had reached more than three times that of revenue. Now the deficits were getting larger and larger. The increasing financial revenues simply could not cover them (Figure 6.5).

Because of the two reforms of state subsidies to the lagging regions before 1994, changing from total deficit subsidies to fixed quota subsidies and then to fixed sum subsidies, Xinjiang received much less subsidy than before. For example in the three years after the abolition of the 10 per cent increasing fund, Xinjiang lost 2 billion yuan of subsidy. Before 1978, these subsidies were sufficient to clear the annual deficit and leave an average of 22.21 million yuan per year for the region, but from 1978 to 1993 there was only 12.11 million yuan annually to retain and in some years there was none left or even a shortfall (Figures 6.6, 6.7, 6.8).

but on how much subsidy the region would get from the state. In this thesis I suggest that China's partial reform is the cause of this rigidity of the fiscal reform and its invalidity for the poor regions.

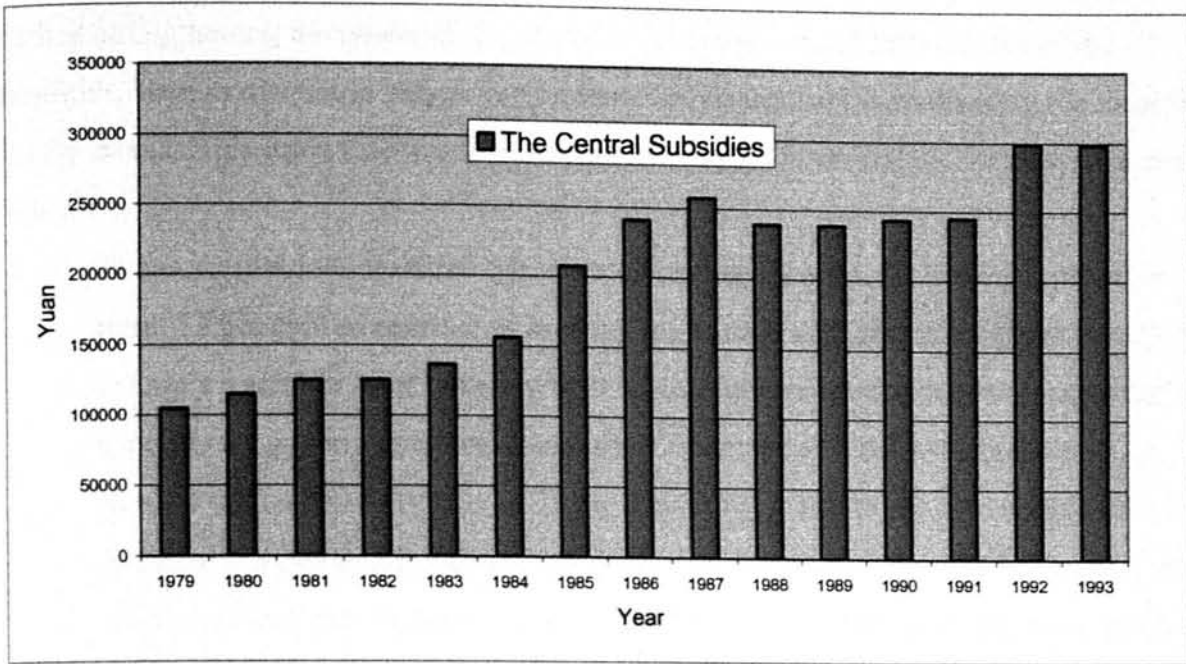
Table 6.4 The Percentages of Xinjiang's Financial Expenditures on non- and Production

	Total Financial Expenditures (million yuan)	Of which: (%)			
		Basic Construction	Enterprise Reproduction	Liquid Capital Fund for Production	Non-productive, Administrative Overheads
1949-53	17.661	4.11	-	-	94.16
1 st FYP	94.936	33.57	-	4.87	56.30
2 nd FYP	271.063	50.34	-	6.62	38.49
1963-65	116.068	36.36	-	4.85	51.84
3 rd FYP	217.813	47.45	-	6.44	44.87
4 th FYP	397.709	39.37	1.77	9.50	41.05
5 th FYP	710.196	31.41	4.85	4.26	49.24
6 th FYP	994.194	16.08	4.87	1.14	71.38
1986	351.154	14.79	3.5	-	71.17
1987	336.877	15.14	3.13	-	72.30

(Source: Jin and Liu, (eds.) 1990)

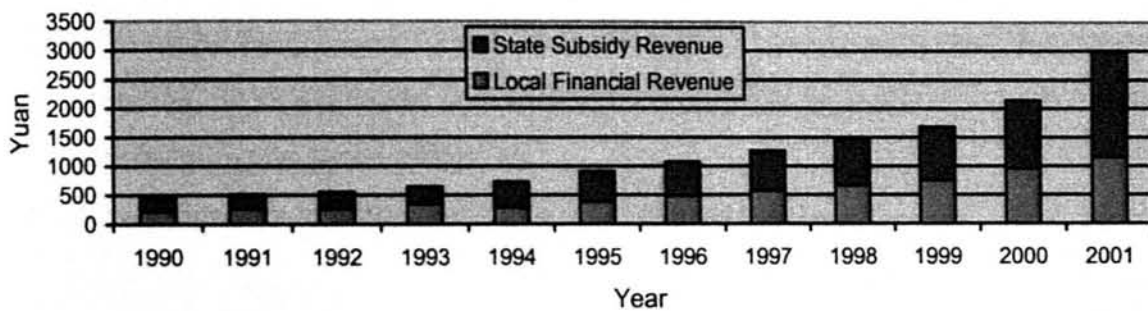
Second, partial reform meant that the state SOEs in these poor regions went unreformed and remained in the ownership of their respective Ministries. Large revenues from the revenue-productive SOEs go directly to the state instead of the localities. Along with this, most SOEs were still operating in a socialist system incapable of fitting into a market-led economic transition, thereby producing no efficiency gains but losing profits. The economy of the poor frontier regions has continued to be dominated by these state-owned, resource-based industries and yet local governments were deprived of the opportunity to use them to raise revenue. Therefore the frustration has continued, due to the unfinished institutional reforms, with state subsidises the inevitable counterpoint through various funds targeting lagging regions and through reduced or no interest bank loans (Figures 6.9, 6.10). The SBC and "predation" syndromes therefore were continually having their double effect. Such fiscal reform within China's partial reform, without defining property rights for the region, have only produced further failure in the poor regions, supporting the argument of the chapter and the thesis.

Figure 6.9 State Subsidies 1979-1993



(Source: author, based on the data of XSB: Xinjiang's Glorious Fifty Years, 1999b)

Figure 6.10 The Composition of Xinjiang's Financial Revenues from the Locality and the State's Subsidies 1990-2001



(Source: author, fieldwork, 2003)

In 1994, the last major fiscal reform took shape after experiments in nine regions, including Xinjiang. This new fiscal system was characterised as rule-based instead of negotiation-based, and stands as a remarkably different initiative from the previous ones, in trying to legalise the fiscal responsibilities of both the centre and the provinces. This was done by defining taxes as central, local or shared, and by establishing tax-collecting agencies at all levels of government to monitor the implementation of the system. It also introduced uniform taxes with fixed rates applied to all enterprises and persons regardless of their ownership and nationality. The reform intends to detach the fiscal and budgetary authorities of enterprises

and national production sections from the interventions of all levels of government, and aims both at strengthening the power of the centre to resist the tactical manoeuvres of the localities, such as discretion bargaining on shared revenues, and in motivating the localities to rely increasingly upon their own resources. The major features of the fiscal system are as follows.

- 1) Taxes are divided into three types: state, local and shared. In general, enterprises will remit 33 per cent of revenue as Income Tax to their administrative governments, for example a state or local company will submit income tax directly to its respective supervisory government, and then remit 17 per cent as VAT to both the state and locality with a fixed division of 75 per cent to the state, 25 per cent to the locality; and finally 3 per cent in other taxes, such as Infrastructure Tax, Birth Planning Tax, etc. to its local government. Taxes collected by centre and localities are displayed in Table 6.5.
- 2) Expenditures are divided into two types: state and local. The state will pay for military forces and national security, diplomatic affairs, key construction projects such as the Three Gorges Dam, and the foreign or domestic debts and maintenance costs of the central government. The provinces will pay for their local governmental spending, investments and debt sponsored locally and local production, infrastructure construction and social affairs, etc..
- 3) All tax rates are still determined by the centre, as before.

Although the last major reform in 1994 clearly defined the balance of fiscal responsibilities between localities and centre, there are still a few issues to be considered (Ma, 1997; Dai, 1999)⁸⁴:

- 1) China needs to legalise the fiscal responsibility and tax duty further through national legislation instead of governmental intervention, which will enhance the implementation of the fiscal system across the country.

⁸⁴ A new round of fiscal reform is proposed that aims to improve unbalanced regional development, especially by re-structuring the traditional heavy industrial regions: NE China.

Table 6.5 Taxes Collected by the Centre and Localities

	Taxes	State Collection	Local Collection
State-owned enterprises (SOEs)	Income Tax	33%	
	VAT	17% • 75%	17% • 25%
	Others including Infrastructure Tax		3%
Railway, banks and insurance companies and those financial institutes	Turnover Tax	33%	
	VAT	17% • 75%	17% • 25%
	Others including Infrastructure Tax		3%
All enterprises and persons	Customs Duties	17%	
All enterprises and persons	Consumption Tax	17% or 13%	
All enterprises and persons	Consumption Tax on items as: Cigarettes, Liquor, and gasoline		
Locality-based SOEs	Income Tax		33%
	VAT	17% • 75%	17% • 25%
	Others including Infrastructure Tax		3%
Local or state-owned enterprises (excluding railway, bank, etc.)	Business Tax		3-5% and 5-20% applied to highly profited entertainments
Person	Personal Income Tax		5-45% according to salary
Local or state-owned enterprises	Natural Resource Tax		15-18% varied regionally
		(Tax on Ocean Oil remitted to state)	
	Others as:		
	Cultivated Land Occupation Tax		3-5%
	Urban Land Using Tax		3-5%
	Land Value Increasing Tax		3-5%
	Fix Capital Investment Adjustment Tax		3-5%
	Vehicle Tax		3-5%
	Property Tax		
	Agricultural Tax		5%
	Agricultural Special Products Tax		3%
	Husbandry Slaughter Tax		3-5%
			3-5%
Local or state-owned enterprises applied only to Shanghai and Shenzhen	Securities trading tax in the form of stamp duty	3-5% • 88%	3-5% • 12%

(Note: Red coloured text refers the taxes collected by localities.

Sources: author, based on interviews, 2003 and books by Ma, 1997; Dai, 1999; Fang and Li, 2001; Xie, 2001. NSB: China Statistics Yearbooks, 1994-2001)

- 2) A consolidated public sector accounting system should be set up to include budgetary, extra-budgetary and off-budgetary revenues and expenditures in order to conduct macroeconomic control effectively (Ma, 1997).
- 3) The division of the two expenditure streams needs to be further defined, as there is an overlap of the local and the central state's responsibilities, generating new rounds of resource bargaining between them.⁸⁵
- 4) Local protection agencies and local tax rate- or policy-making agencies within local government should be established and legalised, in order to protect local interests and adjust local tax rates to reality.

The 1994 fiscal reform tried to clarify legally the responsibilities of revenue collection and tax remittance between the state and localities, with the aim of reining back the increasing gap between the coast and interior and institutionalising the fiscal decentralisation. The reform is regarded as significant, but perversely it has trapped poor regions like Xinjiang continually into a financial downward spiral, as the fundamental problem, seen initially as property rights in these regions, are still not defined and therefore the state's ownership of key enterprises in China's poor regions remains. In the regions reliant on large SOEs, under the new fiscal system, income tax plus 75 per cent of VAT paid by the SOEs will be legalised to go directly to the state, while only 25 per cent of VAT is left for the localities. By contrast, after meeting their tax responsibilities, rich regions now are allowed to gain more financial autonomy by legally retaining their surplus revenues and taxes from the locality-based productive economic units.

In 2001, Xinjiang's total financial revenue was 29.17 billion yuan, of which 32.6 per cent was local budgetary revenue, 63.0 per cent from state subsidies, and 4.4 per cent from last year's liabilities. On examining Xinjiang's economic institutes, there are too few profitable TVEs and agricultural enterprises to produce a substantial and sustainable revenue for the local finances and, even if the local SOEs such as the Xinjiang China Petroleum Corporation (XCPC) are productive, they will benefit the central state more than the locality (the point

⁸⁵ Starting in 2000, a new experiment of budget control in some governmental sections aims at further clearing the fiscal responsibility of all levels of governmental and economic sectional expenditure (China Economic Research Centre of Beijing University, (Ed.) 2001).

will be discussed later on) through their legally-required submission of most income to Beijing – North’s predation. As a result, the region’s budgetary deficits remain and get worse as a result of “legal” creaming off by the state, and negotiating power afforded to the local actor by the new fiscal system is reduced.

Xinjiang’s rate of financial self-reliance has reached only 45 per cent on average since the reform (Table 6.6), by comparison with 75-100 per cent for other provinces (Table 6.7). However, Xinjiang and a few other minority regions, such as Tibet, can never expect do as well as their counterparts. In 1994 alone, the 85 sub-regions above the township level in Xinjiang only achieved on average a 45.55 per cent (61.9 per cent after tax reimbursements) financial self reliance. Only 23 out of the 85 reached 50 per cent, 18 were between 30 per cent and 50 per cent, while 44, over half, did not achieve even 30 per cent of financial self-support. 75 out of 85 cities and towns have had financial deficits totalling 0.91 billion yuan. 25 towns in the ‘poverty’ category by national standards achieved 19.75 per cent of financial self-reliance. 32 out of 33 frontier towns had financial deficits totalling 0.36 billion yuan.

Table 6.6 Xinjiang’s Financial Revenues and Expenditures Index 1990-2001

Year	Revenues (million yuan)	Expenditures (million yuan)	Balance (million yuan)	Rate of Increase (%)		Financial Self-Support Rate (%)
				Income	Expenditure	
1990	2178	4781	-2604	12.69	14.19	45.55
1991	2647	5253	-2607	21.54	9.87	50.38
1992	2607	5609	-3001	-1.49	6.77	46.48
1993	3513	6471	-2958	34.75	15.36	54.29
1994	2870	7110	-4240	-18.32	9.87	40.37
1995	3828	9640	-5812	33.39	35.59	39.71
1996	4831	11489	-6658	26.19	19.18	42.05
1997	5761	12682	-6921	19.27	10.39	45.43
1998	6657	14738	-8081	15.53	16.21	45.17
1999	7444	16911	-9467	11.83	14.75	44.02
2000	9550	20545	-10995	28.29	21.49	46.48
2001	11575	28181	-16606	21.21	37.17	41.07

(Source: author, fieldwork, 2003)

Although, in order to generate more local financial incentives, the state compensates the locality by allocating “tax reimbursements” after completing the collection of all taxes, this policy again benefits the rich regions most and doesn’t solve the basic problems of the poor regions. The amount of the “tax reimbursements” allocated to the regions is based on the initial sum they received in 1993, with added annual adjustments. The rate of increase is 0.3

out of the 1 per cent extra consumption tax and VAT submitted by the locality, which means, when the total amount of the two taxes remitted by a region to the centre increases by 1 per cent, then the increasing amount of "tax reimbursements" received in return by the region will be 0.3 per cent of that sum. This greatly benefits the rich regions, whose turnover of tax is greater and the reimbursements are therefore also large in absolute terms, and it does nothing to narrow the gap between the rich and poor regions either.

Table 6.7 Provincial Variations in Budgetary Revenues and Expenditures (billion yuan) 1990

	Revenue	Expenditure	Ratio=E/R	Self-Support Rate (%)
Eastern Region	119.60	111.28	93.0	1.07
Shanghai	15.77	7.57	48.0	2.08
Beijing	7.62	6.87	90.3	1.11
Tianjin	12.93	12.22	94.6	1.06
Liaoning	16.15	15.15	93.8	1.06
Hebei	8.12	8.73	107.6	93.0
Shandong	10.91	12.39	113.5	88.1
Jiangsu	13.63	10.10	74.1	1.35
Zhejiang	10.16	8.02	79.0	1.27
Fujian	5.71	6.85	120.0	83.4
Guangdong	13.10	15.07	115.0	86.9
Hainan	0.74	1.74	235.7	42.5
Guangxi	4.76	6.58	138.1	72.3
Central Region	56.25	66.83	118.8	84.2
Shanxi	5.38	5.69	105.9	94.6
Inner Mongolia	3.30	6.09	184.7	54.2
Jilin	5.07	7.17	141.4	70.7
Heilongjiang	7.66	9.27	121.1	82.6
Anhui	5.45	6.16	113.0	88.5
Jiangxi	4.06	5.08	125.0	79.9
Henan	8.60	9.19	106.9	93.6
Hubei	9.51	9.95	104.7	95.6
Hunan	7.24	8.24	113.8	87.9
Western Region	34.79	47.79	137.4	72.8
Sichuan	11.98	14.27	119.1	84.0
Guizhou	3.61	4.86	134.6	74.3
Yunnan	7.74	9.08	117.2	85.2
Tibet	0.02	1.29	7177.8	1.55
Shannxi	4.44	5.71	128.6	77.8
Gansu	3.42	4.59	134.3	74.5
Qinghai	0.72	1.71	236.6	42.1
Ningxia	0.67	1.50	222.3	45.5
Xinjiang	2.18	4.78	219.6	45.6

(Source: compiled from Wei, 2000b)

The state again frequently sets up various sorts of special extra fund to assist lagging regions with their poor infrastructure conditions, but this time the funds involved often go directly to

the projects and do not pass through the coffers of the provincial governments. For example, in Xinjiang, two major infrastructure projects were financially handled directly by Beijing. They are the Taklamakan Highway, completed in 1995 and providing a transport link from the central of the region to south across the desert; and a railway linking Korla and Kashigar, completed in 1999 and extending the railway network of the region to the south. The rolling out of such projects and the bypassing of local institutions not only increases central control over the economic growth of a region like Xinjiang but also neglects the potentially dynamic role of local government, who know better than the centre about handling local affairs. Becquelin (2000) cites a local researcher, Hou Hanmin: "If we compare the situation before and after the reform, in 1994, the centre got its hands on more than an extra billion yuan, putting the province's [Xinjiang's] finances in an increasingly difficult position" (Becquelin, 2000: p.74).

By way of conclusion to this section, Xinjiang's financial deficits, after experiencing a series of the state's fiscal reform, are worsening. This is not only because of the poor performance of the local finances, but also because of the problems of China's institutions. No matter how many rational new fiscal reforms are made, they will only produce further problems in this SOE-dominated region, as long as the fundamental problems of undefined property rights are left untackled, and because the ability to complete and implement them is blocked. Without the generation of corporatism, capability and competitive machinery, local actors will remain dependent and slack and it is difficult to imagine the development of lagging regions like Xinjiang ever being finalised.

6.2 Provincial Financial Management

In this section, we will examine the region's financial behaviour as shaped by the financial and economic institutions responsible for it. Under such institutions, whether or not they could develop their own strengths by triggering improvements in the productivity of local enterprises in order to gain more local funds, and could they work out a rational financial budget to discipline financial behaviour and create efficient management in order to meet the financial targets from their own efforts?

6.2.1 Provincial Expenditures

This section will examine the causes of Xinjiang's rapidly increasing expenditure and financial management of the provincial government in budgeting expenditures. Table 6.8 and Figure 6.11 show its composition since 1949. Judged from the structure, the major feature is that, since 1950, non-productive sectors such as governmental administration and the overheads of all sectors have taken up large shares of local expenditure funds and these shares are continually increasing. The cost of administration, for instance, took up a huge share - more than 70 per cent of the total (Table 6.9).

Table 6.8 Structure of Xinjiang's Fiscal Expenditures (%)

Periods	Basic Constructions	Innovation Funds of Enterprises	Agricultural Expenditures	Transport and Commercial Expenditures	City Maintenance	Education, Health, etc., Civil Services	Government Administrations	Price Subsidies	Others
50-52	4.22	-	2.91	0.91	-	9.4	76.08	-	6.78
1 st	32.6	-	5.7	1.4	-	19.42	31.92	-	8.97
2 nd	43.71	-	8.94	3.84	-	13.80	13.65	-	16.06
63-65	36.39	-	11.92	2.32	0.83	18.94	18.52	-	11.23
3 rd	46.52	-	8.18	1.89	0.91	16.05	14.31	-	12.4
4 th	40.0	1.81	8.7	1.23	1.36	15.47	11.21	-	20.22
5 th	31.96	4.44	17.83	1.85	1.08	16.07	10.46	-	15.72
6 th	16.19	4.91	16.9	2.31	1.75	16.67	14.74	7.82	15.07
7 th	13.05	3.61	11.70	2.22	2.26	24.41	14.51	15.31	12.92
8 th	9.31	2.45	10.79	1.91	3.17	29.04	21.06	8.74	13.48
9 th	9.10	2.46	7.55	0.97	3.89	26.65	16.62	5.85	29.57

(Source: author, compiled from the XSB: Xinjiang's Glorious Fifty Years, 1999b; Xinjiang Statistical Year Books, 2000, 2001, 2002, 2003)

The explanation is that, first, despite being a less populated region, Xinjiang's large area, multi-ethnic composition and multi-autonomous political administration, requires more bureaucratic administrative and social service sector support than the sparse population would otherwise require. Although the same discussion has been given in Chapter 5, we give a further example to add the point: Xinjiang's Shabushaer Xibo Autonomous County, in the Ili Kazak Autonomous Region, is the only political Auto-administrative division specific for the Xibo minority in the whole of China. According to Chinese Minority Autonomous Law, all media and the press must be issued in both languages, Xibo and Mandarin, in this region. In order to preserve the ethnic culture and customs, the county government has to spend large sums on newspapers and other public materials published in the Xibo language, on practices

Since the reform, Xinjiang's expenditures on administration and social welfare have increased dramatically and took up as much as 50 per cent of total budgetary expenditure in the 8th FYP. The share of these two sectors still remains at 40 per cent right up to the present, in comparison with 30 per cent in rich provinces such as Guangdong (Table 6.11). The overall burden of administrative expenditures obviously contributes to the increasing budgetary deficit for this poor region, whose entire provincial financial revenue is equivalent to one of the richest counties in Guangdong province. As the provincial government has no "effective" means to increase revenues, only management of expenditure gives it any kind of control.

In the province's budgetary expenditure, local productive sectors nowadays take up a lesser percentage but also the total is shrinking. This is due to increased spending on non-productive sectors, causing a distortion in the provincial budget (Jin and Liu, 1990; Dai, 1999). There used to be liquid capital fund for the use of local enterprises in budgets before the 7th FYP (Tables 6.4, 6.9) but, since 1986, these funds have been eliminated due largely to the enterprise reforms, which required enterprises to seek their own capital and so reduce government intervention. However, traditionally the operation of the majority of Xinjiang's local SOEs was largely sustained by capital investment from local government. Without the mobile capital and other financial sponsorship of the government, these SOEs face bankruptcy. In Xinjiang's provincial budget, there is now only enterprise innovation and basic construction left of the productive sectors receiving direct budgetary expenditure. Again, the expenditure on enterprise innovation has shrunk gradually since the 6th FYP.

The share of expenditures on local basic construction has declined too, for instance, from a peak of 46.52 per cent in the 3rd FYP down to 9.10 per cent in the 9th FYP. Since the 1990s large funds from the centre have gone directly to key infrastructure projects, including the building of standard highways, railways and water irrigation systems, which has reduced local government's outlays. But the amount of basic construction funds set in the budget is less than sufficient for infrastructural programmes projected by local government. The long distances between settled areas and the harsh natural environment require large investments

even for a small-scale infrastructure projects. By comparison, Guangdong only deploys 13-14 per cent of its expenditure on infrastructure and has a territory one-tenth the size of Xinjiang's, but the sums involved are 5,500-10,000 million yuan, 5 times the total amount of Xinjiang's infrastructure fund. However, as the local government have other priorities for their limited budgetary funds, expenditure on all productive sectors has had to be reduced. There has been a reduction of financial inputs to local capital-intensive economic production, affecting its output and the revenues and taxes of local enterprise. This trend further undermines the region's ability to cover its overall deficits from its own resources.

These problems with Xinjiang's expenditure structure mark out an irrational strand in its local government financial administration. This is, firstly, because of the misbehaviour of the government in Urumqi in terms of not controlling overspending on personnel administration and bureaucratic overheads, although it has not yet gone as far on wasteful spending as the interior province of Shaanxi, which was reported to have spent 100 million yuan in 1983 on a single governmental office building, the most expensive in China.⁸⁶ However, corruption plays a part, along with inefficient financial management by a highly bureaucratic and incompetent political organisation. According to the statistics in 1994, there were 46,819 cars purchased to provide specific services for various social and civil, non-production units, absorbing 1.87 billion yuan of local budgets, including the cars' maintenance. Table 6.12 displays the basic investment in productive and non-productive sectors in different periods and shows the changing balance between the two. Obviously investments on governmental administration have a relatively large share. This poor local government is not controlling its unnecessary expenditures due to the lack of a monitoring system to punish the failure and due to the central state's protection. This is what Kornai calls paternalism. However, considering Xinjiang's weak economic base and its disadvantages in exploiting the opportunities of reform, the inefficiencies of local government plus the increased financial burdens are only leading to more social instability.

Secondly, there have been many errors in the Chinese financial system, all rooted in the partial reform. For instance, the establishment of a multi-level autonomous administration for

⁸⁶ Fieldwork, 2003 and supportive references: Lane, 1998.

the region increased the levels of compulsorily budgetary expenditure without clarifying the financial sharing of responsibility between the centre and locality; and there were also requests for bureaucratic administration reform without any funds attached. The local government mismanaged its budget by withdrawing production funds and transferring them into expenditure in non-production sectors.

Such financial bungling was pointed out, at the end of 7th FYP, by the director of Xinjiang's Planning Commission and the vice governor of the region in their edited book entitled "Studies of Xinjiang's Economic Development Strategy Toward 2000". However, there has to date been no concerted effort from either Urumqi or Beijing to make the necessary changes. My interviews in Xinjiang with officers of various economic departments suggested that civil servants are obsessed with requesting more central government investment in Xinjiang, and that this is in their eyes is "the key" to regional economic growth. The major job of many directors of Xinjiang's economic departments is to lobby their respective ministries for more money and to spend most of the year in Beijing. The "Western Development Programme (WDP)", for instance, has been seen as an opportunity to bargain for more funds from the centre, and the central government's view is similar, rather than bargaining for institutional changes by the provincial government or disciplining its financial behaviour.

Table 6.9 The Composition of Local Financial Expenditures

Period	Total Financial Expenditure 10,000 yuan	in which: Percentage in each Sector									Others ⁸⁷
		Expenditure on Production			Expenditures on non-Production Administrative Fees						
		Basic Infrastructure	Enterprises Supplementary Funds	Liquid Capital Fund for Production	Agricultural Overheads	Commercial & Industrial Overheads	Cities Maintenances	Educational and Welfare Service	Governmental and Legal Services	Price Subsidy	
1 st FYP	94 939	33.57	-	4.87			56.30				-
2 nd FYP	271 663	50.34	-	6.62			38.49				-
3 rd FYP	217 813	47.45	-	6.44			44.87				-
4 th FYP	397 709	39.37	1.77	9.5			41.05				-
5 th FYP	719 196	31.41	4.85	4.26			49.24				-
6 th FYP	994 195	16.08	4.87	1.14			71.38				-
7 th FYP	1 970 367	12.81	3.52	-	11.7	2.22	2.26	24.42	14.51	15.31	12.92
8 th FYP	3 386 426	8.9	2.49	-	10.79	1.96	3.17	24.24	21.06	8.73	13.48
9 th FYP											
1996	1 148 890	7.2	2.69	-	9.65	1.42	3.61	29.70	21.39	6.65	17.57
1997	1 268 218	7.2	2.15	-	8.55	1.43	3.68	26.55	20.21	5.12	25.07
1998	1 473 783	8.9	1.76	-	7.53	0.72	3.74	26.80	18.95	5.79	25.75
1999	1 662 788	10	3.3	-	4.5	0.6	4.4	25.0	11	-	39.79
2000	1 909 529	12	2.4	-	4.44	0.69	4.06	25.22	11.56	-	39.71

(Source: author, compiled from fieldwork materials, 2003 and from Jin and Liu, (eds.) 1990)

⁸⁷ Including the Expenditure on Increasing Liquid Capital.

Table 6.10 Index of Some of Xinjiang's non-Productive Expenditures (million yuan, %)

Year	Social Welfare	Government Administration	Price Subsidies	SOE Subsidies	Total Expenditures
1986	749.11 (23.94)	399.28 (12.28)	326.29 (10.03)	289.12 (8.89)	3252.01
1988	928.24 (23.25)	558.34 (13.21)	570.48 (13.50)	334.37 (7.91)	4225.35
1991	1360.17 (24.20)	904.17 (12.09)	681.35 (12.12)	367.22 (6.53)	5620.71
1994	2396.03 (32.62)	1722.05 (23.44)	400.62 (5.45)	236.65 (3.22)	7346.27

(Source: Lee, 1998)

Table 6.11 Structure of Guangdong's Fiscal Expenditures (%)

Periods	Basic Constructions	Innovation Funds of Enterprises	Agricultural Expenditures including Innovation Funds	Transport and Commercial Expenditures	Cities Maintenances	Education, Health, etc., Civil Services	Governmental Administrations	Policy Subsidies	Others
1994	13.25	8.42	6.2	4.4	6.1	27.8	8.7	2.8	11.8
1995	13.74	8.01	5.5	3.4	6.0	27.0	8.2	2.3	12.4
1998	15.1	7.0	4.3	2.9	5.1	22.5	7.4	2.1	14.7
1999	14.9	6.9	5.7	2.9	4.6	21.4	7.6	1.7	15.5

(Source: author, compiled from Guangdong Statistics Bureau: Guangdong Statistical Yearbooks, 1999, 2000)

Table 6.12 Capital Construction Investment by Sector in Different Periods (%)

Periods	Productive Sectors	Social Service	Health and Welfare	Education and Cultural Sectors	Science and Technological Innovation	Governments, Parties and Social Organisations	Others
6 th FYP	77.6	3.5	2.3	8.3	1.1	7.2	-
7 th FYP	83.1	1.9	2.0	5.7	1.0	4.7	0.2
8 th FYP	87.5	2.5	1.0	2.7	0.5	5.3	0.1
1991	87.3	1.8	1.1	3.1	0.4	4.2	0.1
1992	87.9	1.8	1.0	2.3	0.4	3.7	0.2
1993	86.5	3.1	1.0	2.2	0.7	6.0	0.2
1994	85.6	1.9	0.8	2.7	0.3	5.0	0.1
1995	85.0	3.4	1.0	3.4	0.6	6.5	0.04
9 th FYP	82.8	4.5	1.2	3.4	0.3	6.3	0.4
1996	81.8	4.5	1.2	3.3	0.2	7.3	1.3
1997	83.1	4.2	1.0	3.4	0.2	6.5	0.2
1998	82.9	4.5	1.3	3.1	0.3	6.5	0.1
1999	83.2	3.8	1.5	3.2	0.4	6.6	0.1
2000	82.3	5.5	1.2	3.9	0.3	5.2	0.5

(Note: Productive Sectors include agriculture, mining and quarrying, manufacturing, power industries, construction, water irrigation and geological exploration, transportation and telecommunication, retail and catering services, banking and insurance, and real estate.

Source: author, compiled from XSB: Xinjiang Statistical Yearbooks, 2001, 2002)

6.2.2 Provincial Investments

China's investment system was centralised from 1950 to 1978, with Beijing controlling all investment sources and activities including budgeting, verification, approval and distribution.

growth was through the funds attached to projects allocated by the centre to the region. So, from 1949-1979 most central investment went to state funded projects, including 156 projects granted by the first FYP, the TFP constructions, and, in 1978, the oil industry promotion. Post investment monitoring and checks on the efficiency of spend remained loose. In reviewing China's investment process in Mao's era, we have seen that it experienced a circle of "investment-inflation-adjustment-reduction and re-investment-inflation" in which there was a lack of an efficient system of control, a classic phenomenon of Kornai's SBC. Because of this, many projects ran out of funds half way through their life-span. In order to complete them, local government negotiated with the centre for continued investment. Therefore many projects ended up with, in effect, an unlimited investment. As a result, resource shortages developed, in the classic mode of "investment hunger" common in socialist economies (Kornai, 1980; 1992). Fights over investment allocation between the centre and localities took place all the time, which tested the competence of local government in bargaining for investment leverage.

State investment has experienced three reforms. Starting in August 1978, the SC proposed a reform of investment in infrastructure that was processed via China's Construction Bank with a bank loan and interest pay-back system. On 16, August 1988, the SC then started a new "reform planning on investment administration system" which established six investment companies sponsored by the state to handle investment in state funded projects. This initiated the withdrawal of the state budget investment (SBI) gradually from the financial investment market and since then the SBI now only focuses on a few large-scale projects from projected key infrastructures. The action thus required the state, locality and enterprises to share responsibility for their respective projects, and empowered local actors such as local governments and enterprises to be the major legal body for production investment. In 1988, the SC, through establishing a "Construction Fund", separated expenditure on infrastructure from budgetary funds and through these six companies sought to administer and monitor investments. From 1992 to 1999, there was a series of actions for further reform of the investment system, including the 1993-1996 reforms in the banking system, to separate the responsibilities of the central bank, investment bank and policy bank, and clarify investors' responsibilities and risks. In 1999 a law of national competitive bidding was passed to legalize the investment processes and diversify investment responsibilities away from a

Private investment was forbidden. Local governments could assist the centre in budgeting but had no authority in decision-making for investment redistribution. The channel of central investment in a region for its economic growth was through the funds attached to projects allocated by the centre to the region. So, from 1949-1979 most central investment went to state funded projects, including 156 projects granted by the first FYP, the TFP constructions, and, in 1978, the oil industry promotion. Post investment monitoring and checks on the efficiency of spend remained loose. In reviewing China's investment process in Mao's era, we have seen that it experienced a circle of "investment-inflation-adjustment-reduction and re-investment-inflation" in which there was a lack of an efficient system of control, a classic phenomenon of Kornai's SBC. Because of this, many projects ran out of funds half way through their life-span. In order to complete them, local government negotiated with the centre for continued investment. Therefore many projects ended up with, in effect, an unlimited investment. As a result, resource shortages developed, in the classic mode of "investment hunger" common in socialist economies (Kornai, 1980; 1992). Fights over investment allocation between the centre and localities took place all the time, which tested the competence of local government in bargaining for investment leverage.

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monopoly of the central state. So, by the end of those reforms, one project could be sponsored by multi-investment sources and channels, and shared investment responsibilities by different legal bodies. The investment of central government will only respond to key infrastructure projected by the centre and industries crucial to the state but not to locally-based economic production and its enterprises. The local government and individual enterprises have become the legal bodies for recruiting funds to their respective areas and sectors.

In the 1980s, China's investment had substantial interests in five sectors: agriculture, energy, transport, and education and scientific research. In the eighth FYP, the state reinforced its investment in basic social and industrial infrastructure, and besides those five sectors, promoted investments in electronic machinery industries, oil and oil chemicals, and motor vehicles. In the ninth FYP still more emphasis was put on infrastructure construction. Since 1978, as mentioned before, state investment has focused on coastal development, starting with 50 per cent of total investment in the coast region in the sixth FYP, rising to 63.8 per cent in the eighth FYP, which very effectively encouraged its rapid economic growth. After the tenth FYP, there was a change in investment policy, focusing more on the west in order to reduce the development gap between the two macro regions.

Decentralisation of the investment system changed the structure of investment gained by a region and allowed the participation of non-state sources, for example foreign direct investment (FDI), which is seen as one of major factors generating the economic rapid growth of the coastal regions. The greater financial autonomy of the local governments on the coast has allowed them to seek out investment outside state sources. But the western region is economically and geographically far away from these non-state sources and, as financial interaction among regions has yet to take place, there is little alternative to central government investment.

In Xinjiang, the major capital investments come basically in the form of state and local government investments. Table 6.13 shows the percentages of state funds in Xinjiang's fixed assets investment. However, since 1949, Xinjiang's economy has been completely tied up with SBI and this came to the region basically in the form of funds attached to specific state projects. Furthermore, due to Xinjiang's disadvantages in infrastructure and advantages in crucial natural resources, state projects in infrastructure and resource industrial constructions

in the region have never been stopped. And the projects are all large-scale and capital-intensive. For example, in 2002 in Xinjiang there were a total 47 large and medium size projects of capital construction undertaken with investments of 422,862.8 million yuan. 11 out of the 47 were directly funded from the centre with 340,925.4 million yuan, taking up 80.6 per cent of the total investment in the 47 projects. Therefore the amount of the investments have never reduced dramatically even during the initial time of the reform, long before the WDP. From the table 6.13, we can see the proportion of investment subordinated to the state has been over 50 per cent of the total investment of Xinjiang most of the time, though it has been gradually reduced since the 9th FYP. This is because of the withdrawal of the SBI. As the SBI had once been the major investment source for Xinjiang, its reduction has obviously affected the total amount of all investment subordinated to state sources, although the impact is not so significant (Table 6.14). Table 6.14 and Figure 6.12 display all sources of investment funds in Xinjiang's fixed assets. Apart from the SBI funds, 40 per cent of the total investment funds from the state come to the region in the form of domestic loans, state sponsored FDIs, bonds and extra-budgetary funds, responding to the different investment sectors.

A major impact on Xinjiang of the change of central investment policy is that central investment that will no longer have an interest in the local economic sectors and enterprises. Province-based SOEs, collective enterprises and private firms will have to manage to raise funds by themselves through applying for all sorts of bank loans and non-state investment sources. To a poor region like Xinjiang and to its resource-based and capital intensive enterprises, finding such investment sources will be a difficult challenge, as they are short of local market attractions and of efficient management to compete in the domestic or international investment market.

In general, the region lacks the capacity to recruit investments from non-state sources. The unfriendly natural environment is a factor, as is Xinjiang's location far from central markets and the consequent high transport costs. There is also an underdeveloped market economy and the existence of unreformed and inefficient SOEs. The incompetent operation of many existing SOEs and non-openness of productivity-strong economic sectors such as the oil industry, is holding back non-state investors. More critically, there is a lack of involvement by local government in raising funds.

Table 6.13 Total Investment in Xinjiang's Fixed Assets by Investors (10,000 yuan, %)

Period	Total	Classified by Investment from	
		Centre	Locality
5 th FYP	629834	339624 (53.9)	290210 (46.1)
6 th FYP	1491299	822167 (55.1)	669132 (44.9)
7 th FYP	3319729	1793864 (54.0)	1525865 (46.0)
8 th FYP	11622193	7064761 (60)	4557452 (40)
9 th FYP	24994604	12737703 (51)	12256901 (49)
1996		2027722 (52.3)	1805750 (47.7)
1997		2398515 (53.7)	2069633 (46.3)
1998		2705328 (52.0)	2492345 (48.0)
1999		2638879 (49.4)	2707589 (50.6)
2000		2922259 (47.9)	3181584 (52.1)
10 th FYP			
2001	7059970	3264641 (46.2)	3795329 (53.8)
2002	8130223	3157268 (38.8)	4972955 (61.2)

(Source: XSB: Xinjiang Statistical Yearbook, 2003)

Table 6.14 Total Investment in Xinjiang's Fixed Assets by Sources (10,000 yuan, %)

Period	Total	State's Budgetary Funds	Domestic Loans	Bonds	FDIs and Loans	Self-Raised Funds and Others
5 th FYP	629834	295378 (46.8)	5822 (0.9)	-	51240 (8.1)	277394 (44.0)
6 th FYP	1491299	494838 (33.2)	166756 (11)	-	36165 (2.4)	793540 (53)
7 th FYP	3319729	534200 (16.1)	779602 (23.5)	-	193372 (5.8)	1812555 (54.6)
8 th FYP	11622193	489327 (4.2)	2434324 (20)	-	1645856 (14.2)	7052686 (60.7)
9 th FYP	24994604	1801257 (7.2)	5066378 (20)	31805 (0.1)	761934 (3.0)	17333230 (69.3)
10 th FYP						
2001	7059970	545176 (7.7)	1321317 (18.7)	8340 (0.1)	64834 (0.9)	5120303 (72)
2002	8130223	1323660 (1.5)	1607535 (19.8)	30504 (0.4)	62992 (0.7)	5105532 (62.8)

(Note: Self-raised funds basically involve local government recruited funds including major extra-budgetary funds and few private funds from the coastal region. But the latter make a tiny portion of the total investments.

Source: XSB: Xinjiang Statistical Yearbook, 2003)

that they do not have the option of closing them down. Thus, Xinjiang's provincial government has become very cautious in sponsoring or recruiting funds for SOEs, unless required to do so by Beijing. And state banks, wary of bad debts, also try to limit investment to SOEs unless forced to do so for political reasons. Kornai's theory of paternalism is very relevant here in its prediction of the bailing out of bankrupted projects for fear of socially and politically costly layoffs. However, after granting investment in the region by state banks following Beijing's investment policies, the sequential debts will always fall due to local government. Again, some of these domestic loans also go to state-sponsored projects according to the fixed quota required by Beijing for local financial contributions. For example, the state's "poverty minimisation" policy requires local government to pay 30 per cent of total costs. So, despite many state funded projects being allocated to the region, the local government officials complain that they come with major costs attached.⁸⁸ Facing all of these increasing debts, the enthusiasm of the local government in the sponsorship for regional investment has been seriously undermined.

Secondly, foreign capital investment in the Xinjiang has never been impressive and, after the 8th FYP, it has been reduced dramatically (Table 6.14), especially the FDIs who account for only 21 per cent of foreign total investment. Xinjiang's FDI only makes up 0.1 per cent of the national total, though it started as early as the beginning of the 1980s and at the time there were 10 joint-venture enterprises established. In the 8th FYP, local FDIs reached a peak \$0.18 billion, while in the 9th FYP, due to a change in state FDI investment policy and the "Asian Financial Crisis", the FDIs in the region were reduced in value to \$0.15 billion. These FDI projects involve small-scale, low technology, labour-intensive and raw material processing industries.

Foreign bank loans, as one of two kinds of foreign investments in the region (another is FDI), have come from the World Bank and Japan and started in 1983, benefiting the region greatly at first with their low or no interest. By the end of the year 2000, they had funded 62 projects totalling \$2.3 billion in agriculture, irrigation, transportation, resource exploitation, urban facilities and education. However, since 1999 the investment policy was changed by the World Bank, and the region now finds it difficult to pay back its loans at full standard interest

⁸⁸ Reports from Xinjiang Financial Bureau, 2002 and Li, director of Xinjiang's West Development Programme, 2002: "Analysis and Rethink of Xinjiang's Economic Development Environment" in China Development and Planning Commission (Ed.): Strategic Studies on the 10th FYP, and interview, 2003.

rates that are high and non-negotiable, and the region has had to replace foreign loans with domestic ones.

Some of the large foreign joint-venture enterprises are highly inefficient and run at a loss. For example, in the 1980s, Xinjiang's Tian Shan Woollen Textile Limited Company (XTS or GTS), was established as the first foreign joint venture. It had some of its products labelled by varied foreign brands to sell worldwide and earned \$2 million dollars of foreign exchange each year for the region. These products were recognised in 1991 with an international award for quality. But after ten years, the XTS has not developed into what the region had once expected. Now it faces losses of 204 million yuan and is struggling to survive⁸⁹. By the end of 2000, only 76 out of a total 222 foreign invested enterprises were making profits totalling 0.27 billion yuan, while 132 made losses of 0.26 billion yuan. Such poor performance by local foreign joint venture companies has not been interrupted by the government, which makes foreign investors hesitate to consider the region.

Thirdly, according to Wiemer (2004) and my fieldwork in 2002-2003, the major attractions of the region, oil and gas, are not fully open to either foreign or domestic private investments. Once, a rich local tycoon proposed to purchase some assembly lines of primary products of natural gas and crude oil from the XCPC. However, this was refused on the grounds of the costs necessary for health and safety measures, but underlying this was the XCPC's and the SC's unwillingness to see private capital take part in this strategic industry. Again, since 2000, a large group of private businessmen from China's richest county, Wenzhou, have made a 5 billion yuan bid to purchase 150 oil wells in the Karamay oil field. However, according to the media, the prospect of these businessmen breaking the state monopoly is not good. In 2004 most investors from Wenzhou left for Shannxi, where a small oil field had been found and the SC has granted the non-state enterprises permission to join in exploitation and production⁹⁰.

Fourthly, Xinjiang's local government still regards itself as politically superior to others and is unwilling to undergo a transformation of its attitude to SOEs, thereby showing itself to be politically attached, bureaucratically arrogant and institutionally uncooperative⁹¹. Unlike

⁸⁹ <http://www.tsw.com.cn/> accessed in November 2003 and also see discussion in chapter 7.

⁹⁰ <http://www.sohu.com/new/> 16:00 on 12/05/2005, accessed on 12th May, 2005 and fieldwork, 2003.

⁹¹ Fieldwork, 2003

their counterparts in Shandong, who are intimately involved in local business affairs, Xinjiang's provincial government not only on principle leaves the enterprises to struggle with their financial, managerial and operating problems, but also makes no attempt to lift the institutional bans on exploiting local wealth or help with the development of non-state sectors. Published policies in terms of investment recruitment for the enterprises issued by the local government have not granted real institutional functions, "empty cheques" named by local enterprises. There is no special agency set up to handle the financial problem of medium or small-scale enterprises. In reality the politics of domination restricts the effectiveness of local government administrative functions, and one solution might be seen as Weber's politically unattached, rational administration and Gulick's (1937)⁹² separation of politics and administration.

The absences of local governmental commitment and intervention are particularly damaging, as elsewhere in China this has been the most dynamic element in economic development. Given the political will, local government could break through the central institutional restrictions and provide better services to the region if it utilised its full powers.

6.2.3 Provincial Financial Revenues

Since the 1994 fiscal reform, local financial revenues have been received from four sources (Tables 6.5, 6.15): first, local fixed incomes including turnover tax, income tax, land rental tax, enterprises revenues, etc.; second, locality-state shared incomes: VAT, resource tax, securities exchange tax, etc.; third, the central state tax reimbursements; and, finally, some regions receive subsidies for specific policies, such as "Poverty Reduction Funds" (Table 6.15).

The growth rate of Xinjiang's regional revenues since the reform has been increasing very fast compared to the pre-reform period (Table 6.16). Despite a slight decrease after the 7th FYP, the annual rate of increase was still maintained at 14.65 per cent and 14.69 per cent in the 8th FYP and the 9th FYP respectively, the highest in the nation.

⁹² Gulick, Luther W (1937). Notes on the Theory of Organization, Papers on the Science of Administration. Gulick, L. and Urwick, L. New York, Columbia University Institute of Public Administration, p.10 as cited in Liu, 2001: p.83.

Table 6.15 Local Financial Incomes

1 Fixed revenues	Turnover tax (not including those from railway, bank, and insurance companies); all local-based enterprises ⁹³ income tax (not including those from domestic bank, foreign bank, and other fiscal institutes); all local based enterprises submitted revenues, personal income tax, land rent tax, urban construction and maintenance tax, property tax, vehicle hire tax, stamp tax, butcher tax, agriculture tax, agricultural specialised product tax, cultivable land usage tax, land VAT, etc.
2 Revenues shared between locality and centre	VAT, resource tax (not including those from ocean oil), securities exchange tax
3	Tax reimbursements
4	Fund incomes ⁹⁴ and policy subsidies

(Source: author, compiled from Fan and Li, 2001)

However, if we decompose the major revenue sources contributing to these increases, we can see Xinjiang's revenues come from two main sources: one is the regional financial revenue and other is state subsidies. Secondly, the subsidy revenues take up the lion's share, representing 63.01 per cent of total revenues. Table 6.17 shows total revenues for 1990-2001 and two major contributing sectoral revenues. Thirdly, the average rate of increase of financial revenues was 17.47 per cent annually over these 11 years while in the same period that of state subsidies was 21.94 per cent. Simply judged from the two ratios of financial revenue and subsidy to total revenue (note: (2)/(1) and (3)/(1) in Table 6.17), it easy to work out that the rate of increase of state subsidies was stronger that of local financial revenues. The results of the examination above prove that the fast increase of Xinjiang's regional revenues, described in the table 6.17, is generated by state subsidies.

⁹³ Local based enterprises include collective enterprises, and TVEs, some SOEs but not those strategically important in relating to Bank, Insurance, Oil exploitation and refinery Industries.

⁹⁴ Fund incomes refer to the income from extra-budgetary fund, self-raising fund and state's construction fund.

Table 6.16 Xinjiang's Growth Rate of Finance in Comparison with those of Other Provinces after the Reform (%)

	Annual Percentage Growth during 1953-1978	Ranking	Annual Percentage Growth during 1981-1989
1 Shanghai	17.5	1 Inner Mongolia	24.0
2 Qinghai	13.8	2 Yunnan	20.7
3 Liaoning	13.7	3 Hainan	20.3
4 Beijing	13.0	4 Xinjiang	19.1
5 Gansu	11.8	5 Guizhou	19.0
6 Heilongjiang	10.9	6 Heilongjiang	17.4
7 Ningxia	9.8	7 Qinghai	16.8
8 Shanxi	9.6	8 Guangdong	16.0
9 Shannxi	9.6	9 Fujian	14.8
10 Hebei	9.3	10 Jilin	14.7
11 Xinjiang	9.1	11 Guangxi	14.4
12 Jiangsu	8.8	12 Sichuan	14.3
13 Shandong	8.5	13 Zhejiang	13.6
14 Anhui	8.5	14 Ningxia	13.4
15 Henan	8.2	15 Jiangxi	13.0
16 Zhejiang	7.8	16 Henan	10.9
17 Fujian	7.7	17 Anhui	10.8
18 Hunan	7.7	18 Shanxi	10.5
19 Tianjin	7.6	19 Shannxi	9.7
20 Guangxi	7.5	20 Hunan	9.7
21 Yunnan	7.3	21 Hubei	9.5
22 Guangdong	6.8	22 Hebei	9.0
23 Jiangxi	6.7	23 Gansu	8.7
24 Inner Mongolia	6.6	24 Shandong	8.6
25 Guizhou	6.5	25 Jiangsu	7.9
26 Jilin	6.0	26 Liaoning	4.9
27 Sichuan	6.0	27 Beijing	3.7
28 Hubei	-	28 Tianjin	1.4
29 Hainan	-	29 Shanghai	5.4
30 Tibet	-	30 Tibet	-
Average	7.2	Average	11.6

(Source: Yabuki, 1995)

Table 6.17 Structure of Xinjiang's Total Revenues 1990-2001 (10,000 yuan)

Year	Total Revenue (1)	Increase Compared to Last Year (%)	Financial Revenue (2)	Increase Compared to Last Year (%)	State Subsidy (3)	Increase Compared to Last Year (%)	(2)/(1)	(3)/(1)
1990	529648	-	217784	-	243644	-	41.11	46.00
1991	560220	5.77	264691	21.54	244948	0.54	47.25	43.72
1992	581504	3.80	260737	-1.49	286434	16.94	44.84	49.26
1993	672941	15.72	351346	34.75	291302	1.70	52.21	43.29
1994	760053	12.94	286989	-18.32	436402	49.81	37.76	57.42
1995	1026007	34.99	382818	33.39	522571	19.75	37.31	50.93
1996	1130884	10.22	483069	26.19	590688	13.03	42.72	52.23
1997	1335460	18.09	576170	19.27	683783	15.76	42.57	50.52
1998	1485241	11.22	665674	15.53	801176	17.17	44.82	53.94
1999	1763420	18.73	744404	11.83	939967	17.32	42.21	53.30
2000	2031417	15.20	954986	28.29	1190159	26.62	47.01	58.59
2001	2917322	43.61	1157540	21.21	1838294	54.46	39.68	63.01
Average:				17.47		21.19		

(Source: author, fieldwork, 2003)

Xinjiang's financial budget is then decomposed further into two sectors: a general budget and the fund budget established after the 1997 reform. The fund budget separates all specific funds allocated for construction from the province's general budgetary funds, helping to clarify all sorts of financial sources for systemic budgetary control. These funds come from the centre for specific key infrastructure projects, such as road construction, etc.. The fund revenues have increased from 0.39 billion yuan, 5.4 per cent of the financial revenue in 1997, to 2.1 billion yuan, 17.8 per cent, in 2001. On this point, the share of the general budgetary revenue, the real income from Xinjiang's own sources is shrinking relative to total financial revenues. Table 6.17 shows that the weight of local budgetary revenue actually remains very low in proportion to total regional revenues. This means that the capacity and share of local budgetary revenue in the entire local financial economy is very low, though its rate of increase has remained steady over the years. In the 8th FYP the rate of increasing of budgetary revenue reached 20.8 per cent; in the 9th it was slightly lower at 11.9 per cent; but in the 9th FYP it is back to 20.1 per cent.

We can analyse the low capacity of the general budgetary revenue from two angles. First, since the reform, as we know, the Xinjiang's financial revenues have grown steadily. From 1978 to 2001, regional financial income increased from 0.71 billion yuan to 11.5 billion yuan, an annual rate of increase of 12.87 per cent, 0.57 per cent higher than the national average. However, if we look closely at the region's budgetary revenue, although 9.5 billion yuan was achieved in 2001, this accounted for only 1.22 per cent of the total sums of China's provincial budgetary revenues (Table 6.18), compared to 14.87 per cent for Guangdong. The GDP of the province was 148.6 billion yuan in 2001, 1.47 per cent of national GDP, ranking 24th out of the 30 provinces. This low regional GDP is symptomatic of the low capacity and low productivity of the region's economy. A region with a low economic capacity achieving a highly significant increase of budgetary revenue is not realistic. The ratio of the budgetary revenue to the GDP of Xinjiang remained at 6-7 per cent in general until 1999 and then reached 16 per cent during the WDP, in comparison to the national ratio of 12-15 per cent annually. Xinjiang's low ratios before 1999 are evidence of the low productivity of local economic enterprises.

Table 6.18 Ratios of Regional Revenue to the Total Sum of Provincial Revenues 2001 (%)

Locality	Xinjiang	Ningxia	Tibet	Guangxi	Inner Mongolia
Ratio	1.22	0.35	0.08	2.29	1.27
Locality	Guangdong	Shanghai	Shandong	Jiangsu	Zhejiang
Ratio	14.87	7.81	7.35	7.33	6.42

(Sources: author, fieldwork, 2003 and XSB: Xinjiang Statistical Yearbook, 2003)

Second, through decomposing the revenue sources, we can try to find out which budgetary sectors contribute to the poor local budgetary revenue. The data displayed in the Tables 6.19, 6.20, 6.21 and Figure 6.13 show the basic structure of the regional budgetary revenues. From Tables 6.19, 6.20, 6.21 we can see that the income of Xinjiang's enterprises plays a less important role among four sectors and its rate of increase remains very low too. Despite others like the economically advanced Guangdong province having a similar revenue structure, however, its enterprise revenues are the second big budgetary revenue sector and take a 12 per cent share in the period 1993-2000, higher than the 7 per cent share of Xinjiang, not to mention that the enterprise revenue of Guangdong accounts for an amount that was much higher than that of Xinjiang. In addition, the enterprise revenue in a provincial budget only counts the revenue submitted by province-directly-controlled SOEs and does not include revenues from private firms and state-directly controlled SOEs. And province-directly-controlled SOEs in Guangdong are not large in numbers and not significant or key economic units in economic growth, so their enterprise incomes don't account for a significant contribution to the local budgetary revenue. What makes up major contribution to Guangdong's or Zhejiang's or Shandong's local budgetary revenue is tax income constituted by various taxes submitted by their productivity-strong, large-scale and-number, non-state enterprises such as TVEs and others, like foreign enterprises.

Xinjiang's economy is largely dominated by its SOEs (Table 6.22), 84 per cent of the 73,941 enterprises in Xinjiang in 2002 and largely those involved in industrial sectors. Within these SOEs, the central-state-directly-controlled-SOEs represent only 25.7 per cent of the total local SOEs in 2002 and these SOEs' enterprise incomes are not included in the provincial budget. However, there are as many as 74.3 per cent of SOEs, with the ownership under the domain of the province, which means that the provincial government will directly collect enterprise income and income tax from these locality-based enterprises for the budgetary revenue. Large numbers of province-based SOEs imply that the enterprise incomes of these SOEs could possibly make up a big portion of substantial budgetary revenues to the local

Table 6.21 Indexes of Increases of Xinjiang's Financial Revenues, GDP, Enterprises Income and Taxes Income in the 7th, 8th and 9th FYPs (%)

	7 th FYP	8 th FYP	9 th FYP
GDP	9.7	11.5	8.0
Financial revenue	20.8	11.9	20.1
Enterprises income	1.9	-2.24	12.7
All taxes income	11.5	9.4	15.0

(Source: author, fieldwork, 2003)

Table 6.22 Regional Gross Value of Industrial Output by Ownership in 1997

	Volume (billion yuan)					Share %			
	Total	SOEs	COEs	POEs	Others	SOEs	COEs	POEs	Others
China	9189.4	3122.0	3362.3	1182.1	1523.1	34.0	36.6	12.9	16.6
East	6065.4	1658.0	2397.6	712.3	1297.5	27.3	39.5	11.7	21.4
Beijing	190.9	102.6	39.5	1.8	46.9	53.8	20.7	1.0	24.6
Tianjin	209.4	69.2	67.3	5.9	67.0	33.1	32.2	2.8	32.0
Hebei	399.6	144.7	150.0	67.3	37.6	36.2	37.5	16.9	9.4
Liaoning	497.5	218.9	150.2	76.3	52.1	44.0	30.2	15.3	10.5
Shanghai	512.9	202.8	95.0	5.7	209.4	39.5	18.5	1.1	40.8
Jiangsu	1181.3	249.8	709.1	52.2	170.2	21.1	60.0	4.4	14.4
Zhejiang	808.8	113.7	373.2	225.6	96.2	14.1	46.1	27.9	11.9
Fujian	280.1	50.3	89.3	43.4	97.0	18.0	31.9	15.5	34.6
Shandong	845.6	260.1	386.6	106.8	92.2	30.8	45.7	12.6	10.9
Guangdong	953.5	171.0	293.6	85.5	403.5	17.9	30.8	9.0	42.3
Guangxi	166.6	67.0	41.9	39.0	18.7	40.2	25.2	23.4	11.2
Hainan	19.3	7.9	1.9	2.9	6.7	40.8	9.6	14.8	34.7
Centre	2188.4	952.2	726.7	355.5	153.9	43.5	33.2	16.2	7.0
Shanxi	175.4	80.5	58.1	32.6	4.2	45.9	33.1	18.6	2.4
Inner Mongolia	78.2	49.6	14.7	8.5	5.4	63.4	18.8	10.9	6.9
Jilin	142.9	89.1	25.8	12.4	15.6	62.5	18.1	8.7	10.9
Heilongjiang	220.4	146.4	42.0	15.5	16.4	66.4	19.1	7.0	7.4
Anhui	315.6	99.9	136.1	56.2	23.4	31.7	43.1	17.8	7.4
Jiangxi	129.1	68.1	38.1	14.5	8.5	52.8	29.5	11.2	6.6
Henan	471.5	160.1	184.3	94.2	33.0	34.0	39.1	20.2	7.0
Hubei	410.3	156.3	151.8	68.5	33.6	38.1	37.0	16.7	8.2
Hunan	245.1	102.2	75.8	53.3	13.8	41.7	30.9	21.8	5.6
West	935.4	511.8	237.9	114.2	71.5	54.7	25.4	12.2	7.6
Sichuan	442.6	178.3	139.1	77.5	47.7	40.3	31.4	17.5	10.8
Guizhou	55.7	37.3	8.4	7.2	2.8	67.0	15.1	12.9	5.0
Yunnan	120.7	83.8	25.2	6.8	4.8	69.4	20.9	5.7	4.0
Tibet	0.9	0.7	0.2	0.1	0.0	73.0	17.8	5.7	0.0
Shannxi	118.3	71.9	28.2	10.6	7.6	60.8	23.8	8.9	6.4
Gansu	82.5	54.7	15.8	8.3	3.6	66.4	19.2	10.0	4.4
Qinghai	14.9	12.5	1.8	0.4	0.2	83.8	12.0	2.6	1.3
Ningxia	19.8	13.6	2.6	1.1	2.5	68.7	12.9	5.7	12.6
Xinjiang	80.2	59.0	16.7	2.3	2.3	73.5	20.9	2.8	2.9

(Note: COE: collective ownership enterprise; POE: private ownership enterprise)

Source: Wei, 2000)

Table 6.23 shows the total profits and taxes made by Xinjiang's industrial SOEs under the different regional-level state ownerships. From this we can see that the performance of

locality-based SOEs from all levels, provincial, prefecture and township, is not impressive, taking up only 13.07 per cent and 32.85 per cent of shares of profits and taxes by all SOEs in 2000 and 2002 respectively and making losses in 1999 and 2001.

Table 6.23 Total Sums of Profit and Taxes Made by Industrial SOEs 1999-2002 (10,000 yuan)

	1999	2000	2001	2002
Regional Total	608068.8	1622729.5	1674766.8	1519822.0
Domestic Enterprises	592195.1	1610453.4	1661796.5	1505858.9
SOEs	439545.2	49345.3	21989.9	44968.4
State SOEs	4466149	42898.2	27953.9	30198.5
Local SOEs	-7069.7	6447.1	-5964.0	14770.0
Provincial SOEs	7594.8	27239.1	-3271.4	19989.5
Prefecture SOEs	-21329.6	-23054.7	-1210.5	-7520.8
Township SOEs	6276.6	1728.0	-1769.0	678.5

(Sources: XSB: Xinjiang Statistical Yearbooks, 2000, 2001, 2002, 2003)

In the provincial budget, all enterprises of Xinjiang were presented as making financial losses until 1994, and, since 1999, industry and commerce have started making losses (Table 6.20). The loss-making of the industrial and commercial enterprises will no doubt contribute to low enterprise revenues. The industrial and commercial enterprises, who submit various taxes that constitute 92-95 per cent of local tax incomes in the local budget, are therefore the most important budgetary source for Xinjiang. Since 1991, tax revenues submitted by various production enterprises in Xinjiang have been as much as 94.27 per cent of the total budgetary income (Tables 6.19, 6.21 and Figure 6.13), though after 1994 this source has decreased in weight.

On examining all sorts of taxes received by China's provinces, there is support for the argument that a region's low budgetary revenues are due to its non-productive enterprises. Table 6.24 shows the proportions of the five major sorts of taxes received by ten selected provinces. Economically advanced provinces such as Guangdong and Zhejiang have a relatively higher proportion of income taxes than poor provinces like Xinjiang and Inner Mongolia. According to Chinese analysts, in a region with a low standard of economic development, income taxes are relatively less significant in total tax revenues, while in a region with a high standard economic development they increase their role⁹⁵. Xinjiang falls into the category of a region having relatively less developed enterprises, a low income tax take and a higher proportion of liquid taxes.

⁹⁵ Interviews, 2003

Xinjiang's enterprises represent two features: firstly large-scale enterprises dominate and are heavy-industry based. By 2000 Xinjiang had 6268 industrial enterprises and only 177 were large and medium scale but they accounted for 70 per cent of gross industrial output value (GIOV). Half of the enterprises engaged in heavy industries account for 77 per cent of GIOV. Such resource-based and large-scale enterprises mean large investment but less profit added in products, which is less amenable to gain in the highly competitive market. Again, geographical distance away from the main market in terms of investment and consumption blocks the flow of capital from private sources entering resource-based enterprises. Without much market advantage, it is not surprising to see that many enterprises are struggling to survive. Although restructuring with hi-tech is an important strategy for the region, as frequently mentioned since the 8th FYP, Xinjiang's government has no funds to materialise the strategy.

Table 6.24 Five Major Sorts of Taxes Received by Ten Selected Provinces

Locality	Xinjiang	Ningxia	Tibet	Guangxi	Inner Mongolia
Total taxes	100	100	100	100	100
In which:					
All liquid taxes	59.54	53.98	62.56	45.34	48.47
All income taxes	23.23	33.29	32.90	38.75	26.92
Resource taxes	9.89	6.16	3.81	9.94	15.32
Asset behaviour taxes	1.73	0.99	0.74	1.49	2.74
Property tax	5.62	5.58	-	4.49	6.54
Locality	Guangdong	Shanghai	Shandong	Jiangsu	Zhejiang
Total taxes	100	100	100	100	100
In which:					
All liquid taxes	51.84	53.56	45.47	51.91	48.05
All income taxes	38.01	37.09	38.11	35.38	42.64
Resource taxes	2.35	0.86	9.69	6.13	2.87
Asset behaviour taxes	2.26	2.8	2.29	1.24	0.89
Property tax	5.62	5.48	4.44	5.33	5.53

(Sources: author, fieldwork, 2003 and XSB: Xinjiang Statistical Yearbook, 2003)

Secondly, a lack of market-orientation dominates Xinjiang's SOEs. She has 1,006 centrally controlled companies, including some engaged in the profitable oil industry, and they account for more than one-third of GIOV. 42 per cent of enterprises are controlled directly by state-owned holding companies at national or regional levels and they contribute 86.1 per cent of GIOV. Although more than a quarter are 'collectives' in terms of ownership, they are still categorized as being in state ownership. So, in total, 84 per cent of registered enterprises are recognized as SOEs. Despite these SOEs appearing in the form of state-owned, collective, cooperative, or share-holding, their operations in production, sales and services

Very few of Xinjiang's enterprises promote their products in the national press, even though the products have a strong capacity to compete in international or domestic markets. The GTS Woollen Company mentioned above, for instance, in the early 1990s had a niche market only focusing on the region rather than further afield and it has never formally promoted its products beyond the regional border. At the same time, Inner Mongolia's Erdos Woollen Textile Limited Company has not only sold in the international market, but has also established itself as a leading brand of woollen goods in the domestic market by promoting its products on national TV and in the newspapers nearly every day. Erdos is now seen by the nation as the best and first in brand, quality and market share and has reached sales of 3.9 billion yuan, earning 0.19 billion dollars of foreign exchange in 2003. Meanwhile, GTS has only been able to reach sales of 379 million yuan and is struggling with 204 million yuan of losses⁹⁶. Such lack of market-orientated operation among Xinjiang's SOEs is very common and results in large-scale non-profitability (Table 6.25).

In addition, the non-involvement of local government in the operation and promotion of their leading locality-based SOEs accounts for some of the failure. In Shandong province, there are two leading, successful locality-based companies, Zhangyu Winery and Haier, a manufacturer of major appliances and electronics with a roster of products including wine cellars, refrigerators, freezers, air conditioners, dishwashers, laundry products, small appliances, electronics, and televisions, including plasma and flat screen models, that both owe a great debt to their local government, which has granted funds to establish the company brands and to advertise their products nationwide. Eventually, Zhangyu became a trading company whose brandy, wine, champagne and tonic wine are top products in terms of national brand recognition and quality. Haier has also now become a large international group able to issue shares and invest in the American market⁹⁷. In Xinjiang, such action from the local government is totally absent. The explanation for this is that the local government has neither money in hand nor the will to consider its transitive role as a supervisor to its enterprises. In the WDP it was frequently mentioned that there is a need to promote the efficiency of local SOEs, however, without local governmental efforts on ownership reform,

⁹⁶ <http://www.chinaerdos.com/> accessed in Nov. 2003; <http://www.tsw.com.cn/> accessed in Nov. 2003.

⁹⁷ Interviews, 2003

investment recruitment and operation efficiency, in the end the enterprises are left to struggle with their own problems alone and local budget receives no contribution from those profit-lose SOEs. Neither Haier nor Zhangyu are state SOEs or private firms but rather locally collective SOEs. In this regard, the local government treats them as their own property and has made the two companies successful and pillar sectors to contribute the increase of local revenues.

Table 6.25 The Economic Effectiveness Index of Industrial Enterprises in Central and West China in 1996 (million yuan)

	Independent-accounting Enterprises		State owned Independent-accounting Enterprises		Capita Tax Rate	
	Profits	Increasing or Reducing (comparing to last year)	Profits	Increasing or Reducing (comparing to last year)	Independent-account Enterprises	State owned Independent-account Enterprises
Shanxi	35.09	1.11	27.14	-1.05	6.31	5.69
Inner Mongolia	8.92	-0.37	0.87	-5.99	9.37	4.58
Anhui	24.08	-21.96	-7.21	-15.43	9.37	6.93
Jiangxi	0.89	-4.26	-9.44	-12.93	4.27	3.57
Henan	72.40	-33.49	37.25	-11	8.51	7.7
Hubei	46.13	-6.13	8.67	-15.73	6.59	5.01
Hunan	-7.44	-12.21	5.24	6.34	8.07	8.36
Sichuan	12.69	1.45	2.8	-1.81	4.84	4.83
Guizhou	-4.85	-8.62	-5	-8.44	6.62	6.46
Yunnan	101.15	-13.56	91.67	-19.85	25.95	31.58
Tibet	-	-	0.42	0.38	6.02	5.18
Shannxi	-9.8	-6.44	-20.46	-11.83	3.37	2.27
Gansu	-0.09	-5.82	-4.94	-5.19	4.7	4.26
Qinghai	-9.87	-4.22	-9.28	-3.95	-1.1	-1.2
Ningxia	2.11	-1.26	-0.92	-2.26	4.65	3.43
Xinjiang	-19.10	-17.92	-10.6	-8.16	3.17	3.33

(Note: Independent-accounting enterprises refer to enterprises are financially independent and compile their own balance sheets.

Source: compiled from Chen, 2001, based on NSB: China Statistical Yearbooks, 1996, 1997)

From the analysis above, a few conclusions can be drawn. First, the low standard of Xinjiang's entire economic development confines the budgetary revenue in amount, scale and forcefulness. Second, the low productivity of local economic enterprises directly affects the budgetary gains from enterprise revenues and income taxes. It results in a problem of weak local resources, shortages in the regional financial budget and leads to financial deficits, and continued reliance on state subsidies.

6.3. The Province's Enterprises and their Submission of Revenues and Taxes

In the last section we argued that the insufficiency of provincial budgetary revenues in the regional economy is regarded as a problem caused by the inefficiency and low productivity of local enterprises, which are then unable to submit sufficient revenues and income taxes for local government purposes. In this section we try to discover the problems in collecting revenues and taxes by local government from all enterprises, and try to find out whether the benefits in local financial revenues that local government and economy have received from the key economic sectors match their development.

6.3.1 Xinjiang's Enterprises and their Submission of Revenues and Taxes

In China's budgetary system, regional collection of revenues and taxes from the various enterprises depends on the defined ownership of enterprises. In this regard, we can divide Xinjiang's enterprises into four categories of ownership: TVEs, SOEs, private enterprises and foreign joint venture companies. As described in Table 6.5, the provincial budgets are only entitled to count taxes mainly income tax from state SOEs, TVEs and foreign firms, and enterprise revenues and all taxes from the locally based SOEs.

Table 6.26 shows the taxes generated from the agricultural and husbandry sectors, which only take up 5.4 per cent of budgetary revenues in 2001 and Figure 6.14 shows the agricultural enterprises since the 3rd FYP have produced no contributions to the enterprise revenues but losses. Budgetary expenditure on agriculture, including investment in innovation and administration, is considerably higher by as much as 10 per cent on average each year (Tables 6.8, 6.9). By 2002 rural industry makes up only 2.3% of GIOV because the rural industrial and commercial enterprises represented by TVEs in eastern China generally have never been well developed in Xinjiang. From the reform until 2002, there were only 27 rural industrial enterprises, 18% of the total, producing 512.69 million yuan GIOV, or 1.06 per cent of the regional total. Xinjiang has only 121 foreign and overseas Chinese investment companies and 432 private companies, which together account for 3.4 per cent of GIOV, while in Guangdong foreign and overseas Chinese investment companies alone account for 59 per cent of GIOV. Income taxes from Xinjiang's TVEs, private and foreign firms are not

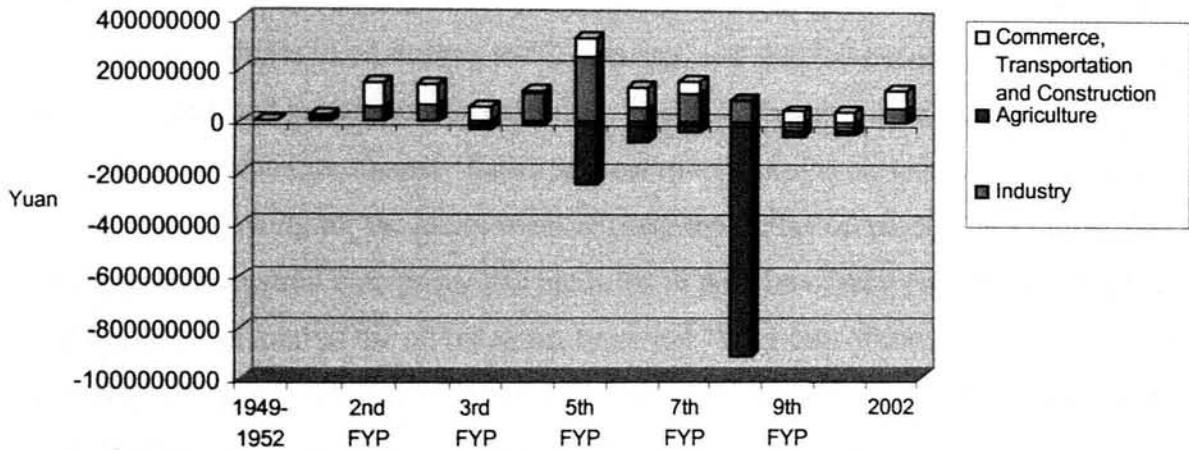
significant. In 2000, taxes paid by the TVEs made up only 0.7 per cent of the total taxes received by the region (XSB, 2001; 2002; 2003).

Table 6.26 The Percentages of Xinjiang's Budgetary Revenue by Sectors (%)

	Industrial and Commercial Taxes	Agricultural and Husbandry Taxes	Enterprises Incomes	Fund Revenues	Others
1949-53	47.42	15.34	1.86	-	28.26
1 st FYP	54.73	19.34	16.98	-	8.96
2 nd FYP	39.67	11.89	42.26	-	3.18
1963-65	45.22	11.02	36.70	-	7.06
3 rd FYP	66.08	17.35	5.62	-	10.95
4 th FYP	126.20	25.43	-70.71	-	19.07
5 th FYP	89.94	11.62	-17.43	-	17.86
6 th FYP	136.73	11.19	-54.99	0.62	6.92
7 th FYP	92.82	4.65	-4.70	5.55	2.61
8 th FYP	81.90	7.19	0.83	5.23	4.84
9 th FYP	71.68	8.29	5.23	4.99	8.74
2001	71.51	4.92	8.36	4.33	10.87
2002	68.83	5.40	7.80	4.88	13.08

(Source: author, based on the data of XSB: Xinjiang Statistical Yearbooks, 2001, 2002, 2003.etc.)

Figure 6.14 The Xinjiang's Enterprise Revenue by Sectors



(Source: author, based on the data of XSB: Xinjiang Statistical Yearbooks, 2001, 2002, 2003)

Xinjiang's vast, remote land, inconvenient transportation and sparse population make it difficult to promote small-scale, non-state TVEs and other private enterprises in the region. Anyway local government has made little effort. In the early 90s, large groups of private businessmen from the coastal regions, mainly Wenzhou, came to Xinjiang and tried to develop the local retail and commodity market. They faced not only opposition to their importation of the "culture of China's south", but also institutional non-cooperation. There was no encouragement of their investment, no social welfare for the children's education or

family settlement of these businessmen in a very different environment. On the contrary, there were many trade barriers for their businesses to overcome, for instance the absence of loans from local banks. This attitude discouraged many wealthy businessmen from the south of China. Even many Xinjiang home-grown private firms, after having success in establishing a business in Xinjiang, all intend eventually to leave. A good example is Delong, one of China's top ten private companies, which left Xinjiang for Shanghai, considering Xinjiang to be institutionally and geographically unsuitable for running a private business⁹⁸.

So Xinjiang's SOEs, 84 per cent of the total enterprises, are mostly resource industries, and they are the main sources of Xinjiang's budgetary revenues.

Table 6.27 demonstrates the productivity of all SOEs by production sectors, represented by economic indicators including the added value of industry (AVI), and profits and taxes. We can see that oil industrial enterprises, including oil drilling and processing and oil refining and cracking remain at the top, with the best achievements in AVI and profits and taxes. There are only 28-30 enterprises directly involved in the oil industry, 2 per cent of the total numbers of the total enterprises, but they represent 33 per cent of total GIOV. There are no loss-making enterprises in oil drilling and processing, and only 6-8 out of the 23 make a loss in the oil refining and manufacturing industries. The profit made by oil drilling and processing alone accounts annually for 83 per cent of total profits made by all oil enterprises and, even after allowing for the losses in oil refining and further oil product processing, the entire range oil industrial enterprises still produces 78 per cent of total profits annually. The profits and taxes in total of the oil industries represent 74 per cent of the total of all enterprises in Xinjiang. The varied taxes submitted by Xinjiang's oil enterprises take up 60 per cent of total taxes income of provincial budgetary revenues and are not only the biggest but also the only key revenue source for local budget. Therefore oil industries are regarded as the pillar sector for local financial revenue and economic growth.

Such profitability in Xinjiang's oil industry and oil enterprises may be viewed firstly as the result of state strategic investment in oil production expansion in the region, and, secondly, as due to large domestic demand in China's current phase of economic progress. Xinjiang has large reserves of oil and gas in its two deserts. According to a national oil survey after the

⁹⁸ Interviews, 2003

reform, there are approximately a total 20.08 billion tonnes of oil and 10 thousand billion cubic metres of gas in reserve, making up 30 per cent and 34 per cent of national total oil and gas reserves on land. These reserves place Xinjiang in a strategic position in national economic development. Since 1993 the country has started to rely on imported oil to sustain its fast economic growth even though home production was 16.9 million tonnes of crude oil in 2003. Consumption is increasing 5 per cent annually but production only by 1.8 per cent. Oil consumption in 2003 was 0.23 billion tonnes; in 2005 it will be 0.26 billion tonnes and in 2010 more than 0.3 billion tonnes. In 2003 30 per cent of consumption was imported, amounting to 91 million tonnes, in 2005 100 million tonnes and in 2010 150 million. Starting from 2002, the rate of self-reliance in China has been just 70 per cent, and Chinese oil researchers estimate that this will be reduced to 55 per cent in 2010 and 40 per cent in 2020. So, a future oil shortfall looms and the Chinese central government must find increased oil supplies for its fast growth. There are two possibilities. One is looking for international partners who have large oil reserves and are ready to sell their oil on a large scale to China, such as Russia, Middle East or Central Asian countries like Kazakhstan. The other is exploring for more oil at home. Both directions bond Xinjiang tightly to China's oil resource supply strategy⁹⁹.

⁹⁹ <http://www.sohu.com/news/> accessed on 19/03/2004 and 09/04/2004.

Table 6.27 Index of Major Economic Indicators of Enterprises by Production Sectors with Independent-accounting System 2000, 2001, 2002 (million yuan)

Sectors	2000							2001						
	Numbers of Enterprises	Numbers of Loss Making Enterprises	GIOV At 1990 Prices	AVI	Total Profit	Total Profit and Taxes	VAT	Numbers Of Enterprises	Numbers of Loss Making Enterprises	GIOV At 1990 Prices	AVI	Total Profit	Total Profit and Taxes	VAT
Non-oil mining and processing	130	46	1401.2	1083.1	20.47	214.7	163.2	115	34	165.2	1228.35	88.2	320.5	194.8
Oil and gas drilling and processing	5	0	7017.3	20702.2	9408.7	12978.4	2715.6	7	0	5871.7	19326.0	8597.1	11192.6	1984.7
Food and related products	310	153	4797.2	1709.64	15.6	545.0	287.4	289	114	5775.4	2549.3	361.7	829.5	330.5
Textile, leather and garment industries	124	48	4768.8	1915.2	9.5	340.0	306.6	111	65	4313.7	1470.16	-429.2	-227.6	186.6
Timber and its processing, and related product manufacturing	133	62	1063.7	452.1	28.1	111.7	75.9	104	43	1013.3	419.6	54.8	121.2	59.8
Oil refining and coking	23	6	6657.8	3082.9	-1270.0	-165.9	314.9	21	8	9021.4	4026.4	-121.5	1666.9	658.7
Chemistry, medical ,etc, manufacturing	149	55	3810.2	1131.6	221.8	486.2	202.9	156	46	4521.2	1441.1	5.39	349.4	287.6
Non-and – metals products manufacturing	232	76	5732.7	2527.6	674.0	1073.3	359.7	193	47	7089.4	3478.5	1303.3	1935.9	592.5
Machinery and electronic industries	149	75	2725.3	765.6	-29.94	108.7	125.3	132	56	3125.5	847.3	69.02	199.75	114.5
Power industries	284	111	3026.1	4392.1	-40.11	1050.6	518.1	292	134	3499.6	4484.4	-369.71	722.14	523.7

Table 6.27 contd

Sectors	2002						
	Numbers Of Enterprises	Numbers of Loss Making Enterprises	GIOV At 1990 Prices	AVI	Total Profit	Total Profit and Taxes	VAT
Non-oil mining and processing	114	26	1841	1411.3	134.3	404.5	229
Oil and gas mining and processing	6	0	6167.6	17513.2	6536.4	9022.86	1813.5
Foods and its related products	247	95	6600.4	2628.8	295.7	1011.0	390.3
Textile, leather and garment industries	101	54	436.7	1410.4	-286.9	-99.1	171.6
Timber and its processing, and its relation products manufacturing	102	42	1122.5	502.3	68.6	126.8	53.4
Oil refining and coking	24	6	9377.5	4562.7	-171.1	1927.7	910.2
Chemistry, medical ,etc, manufacturing	149	46	4937.4	1596.6	130.7	413.0	239.1
Non-and – metals products manufacturing	189	59	8132.6	3850.9	1256.6	1764.5	465.8
Machinery and electronic industries	137	52	3591.3	1014.0	18.6	184.9	146.9
Power industries	206	124	2083.0	2882.9	-270.0	442.4	652.9

(Notes: Non-oil mining and processing includes coal, ferrous and non-ferrous metals, and non-metal minerals.
Food and its related products include grain, sugar, beverage, tobacco, etc.

Timber and its related products manufacturing include furniture, paper-making, printing etc

Source: author, based on the data of XSB: Xinjiang Statistical Yearbooks, 2000, 2001, 2002, 2003)

Xinjiang not only has large quantities of this key resource but also shares borders with Kazakhstan, regarded by some observers as the future “Kuwait of Central Asia” (Liu and Felmingham, 1998: p.6). This is important, especially after the failure of negotiations with Russia over the construction of an oil pipeline from Russian Taishet across China’s Northeast to her harbour city of Dalian. Because of Japanese and North Korean objections, Russia had to adjust the route of the pipeline, ending at Nokhodka instead of Dalian. This change made China determined to reinforce her partnership with Kazakhstan over oil trade¹⁰⁰. 30 billion yuan has been invested to build up the oil pipeline from Kazakhstan’s Alashankou to Xinjiang’s Arksu, starting on 28th September 2004, with an expected completion at the end of 2005. This confirms the “bridge” position of Xinjiang in economic connections between central China and the central Asian countries. The central government is expecting Xinjiang to become China’s newly major crude oil supply site, replacing the traditional one in the northeast.

Increasing investments from the state have focused more on the resource industries, reaching 31.5 per cent of total regional investment in the fifth FPY by comparison with 16.7 per cent in the fourth FYP and a peak of 48.03 per cent in the eighth FYP. State investment alone in the oil industries in Xinjiang has reached 81.71 billion yuan. A number of projects linked to surveys of oil reserves, exploration, exploitation and refinery were successively launched. Since the discovery of three large-scale oil fields in the Tarim, Zungharian and Turpan-Hami basins, the numbers of oilfields have increased from 8 in 1979 to 56 in 1998, and led to a production of 23 million tonnes of oil annually, 20 per cent of national oil output. Over the coming 5 years since 2000 the region is expected to verify oil reserves of up to 3.3 billion tonnes and gas reserves of 1.16 trillion cubic metres, with a plan of increasing its crude oil output to 24 million tonnes annually, and gas to 18 billion cubic metres.¹⁰¹ Oil pipelines have been extended and doubled in number to 12 from the fields to the refinery sites, with a capacity of delivering 2.0 million tonnes annually in 1998, along with the construction of a giant east-west gas pipeline reaching China’s major industrial cities, the Lanzhou and

¹⁰⁰ <http://www.sohu.com/new/> accessed on 5th and 25th Feb., 19th March, and 9th April, 2004.

¹⁰¹ Landrethg, Jonathans. (2000 24th April). “China’s Wild West: the Promise and the Danger of Xinjiang Oil in the Desert, Cotton in the Lowland, Wind Energy on the Steppes.” <http://www.uyghuramerican.org/> accessed in 2001.

Shanghai sections of which were completed in 2004¹⁰². Oil refinery and crude oil manufacturing industrial complexes have been established in the region's major economic zone, the economic "golden triangle" of Urumqi-Kuytun-Karamay, in which 7 million tonnes of crude oil was consumed for the output of products like chemical fertilizers totalling 0.35 million tonnes in 1996.

Such an emphasis on resource industries, especially oil, has restructured Xinjiang's industrial economy (Table 6.28). Table 6.28 demonstrates the increasing domination of oil and gas industries in the regional GDP over the four decades of local industrial development.

Table 6.28 The Changes in Xinjiang's Major Industrial Sectors (%)

Year	1952	1957	1962	1965	1970	1975	1980	1985	1990	1994
Black metals	0.99	2.62	2.68	2.53	2.15	1.77	2.22	2.81	3.25	4.56
Nonferrous metals	7.51	9.69	2.05	1.07	0.76	0.67	1.42	1.05	2.41	2.06
Electric	0.12	0.64	1.61	1.70	2.91	3.02	3.20	3.31	3.25	2.76
Coal	1.66	2.88	4.74	4.44	4.14	6.02	6.08	4.75	3.00	3.16
Coke	0.10	0.12	0.33	0.04		0.07	0.02	0.04	0.07	0.08
Oil and gas	6.34	7.01	23.56	20.09	21.37	27.11	21.94	22.43	21.20	30.55
Chemistry	0.85	0.77	2.52	2.42	2.82	3.52	3.47	4.51	6.4	3.96
Machinery	4.90	5.94	11.6	9.09	9.24	11.6	13.15	11.94	9.33	6.14
Construction materials	2.00	2.17	1.97	4.59	4.60	4.83	6.49	7.65	5.28	6.08
Forest	4.86	6.49	2.39	3.34	1.94	1.60	1.87	1.85	1.01	0.72
Food	21.36	18.32	19.24	18.44	20.34	18.58	19.07	17.00	16.02	13.05
Textile	22.45	6.22	17.43	23.22	23.26	14.12	12.38	15.99	22.65	22.34
Tailoring	14.96	7.09	3.87	3.01	1.54	1.92	2.22	1.55	1.10	0.57
Leather	9.80	5.25	3.41	2.15	2.11	2.09	1.70	1.68	1.68	0.85
Paper making	0.08	0.08	0.57	1.07	0.76	0.55	0.88	0.64	0.90	0.63
Stationery	1.22	2.02	1.21	1.37	0.86	1.51	1.77	1.29	1.18	0.64
Others	1.07	2.69	0.82	1.43	1.20	0.96	1.12	1.52	2.03	1.87
Total gross output (million yuan)	22.0	48.5	121.9	137.7	181.0	214.2	407.1	867.8	2199.2	5905.2

(Source: Wang, 1999a)

6.3.2 Leading Economic Sector and its Submission of Revenues and Taxes to the Region

From discussion above, we have shown that oil is the local economy's pillar sector, and that the state effort in oil industrial development in Xinjiang is enormous. But does the expanding development of the oil industry match its contribution to provincial economy especially local budgetary income?

¹⁰² <http://www.sohu.com/news/> accessed on 03/08/2004 and on 18/10/2004.

China's oil industry and enterprises used to be controlled and headed by the Energy Ministry of the SC, from 1949 to 1984. Since 1984, the start of the reform and the transformation of SOEs, three large-scale companies have been established, under state ownership, in the names of the China Petroleum Corporation (CNPC), the China Petroleum and Chemical Corporation (PetroChina or CNPCC), and the China Offshore Petroleum Corporation. They have taken control of the oil sectors in their respective areas. The three companies have been directly headed by the SC since the closing down of the Energy Ministry. The CNPCC has a 40 per cent share of on-land oil enterprise and the CNPC the remaining 60 per cent.

Xinjiang's oil industries, all in the hands of the CNPC and the CNPCC, have set up seven large-scale companies: the Karamay Oil Bureau, engaged in local oil extraction, refining and processing; Dushanzi Oil Chemical Manufacturing; Zhepu Oil Chemical Manufacturing; Urumqi Oil Chemical Manufacturing; Xinjiang Tarim Petroleum and Exploration and Development Command Post; Xinjiang Tuha Oil Field Petroleum and Exploration and Development Command Post; and, finally, the Xinjiang Oil Selling Company. Xinjiang's gas is controlled by PetroChina, which in turn is owned by the CNPCC. So, through these seven enterprises, Xinjiang's oil and gas resources, including their extraction and refining and all related manufacturing, are tightly controlled by the CNPC and the CNPCC and directly supervised by the SC. There is no intervention of the local government over any exploration, production and sales of the seven oil companies. Although attempts have been made by private companies to break through the state monopoly of the oil industry in Xinjiang, their involvement is held back by the huge risks in investment, by a complex process of bribing officials through their bureaucratic agents for permission to drill and, most of all, by the state's determination on tight control over this strategically important sector.¹⁰³ Even though foreign companies, for instance, Shell, have been involved in the sector, the deals are made directly between PetroChina and the companies.

Although Xinjiang's oil industries have developed into a key economic sector, their products focus on crude oil and secondary raw materials and outputs is low and variety limited. The ratio of industrial value added among crude oil, processed oil products, and advanced oil

¹⁰³ Interviews, 2003

chemicals is 1:2:4 in China's domestic market.¹⁰⁴ The oil refinery and manufacturing industries established in Xinjiang are small-scale in comparison to those located in Shanghai and Lanzhou, and are only able to consume 9-10 million tonnes of crude oil annually, less than half (45 per cent) of the total amount of oil produced in the region. When these primary processed products reach their major markets in the east, the total cost, including the long distance delivery, is much higher than simply selling the crude oil, and, due to the high fixed prices, the products are not really competitive in the coastal market. State control of marketing means that Xinjiang's output is sold to the east, but the profits made by Xinjiang's oil enterprises are far below those of Shanghai's and Lanzhou's large advanced oil enterprises. In addition, half of the natural gas is wasted in the oil extraction gas manufacturing processes, due to the low standard of extraction technology. A long-term project would be to build a series of large complexes for efficient oil and gas extraction, refining and manufacturing and to increase the market competence of Xinjiang's oil and gas products. These would require substantial investment in high technology and a reduction in labour costs. By way of a start, the CNPC announced in June 2004 that in the coming 11th FYP the investment in Xinjiang by the company will increase with a focus on the Urumqi, Dushanzi, Karamay and Tarim oil refining enterprises¹⁰⁵.

The former director of Xinjiang's Development and Planning Commission pointed out in the second meeting of the 10th National Politico-Corporation Congress that the monopoly of the state via the CNPC and the CNPCC has blocked the development of non-state and locality-based enterprises in the province's oil sector. So, consequently, not only does Xinjiang's local economy receive less benefit than it might from its oil resources, but also the lack of competition reduces incentives for technological innovation and the provision of high quality products to the oil industries of the region. By the time that the pipeline between Xinjiang and Kazakhstan is completed, there will be a tax revenue windfall of the order of billions of yuan, but even then the bulk will be received by the state and not by the region¹⁰⁶. Such issues have been raised by the local academic institutes and western scholars, such as Christoffersen (1993) and Wiemer (2004).

¹⁰⁴ <http://www.sohu.com/news/> accessed on 12/10/2004.

¹⁰⁵ <http://www.sohu.com/news/> accessed on 12/10/2004.

¹⁰⁶ <http://www.sohu.com/news/> accessed on 9/03/2004.

According to the media,¹⁰⁷ in 2004 Xinjiang produced 60.2 thousand tonnes of crude oil daily and 21,400 thousand tonnes for the year in total. The oil refineries, however, were only able to process 45-50 per cent of that total. So, 50-55 per cent of crude oil is channelled to Lanzhou, in which a massive refinery and processing centre is located. On the international market today (October 2005), one tonne of crude oil sells at \$447 approximately. If there was not the control of the state over Xinjiang's oil industry, each year Xinjiang could possibly receive an income of 4.5 billion dollars or 36 billion yuan just simply by selling about 10 million tonnes of crude oil at the full world price, not to mention other profits received from selling processed oil products.

However, due to the state monopoly, enterprise income, income tax and 75 per cent of the VAT submitted by Xinjiang's oil and gas enterprises are directly passed on to the state via the CNPC and CNPCC. The benefits received by Xinjiang from this profitable resource are only taxes, including 25 per cent of VAT and others like the Resource Extraction Tax, which is 15 per cent of profits.¹⁰⁸ Despite these tax revenues submitted by the oil enterprises to locality being limited, they still make up 60 per cent of local taxes revenues in the budget and represent the biggest share of all revenues and taxes to the locality from all enterprises (Table 6.26).

The central government investment in the development of Xinjiang's oil aims at serving its own oil strategy in which Xinjiang's oil has been developed impressively and dominates the entire regional economy. It bonds Xinjiang's economy with regard to oil development entirely with the central strategy. The decomposition of the province's revenue received from its oil sector reveals that the oil sectoral development has greatly benefited China as a whole but not the region itself. Many of Xinjiang's local economics scholars in my interviews said that if such a phenomenon as the state monopoly over profitable local enterprises was found in any of the coastal or central regions, the local government would go to great lengths to undertake negotiations with the centre for a better deal or to develop a strategy against state

¹⁰⁷ <http://www.sohu.com/news/> accessed on 9/03/2004.

¹⁰⁸ The rate of Resource Extraction Tax varies from 15%-18% according to negotiations between the locality and the centre. For Daqing, China's largest oilfield and energy supply base, it is set at 18%.

control, such as raising the rate of all taxes on oil products sold outside the province, for instance, the rate of Resource Extraction Tax set for Xinjiang could be raised from 15 to 18 percent as the same as that of Daqing¹⁰⁹, and pave the way for non-state enterprises to be involved in the oil industry. In the case of Xinjiang, the local government itself makes no effort to argue the case and at the same time Xinjiang's complexity and Beijing's oil strategy reinforce the phenomenon. So it is not surprising to see that the minorities of the region feel that they have been cheated by the state, which is seen not only to have deliberately taken Xinjiang's wealth away, but also to provide a "fake" financial and political autonomy. These minorities point to their own populations living in poverty and they argue that the state siphons off the region's most precious resource.

In the light of our discussion of Xinjiang's low budgetary revenues resulting from low submitted revenues and taxes from local SOEs, we may now safely say that the province's most profitable enterprises have not been counted in. Xinjiang's oil enterprises have been detached completely from the region's economic units and have served the purposes of Beijing. Given the prosperity of all oil enterprises in Xinjiang, if, say, half of their revenues went to the locality, the local financial situation would be transformed. In Table 6.26 the total profits of the oil drilling and processing enterprises alone reached 9408.7 million yuan in 2000, and in the same year Xinjiang's budgetary revenues were 7980.2 million yuan and the state subsidy was 11901.6 million yuan. So the central government took away the region's wealth and gave back nearly the same amount in subsidies. This supports the argument raised in section 6.1.1 that China's financial institutions in Xinjiang are "self-contradictory" and that they have reinforced the impacts of Kornai's SBCs and North's "State predation" on the toothless nature of local government. In effect, local government as the major economic actor has now lost interest in pursuing economic growth for the region. Thus we say the competence and integrity of Xinjiang's local government is undermined not only by the orientation of its political administration but also by the uncooperative economic institutions, which provide no incentive for the development of initiatives of local government.

¹⁰⁹ Daqing, in NE China, has China's largest oilfield at present and once was the major oil supply base of China.

In conclusion for this chapter, although China's central state has withdrawn its monopoly over the ownership of most property in order to revive market incentives, still large, prosperous sectors like the national railway and air networks, and key resource industries are under the central state's tight control. The coastal regions are able to generate the prosperity from non-state sectors, but for inland regions, like Xinjiang, the public monopoly over their dominant economic sectors blocks resources and incentives at the local level. Xinjiang's case is just as described by the paths 1, 2 and 3 in Figure 6.1, suggesting, as argued at the beginning of the chapter, that local government has gained no power from decentralisation, and is unable to promote or defend the region's interests. Through examining the impacts of fiscal and investment reform in Xinjiang, we have seen that the invalidation and failure of these reforms in Xinjiang has resulted in increasing dependence on state subsidies and in mismanagement by local government of its financial affairs. The incomplete nature and innate biases of China's partial reform are ultimately at fault.

Chapter 7 Local Government, Local Economic Policy and Regional Development

In their theory of *Decentralisation Chinese Style*, Qian, Weingast, Jin Roland and Maskin examine the mechanisms of vertical decentralization in China's partial reform and they remark upon the dynamic role of local government in two ways. First it acts as a local defender against politico-economic institutional restrictions by protecting regional economic success from central "predation"; and, second, it plays an active part in planning for the local economy to take off. Making regional policy by the local government is not just a matter of tuning the province's development with China's development as a whole but also, as in the good example set by Wang Enmao in his pursuit of socialisation in Xinjiang, building a rational and effective government administration for the sake of the region. In China's decentralisation, fiscal reform and the development of non-state sectors empowers the local governments to transform their administrative role into the one with more economic responsibility and to act as a real economic agency for local development. In this chapter, by examining Xinjiang's regional development since the reform in terms of economic growth and policies created by the local government in dealing with the problems between resource industrial promotion and infrastructure deficiency, economic zone designation and uneven spatial development, resource exploitation and environmental degradation, we will judge whether it have been conducive to the region's own interests and economic-social harmony, and the degree to which they reflect local governmental power gain, competence and administrative orientation.

7.1 Xinjiang's Regional Policies

7.1.1 Making Xinjiang's Regional Development Policies in the Framework of China's National Development

7.1.1.1 The SEZs and Three-Ladder-Step Development

China's regional development can be viewed as the state's determination, through policy instruments, to manipulate economic growth and influence geopolitics. China adopted the

Soviet model of 5-year plans (FYPs) to set up a periodic goal for the country's development and to determine regional development by allocating resources through key projects distributed to the targeted regions.

In Mao's China under the centralised politico-economic system, the absence of market integration left central planning as the major means to determine all economic activities, and the practice of central planning was extended to every aspect of society (Oi, 1995; Liu, 2001). Regional development was thus subject to the state planning monopoly and local government acted as a central policy implementer in pursuit of national strategies. Regional development planning was heavy, inclusive and mechanical, with detailed instructions and broad arrangements as to the amount of output of local factories and farms, such as how many lorries, cars or tractors could be produced by the SOEs (no private industrial enterprises existed), or what cotton production quotas should be allowed on local farms (Oi, 1995: p.1134). Such mechanical planning without taking account of local conditions and interests strangled local initiatives and resulted in inefficiency in terms of investment and production.

At the time, China's regional strategy was influenced by the notion of even development with emphases on (a) China's inland regions, and (b) the targeting of heavy industrialization on the principle of production being close to resource supply sites. The policies and principles of regional development reflected the ideology of industrial distribution and resource allocation that had originated in China's first FYP. These fundamental ideas subsequently determined China's policy-making for decades (Wei, 2002; Lu, 2003). The factors behind forming such a strategy are fourfold. Firstly, an extremely lopsided economy before 1949 militated against the requirement for equality, the ideology of Socialist country's economic development, which provided a theoretical base for China's policy-making. Since most industrial bases had been developed on the coast and the major resources were found in the interior, the shortage of raw materials for Chinese industrialization required the opening up of these the inland areas. Secondly, the Soviet style of heavy industrialization shaped the Chinese pattern. Thirdly, the threat of international attacks on the newly developing country was expected to come from the sea. Finally a fourth guiding principle for China's regional

economy, added by Mao, was the promotion of self-reliance. This principle drove China's regions to build up relatively independent industrial clusters within each macro-region, in order to develop similar production patterns from region to region and to encourage a self-reliant but fragmented development (Wu, 1967). Therefore, in accordance with the theories of Soviet-industrial-location and balanced regional growth, and with national security and self-reliance in mind, the interior of the country was considered to be desirable and suitable for early and rapid development (Lin, 1999).

Under such a regional development strategy, Xinjiang's development, especially in the first and second FYPs, was seen as (a) self reliance of local agricultural economy, and (b) resource-oriented industry. A series of new coal mines were sunk around the capital Urumqi and related coking industries set up nearby. Oil and its refinery and petroleum industries were also soon under way after a new oilfield was discovered in Karamay. There were early signs of an industrial conglomeration with emphases on resource industries, including electric power stations, steel and iron plants, plus some light industries such as textile, sugar, wool and cotton yarn manufacturing factories, established along the northern slope of the Tian Shan Mountain. In 1957 industry had brought 26 per cent of the regional total income, and in 1959 the income of heavy industry took up 58.66 per cent of total regional industrial income. Although the Soviet Union gave substantial financial and technological aid to Xinjiang's development, nevertheless the Chinese central state still was responsible for solving capital and labour shortages. In the period 1950-1958, Beijing invested 13,980 million yuan, including the Russian aid, to spur Xinjiang's growth. In 1960 the first railway construction started to link the region to the nearest province and this reached the capital, Urumqi, in December 1962 with plans eventually to reach the Soviet border. However, all development soon stopped due to political upheavals since the 3rd FYP.

Mao's death in 1976 ended ten years of the Cultural Revolution and China soon adopted economic reform under the leadership of Deng Xiaoping. Although Mao's egalitarianism was still a major principle, in order to give a fillip to efficiency and growth, a strategy was adopted of "encouraging some regions and individuals to get rich first". Comparative advantages, openness and decentralisation were promoted. Individual regions with initiatives

for fast growth were emphasized and, in order to generate the initiatives, preferential policies from the centre were thus granted.

The new Special Economic Zones (SEZs) were “institutional special” zones set up to “act as ‘windows’ through which China could more readily interact with the outside world, with a view to learning managerial and technical know-how and attracting international capital” (Li, 2000: p.158; Marton and Wu, 2004). Four SEZs were established at the general meeting of the Fifth People’s Congress in 1980: Shenzhen, Zhuhai and Shantou in Guangdong province, and Xiamen in Fujian province (Hainan Island was added as the fifth in April 1988). After the SEZs, 14 coastal cities were granted open status by 1984, followed by three open delta areas: the Pearl River, Minnan (South Fujian) and Yangzi in 1985 and 1986 (Map 7.1). The state provided the preferential policies to the SEZs and open cities in order to materialise its promise. As a result, the centre of gravity of state investment and of productivity distribution started moving eastwards from the interior to the coast. The preferential policies are as follows (Fan, 1995: p.426):

1. Investment Policy: the central government allocated more investment to the coast via the state appropriations, loans, and subsidies, and distributed projects (Table 7.1).
2. Foreign Exchange Retention Policy: In 1979 the central state decentralized the control of foreign exchange; allowing enterprises in SEZs to retain 5-50 per cent of foreign currency.
3. Revenue-remittance Policy: regions like Guangdong province and Fujian received or retained the funds and revenues from the centre (see chapter 6), unlike other developed provinces that had to submit most revenues and savings.
4. Price Policy: the price of raw material and capital goods was set at lower levels than the finished and consumption goods by state price policy, and that benefited the enterprises in the SEZs in purchasing resources from inland.
5. Financial Policy: the SEZs received significant economic autonomy and financial incentives in managing their local economy, such as reduced income tax to 15 per cent, exemption from income tax for FDI companies (the details Table 7.2).

6. Land Rent Policy: reduced land rental fees for the enterprises in SEZs and allowances for land to be freely rented out and contracts renewed among the state and local enterprises.

Table 7.1 The Share of Fixed Capital Investment 1953-2003 among the Coast and the Interior (Three Broad Regions) (%)

	Region			
	Coast	Interior	Central	Western
	Eastern			
1953-57	44.08	55.90	34.38	21.52
1958-62	40.65	59.37	36.00	23.37
1963-65	37.49	62.49	35.04	27.45
1966-70	29.39	70.59	32.51	38.08
1971-75	39.47	60.56	33.28	27.28
1976-80	45.77	54.25	32.70	21.55
1981-85	50.66	49.35	31.06	18.29
1986-90	56.44	43.52	26.31	17.21
1991-95	64.39	35.61	22.53	13.08

(Sources: National Statistics Bureau (NSB): China Statistical Yearbooks, 1992-1997)

Map 7.1 Divisions of the Three-Ladder-Step and the Third Front



(Source: compiled from Fan, 1995)

Table 7.2 The Incentives of Regional Preferential Policy for the Granted Zones and Districts

	Tax Incentives	Other Incentives	Numbers, Locations and Established Years
SEZs	For FDI firms of 10-year contract or longer: exempt income tax on the first 2 profitable years and half of the tax for the following 3 years. Others are the same as in ETDD; some tax exemptions applicable to the domestic firms too.	100% foreign exchange earnings retained locally; land renting autonomy	5: 1980: Shantou, Shenzhen, Zhuhai, Xiamen. 1988: Hainan Island
Economic and Technologic Development Districts (ETDD)	15-30% income tax on productive or non-productive business respectively; exempt from local added value tax; for FDI business only: exempt tax on profit transaction abroad.	Tax exemption on the gross profit reinvestment; land renting autonomy etc.	21: Shandong (4); Fujian, Guangdong, Jiangsu, Liaoning (3); Shanghai, Zhejiang (2); Tianjin (1) (1984-1995)
High/New Tech-Industrial Parks	10-15% income tax only for high or new tech projects.		51: Guangdong (6); Shandong (5); Jiangsu, Liaoning (4); Beijing, Fujian, Guangxi, Heilongjiang, Hebei, Henan, Hubei, Hunan, Jilin, Shanxi, Sichuan (2); Anhui, Guizhou, Hainan, Inner Mongolia, Shanghai, Shanxi, Tianjin, Xinjiang, Yunnan, Zhejiang (1)
Free Trade Districts	Same as SEZ	Same as SEZ	13: Waigaoqiao (Shanghai) (1990); Tianjin, Futian, Shatoujian (Shenzhen) (1991); Qingdao, Haikuo, Zhangjiagang, Ningbo, Guangzhou, Fuzhou, Dalian, Xianyu (Xiamen) (1992); Shantou (1993)
Pudong Development District	For FDI firms investing in infrastructure: exempt income tax on the first 5 profitable years and half of the tax for the following 5 years For firms importing equipments and vehicles for production: exempt from industrial-commercial tax and tax on profit transaction abroad Others are the same as in SEZ.	Retain all new increasing revenues during the period of the 8 th FYP Allowing foreign banks, commercial retails, and financial institutes set-up	1: Shanghai (1990)
Coastal Open Cities (COCs)	24% income tax for all FDI invested in old urban area	Land renting fee reduction, etc.	14: Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ninbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, Beihai

Table 7.2 contd

Coastal Economic Open Regions	24% income tax for all FDI invested in old urban area	Land renting fee reduction, etc.	40 cities and 215 counties in three open delta areas (1985), and Liaodong Peninsula, Jiaodong Peninsula, and Bohai Rim (1988)
Inland Open Cities along rivers	Same as COCs	Same as COCs	5: Wuhu (Anhui), Joujiang (Jiangxi), Wuhan, (Hubei) Chenlingji (Hunan) Chongqing (Sichuan) (along Yangzi)(1992)
Inland Open Frontier Cities and Counties	24% income tax for all FDI invested in old urban area For FDI firms in manufacturing and producing agricultural materials: exempt from local added value tax and tax on profit transaction abroad For FID from bordering countries exempt from industrial-commercial tax and tax on profit transaction abroad	Allow establishing economic corporal district along borders, Accordingly decentralize local government administrative to the cities	13: Heihe, Cuifeng (Heilongjiang), Manchuli, Erlianhoute (Inner Mongolia), Huichun (Jilin), Yining, Bole, Tacheng (Xinjiang), Fengxian, Dongxin county (Guangxi), Wangding, Ruili, Heko county (Yunnan) (1992)

(Sources: author, compiled from Wang and Liu, 2000; Marton, 2001; Marton and Wu, 2004 and data from fieldwork, 2002, 2003)

7. Institutional Reform: state governments' intervention was minimized in the operation and production of SOEs in SEZs and the state's administrative responsibility only at the macro levels; the directors or top managers of SOEs received more powers in running businesses, buying and selling products, employing and sacking workers, and so on. Non-state enterprises were encouraged to develop in SEZs and operate based on market regulations.

On the examining these preferential policies, Fan (1997: p.626) criticizes China's regional policies for not really being comparative-advantage-orientated but being based instead on resource allocation. Although after two decades of reform, regional policies have now changed to emphasize regional economic initiative and efficiency, by confining state intervention to a certain extent, the transfer of state resources is still the major component of regional preferential policy and therefore a determining factor of regional growth. However, Demurger, Sachs, Woo, Bao, Chang and Mellinger (2002) have argued for a different definition to China's preferential policies in the context of her transition. They think that the so-called "preferential policy" granted to the coastal regions is indeed a policy to transform these coastal regional economic environments into ones with less intervention by centralized

planning, in which production and trade can be operated under semi-market regulations. These preferential policies should rightly be called “deregulation policies”. In the coastal regions, especially the SEZs, firms were allowed to “import intermediate inputs duty-free to produce exports; collaborate with foreign companies in investment, manufacturing and distribution; hire and fire workers in accordance with their performance and demand conditions, and escape the confiscatory taxation that is needed in a centrally planned economy to finance its vast, complicated system of social subsidies” (Demurger, Sachs, Woo, Bao, Chang and Mellinger, 2002: p.6). There was the existence of resource redistribution in the form of some state fund transfers through bank loans, i.e. with agreed lower interest rates, granted to local enterprises for establishing business links with transnational companies, but there were no significant steady transfers as subsidies to sustain failing enterprises in order to maintain the living standard in the region, as for the north eastern provinces. So, there was no such phenomenon, as described by Demurger and his fellow researchers (2002), that “the prosperity of these coastal economies has been sustained by a steady flow of state subsidies either from the state budget or from the state bank system”... “Only such state subsidies could truly be called preferential policies”... “In short, because a certainly planned economy is an over-regulated economy, what the preferential policies really did was to remove some of these regulations, namely, the regulations against the marketization and internationalization of economic activities” (Demurger, Sachs, Woo, Bao, Chang and Mellinger, 2002: p.6).

In this sense, institutional transition in fact accounted for the economic miracle of these regions. For instance, although the state investment redistribution still is the major component of state regional policy, as the investment structure in terms of the distribution of state financial resources has been changed, fast regional economic growth was generated from own financial sources. In the reform, the decentralisation of financial management reduced the revenues received by the state while it increased the revenue retained by the locality and, consequently, the state has to reduce its overall investment in the regions and adjusts the investment strictly to those key, large-scale infrastructures and industries (Table 7.3). The local productive sectors won't receive state investment unless the production is part of state-promoted projects or under the direct control of the SC. Budgetary financing of SOE

investment declined from 73.2 per cent in 1978 to 29 per cent in 1988 and 5 per cent in 1995. The locality has to find its own way to recruit the financial resources, tackle its own financial problem and finance its own projects or productive sectors in pursuit of growth. This obviously requires more responsibility and dynamism than the original duties of local government and consequently it empowers local government to make local economic decisions in steering its territorial economy.

Table 7.3 The Structure of the Government's Fiscal Expenditure in China 1978-1991 (%)

Year	Economic Construction	Culture, Education, Science, and Health	Welfare and Social Relief	Defence Outlay	Administration	Price Subsidies
1978	63.71	10.05	1.69	15.21	4.67	0.99
1979	59.78	10.37	1.74	17.48	4.95	6.22
1980	55.31	12.06	1.67	15.98	6.23	9.71
1981	48.83	15.37	1.95	15.06	7.41	14.30
1982	47.10	17.08	1.86	15.30	7.88	14.93
1983	49.15	17.30	1.86	13.70	7.98	15.27
1984	50.74	17.02	1.63	11.69	9.04	14.12
1985	48.51	17.71	1.69	10.38	9.27	14.19
1986	52.97	16.30	1.53	8.61	9.44	11.05
1987	51.46	16.45	1.53	8.56	9.23	12.03
1988	51.61	17.96	1.54	8.09	10.03	11.71
1989	38.85	18.20	1.63	8.27	9.37	12.18
1990	34.62	17.88	1.59	8.41	9.66	11.03
1991	33.25	18.57	1.77	8.66	9.85	9.80

(Source: compiled from Hu, 2001)

The discussion above and in chapter 2 shows that the dramatic changes in state regional policy over the initial period of reform ushered in participation by the local state, in particular the provincial government, in generating the regional economic growth in terms of recruiting capital investment and determining local development strategy. Therefore Beijing's regional policy, embodying the issue of preferential policies, is more seen as an empowerment or power decentralisation to local political and economic institutions, who lead the regions or units conducive to a growth based on their own sources and own efforts, and this accounts for a significant part of coastal development. Here it is TVEs that facilitate the implementation of the state's preferential policies and enhance the effect of decentralisation. The beneficial policies in resource purchase, capital investment and trading tax, from the centre towards the coast compensated for the shortages of capital and raw materials in the

initial time of reform. Therefore state investment preferences, local economic institutions and state permissions are all necessary conditions for local economic growth in China.

Through these preferential policies the impressive economic growth in the southern and coastal China was generated. In the Sixth FYP the three-ladder-region division was proposed and in the Seventh FYP China was divided into three developing regions responding to geographical location, economic growth levels and natural environment (Map 7.1). The state regional development policy adopted the “coastal fast development” strategy influenced by the Chinese version of growth pole theory, the three-ladder-step theory, emphasizing the development of the economically advanced coastal regions first, and hoping that the coastal wealth will eventually spill over successively through the middle land to the poorer interior. The three-ladder-step theory became the important guide for the policy makers and uneven development resulted in the escalation of regional disparities between the inland and coastal regions in terms of economic growth. The then Prime Minister Zhao Ziyang was ruthless in his application of the theory: “The centre is unable to invest in large areas such as Xinjiang (in the western region) in the short term; these areas have to wait until at least the 1990s”¹¹⁰.

Since the reform, Xinjiang did not experience a rapid growth as its coastal counterparts. At the beginning of the reform, the provincial government, under the leadership of Wang Enmao and Song Hanliang, deliberately held back the pace of economic institutional reforms such as rapid marketization in this politically sensitive region, and the violent separatism increasing in the region in the 80s diverted attention away from economic liberalisation in favour of political consolidation. But also the central strategy for economic reform had little scope for Xinjiang to gear up for the sort of reform seen in the coastal regions, as its geographical location and economic backwardness did not mesh with China’s new strategy based on the principle of efficiency.

As a result, in the first decade of Xinjiang’s regional development since the reform, the local development plans, echoing to the centre’s periodic strategy, narrowly focused on the reform

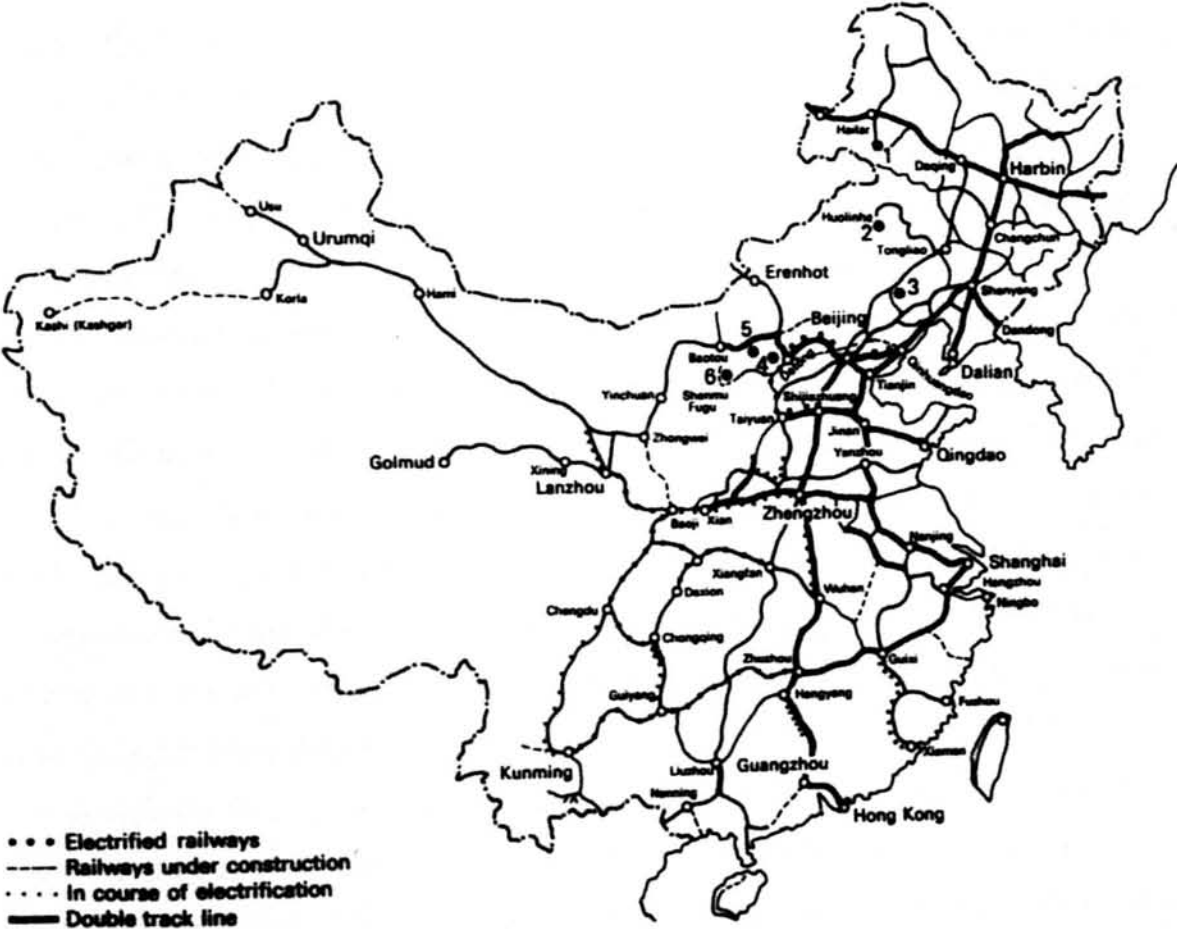
¹¹⁰ Zhao Ziyang, (1986) “Developing Xinjiang and the great north-west is an important strategic tentative plan of the centre”. Tian and Lin (eds.), 1986, as cited by Yang, 1997: p.27.

of agriculture's productive system and the region's infrastructure improvement with the aim of improving local living conditions. From 1978-1985, basically during the 6th FYP period, the reform of agriculture was based on two reports of Xinjiang's CCP in May and August of 1978 on "the local agricultural development problems". These introduced the family responsibility system to agricultural production including pastoral and field farming, and gave decision-making autonomy to the peasants and herds over their production in order to generate enthusiasm and productive efficiency. Following the instruction of the central policy, in 1984 Xinjiang terminated the commune system and introduced a land rental system. Second, a diversification of agricultural products was encouraged from rice and wheat to crops such as cotton, fruits, woods, fishes, wool and poultry. In 1984, the Xinjiang CCP recommended a target for the local agricultural economy in an aim of establishing Xinjiang as a resource base of the nation to supply major agricultural products to other parts of China.

In the same period, the region's development strategy paid great attention to local infrastructure reconstruction. The region relies for access heavily on a one-track railway westwards terminating at the capital, Urumqi, one national air route, and a poor standard intra-provincial road. These, combined with a few interregional roads, constituted the transport network for the region before 1978. The local and central governments realized that the transport network deficiency of Xinjiang is a bottleneck for the regional economic growth and future openness. For instance, the region takes up 17.5 per cent of the national total land area but has only 3.3 per cent of total national railway miles, in the least dense railway network in the world. Therefore a few state projects were undertaken to improve local transportation conditions. The railway extension to the Russian border was restarted in 1985 (Map 7.2) and completed in 1990, thus ending what had turned out to be a thirty-year project. The region's length of railway track was doubled and both road and rail links increased between north and south. The mileage of roads increased by 34.6 per cent from 1978 to 1997 and eight national standard highways were completed. 51 new air routes, including 33 national, 5 international and 12 interregional, and 11 airports were built across the region. From 1952 to 1995 a total of 13.35 billion yuan of state investment was put into transport construction in Xinjiang, of which 49 per cent went on the railway, 34.5 per cent on roads, 7

per cent on airways, and 9 per cent on pipelines. However, in spite of all of this, given the huge distances, the current transportation network is still insufficient to meet regional demand. Due to the shortfall of funds of the local government, all projects were granted, planned and funded by the centre. Even those internal road constructions between towns and villages had to rely on the state's funds. As a result, in particular in many far-off areas of Xinjiang's south, the transportation was not just poorly provided but also ignored for years till the 9th FYP in 1996.

Map 7.2 China's Railway Network in 1985



(Source: Goodman, 1989)

According to the guidance of the third meeting of CCP's 12th congress in Beijing in October 1984 in which a policy of reviving the productivity of China's SOEs under state ownership was granted, Xinjiang's industries, which are operated mainly by SOEs, undertook the

reform of introducing a responsibility system and a rental system to the operation and production of the large numbers of SOEs. In 1992, Xinjiang had a further reform of enhancing its rental system and political separation on the operation and administration of her SOEs with a new guidance granted in the third meeting of 14th congress of the CCP. From then until 1997, 50 per cent of Xinjiang's SOEs have been transformed into the company system of limited responsibility under the ownership of the state.

Since 1978, compared to the fast growth of the coast, the development in China's western regions, including Xinjiang, has remained in effect at an economic standstill, without state preferential policies or heavy investment in the local effective economic sectors. More importantly, the local state of the western regions has taken no action to step forward itself, due partly to a lack of institutional incentives from the centre and partly to the unwillingness of the local state to take risks. Local politicians have meekly followed Beijing's line on the inland regions and waited for "spillover" effects from the east. A few reasons may be cited here: first, from the outset, local government was hidebound with a Maoist ideology regarding the reforms as being too liberal. Therefore, before the reforms were confirmed by the centre and successfully experimented with by the coast, Xinjiang dared not advocate private ownership and capitalism in particular for this politically sensitive region (McMillen, 1984: p.573). They deferred their reform until 1984. After seeing success stories in the other provinces, Xinjiang's local authority eventually realized the significance of rural change to regional growth and adopted a series of policies generating agricultural reform. Second, many reforms in economic production aimed at increasing output and increasing the range of products, but ignored adjustments to a market economy and neglect the upgrade and innovation of production toward efficiency in order to increase market competitiveness and overcome the geographical barriers. A good example is seen in the reform of the local agricultural economy that, although the natural conditions are good for producing many best quality products and many manufacturing industries of agricultural products have been well established since Mao's era, the agricultural economy yielded very poor returns, due largely to the low-level of production in the absence of hi-technology and commercialisation. Thus, regional revenues did not increase significantly and the economy has not approached self-reliance, demonstrating a rigidity of thought rooted in traditional socialist planning. Third,

this is also the part of the local government's commitment to the orientation of its bureaucratic administration, seen as following China's political instruction and economic central plan. Therefore, in the viewpoint of the provincial government, Xinjiang's economy should be developed to produce abundant raw materials for the coastal regions. In Xinjiang's 7th FYP, the major target for the region was again presented as, firstly, improving living conditions and infrastructures and, secondly, establishing the region as a base to supply industrial raw materials including coal, oil and brass, cotton and food crops like fruits and grains for consumption in the coastal regions. During the 80-90s, Xinjiang's GDP per capita on average increased by about 10 per cent annually, slightly more than the national average (Tables 7.4).

Despite the economic growth of Xinjiang in the first decade after 1978 maintaining first position among the western provinces, this was due to state investment (see chapter 4). The fast growth of expenditure in the regional accounts was consistently higher than that of GDP and always covered by state subsidies, which reinforced the locality in its unwillingness to make its own efforts. During 1981-1995, Xinjiang received transfers beyond its GDP by 20 per cent. It was number one among the provinces that received the largest net transfers from the state at the time.

The Eighth FYP recognized the increasing gap of economic growth between the east and west after the reform. Following the model of coastal development, a few inland cities were allowed to open up in 1992 (Table 7.2). First, eight cities along the Yangtze River opened their harbours and became free trade zones in 1991, followed by six others in 1992. Second, as relations improved with China's inland neighbours, such as Vietnam and the former Soviet republics, cross-border-trade revived and inland major cities in Helongjiang, Xinjiang, Guangxi, Yunnan and Inner Mongolia were consequently opened, with multi-level preferential policies granted, to establish border trading zones. This increasing openness came to dominate regional policies in the 90s. The relative success story of inland cross-border trade was noticeable in the province of Yunnan, Southwest China, where economic growth has been largely determined by increases in trade and the tourist industry since 1993. Table 7.5 shows the success of Yunnan in receiving significantly high foreign currency

income from her tourist development in comparison with other western regions. And in 2003 the total income from tourism reached 28.4 billion yuan, representing more than 10 per cent of GDP in Yunnan.

Table 7.4 Changing GDP per capita 1978–1995

	GDP per capita (yuan/person)		Percent (national average = 100)		Annual Growth
	1978	1995	1978	1995	(%)
North					↓
Beijing	1,248	13,073	331.48	270.77	8.76
Tianjin	1,150	10,308	305.45	213.50	7.44
Hebei	364	4,444	96.68	92.05	8.66
Shanxi	365	3,569	96.95	73.92	7.25
Inner Mongolia	307	3,013	81.54	62.41	8.28
Shandong	327	5,758	86.85	119.26	10.63
Northeast					↓↓
Liaoning	677	6,880	179.82	142.50	7.61
Jilin	391	4,414	103.85	91.43	8.40
Heilongjiang	563	5,465	149.54	113.19	6.58
East					↑↑
Jiangsu	430	7,299	114.21	151.18	11.45
Anhui	242	3,357	64.28	69.53	9.08
Zhejiang	470	8,074	124.84	167.23	12.80
Shanghai	2,498	18,943	663.50	392.36	7.94
Northwest					↓↓
Shannxi	294	2,843	78.09	58.89	7.96
Gansu	348	2,288	92.43	47.39	6.99
Qinghai	431	3,430	114.48	71.04	5.06
Ningxia	354	3,328	94.03	68.93	6.55
Xinjiang	313	4,819	83.14	99.81	8.98
Central					↓
Henan	232	3,313	61.62	68.62	9.21
Hubei	332	4,162	88.18	86.21	7.70
Hunan	285	3,470	75.70	71.87	7.35
Jiangxi	276	3,080	73.31	63.79	8.95
South					↑↑
Fujian	273	6,965	72.51	144.26	12.12
Guangdong	367	7,973	97.48	165.14	12.27
Hainan	310	5,225	82.34	108.22	11.88
Guangxi	225	3,543	59.76	73.38	7.97
Southwest					↓↓
Tibet	375	2,392	99.60	49.54	6.34
Sichuan	253	3,201	67.20	66.30	8.51
Guizhou	175	1,853	46.48	38.38	7.63
Yunnan	223	3,044	59.23	63.05	8.22
National Average	376	4,828	100.00	100.00	9.86

(Sources: Lin, 1997; NSB: State Statistical Yearbook, 1996)

In Xinjiang in 1986 the first joint venture with the Gulf States on oil production emerged. The idea of a “Great Islamic Circle (GIC)” was proposed by the local government under the leadership of Song (Harris, 1993), through which Xinjiang tried to turn her face westwards in order to find trade partners in central Asia and the Middle East. Shortly after China re-opened its western borders, cross-border trade became popular. Despite the fact that the former Soviet republics remained politically unstable and economically poor during the post-communist period of the 90s, the intention of cooperative development from both sides of border was genuine. Xinjiang’s local government presumed that, at the very least, the province would benefit from being a corridor between east and west. A country like Kazakhstan, for instance, might want to import household commodities from China’s coast and, in return, export oil exploration equipment, tractors and fertilizers to China. The railway which links central Asia and Europe also makes it possible to travel and to transport goods overland to the Persian Gulf, and further to West Europe. Markets in Almaty and Tashkent became well stocked with Chinese commodities. As an inland “bridge”, Xinjiang seemed ready to cash in on this relative advantage and expected to act just like her counterpart Yunnan province.

Table 7.5 The Foreign Currency Income from Tourist Industry among the Western Regions, 1999 and 2000 (1,000,000 dollars)

Region	1999	2000
Inner Mongolia	1.2	1.37
Guangxi	2.02	3.01
Chongqing (municipality)	0.97	1.63
Sichuan	0.97	1.66
Guizhou	0.55	0.69
Yunnan	3.5	3.67
Tibet	0.36	0.46
Shannxi	2.72	3.09
Gansu	0.37	0.45
Qinghai	0.04	0.09
Ningxia	0.02	0.03
Xinjiang	0.86	0.99

(Source: Lu, Fan, Liu, Jin, Sheng and Liu, (eds.) 2003)

Urumqi became an inland open city in 1990 and a border-open-zone centred by Urumqi with the open frontier cities: Yining, Bole, Tacheng was also granted in 1992 (Table 7.2) in anticipation of attracting foreign investment to the region. The state permitted Xinjiang to adopt the same open policies as the coast and, in addition, the SC agreed on a mobilized loan

of 0.1 billion yuan through the Bank of China specifically to Xinjiang for its foreign trade. The construction of standard highways linking central China to her western border through Xinjiang was soon underway. The number of companies conducting border trade increased from 5 in 1991 to 346 in 1996.

However, unlike Yunnan, Xinjiang's opening westward achieved little. The first reason was that the lack of an adequate legal system and properly established market regulations to monitor business affairs meant that there was no respect for fair trading from both sides of the border in terms of currency exchange, goods quality control, and tariff barriers. This was exacerbated by a lack of intervention from Xinjiang's government in stopping the sale of inferior goods, with the result that there was harm to the reputation of Chinese business and to the normal trading on the border and further afield. Anyway, the new central Asian countries showed greater interest in European than Chinese goods. Xinjiang's ratio of foreign trade reached only 15.7 per cent of GDP in 2000, compared to 43.9 per cent for China as a whole. Second, since opening the borders, local minorities gained opportunities to re-establish their Islamic connections and this has inspired them to seek their own national identities. The result may be seen as a danger to China's unity and there was certainly an escalation of violent action for independence. The idea of the "GIC" was soon turned down, though the interest of trading westward has been retained.

During the 90s, state regional policy continued to focus on the traditional resource economies, in order to provide raw materials for coastal development. Even after the Western Development Programme (WDP), policies designed for the interior still emphasize its natural resource sectors. However, such approach has to be justified as appropriate to the local natural and economic conditions. After 1990, a series of development policies and plans were adopted by local government in response to the need for profound reform in which Beijing's expectation of the inland regions that they use their own strengths to develop their economies. Xinjiang's 8th FYP, produced by the provincial government and the CCP, commented that strenuously exploiting local natural resources is a way of recruiting initial capital and obtaining incentives to tackle shortages of investment and stimulate growth driving forces. Although upgrading local industry from heavy reliance on resource extraction

to hi-tech manufacture had been mentioned on many occasions, the FYP prioritised the exploitation of reserved fossil resources and the development of five sectors: agriculture, the oil resource industry, transportation, textile and food manufactures, and the chemical raw material industries. This strategy in fact, in gearing with the central plan, tried to establish Xinjiang as a raw materials supply “power house” to facilitate the fast growth of the coastal region. But it was unrealistic and inconsiderate for the local development, first, because the vast distances from the capital and consuming markets raised costs and marginalised profits of the export of these raw material products. Second, state-imposed fixed prices on raw materials, the result of “scissors pricing”, benefited the central and coastal regions at the expense of Xinjiang. Besides, since the resource industries were all SOEs, any profits were extracted by the centre rather than the province. Raising the necessary investment locally was unrealistic and therefore central support was vital. This not only invalidated the strategy of promoting self-reliance but also bonded the region’s development to the centre, which, in return, had to serve the centre. The FYP of Xinjiang’s local government tied itself to act with “empty hands” and “empty promises”.

7.1.1.2 The West Development Programme

China’s regional development during the first twenty years since the reform was largely dominated by the theory of the “ladder step”. Fan (1997: p.625) has argued that “the ladder step theory is more elaborate on the regional order of development than on the process of regional diffusion of growth”. Without compatibility between Western theories and Chinese reality, the three-economic-belt idea has set the development pace and assigned different tasks to the three macro-regions but it didn’t explain how the diffusion would take place from the growth pole westward. Yang (1997: p.84), citing the comments of many scholars, suggests that “the prevailing regionalization scheme was too broad to capture the wide dispersion of industrial production in China and very significant variations within each of these regions... the ladder-step theory was simply too crude as the foundation for China’s regional development strategy.” In practice, ironically, the “Three-Ladder-Step” *increased* China’s unbalanced development gap between regions and the diffusion didn’t happen as expected and in contrary, the gap expanded since 1978 (see the change of GDP per person

among the three macro-region in Table 7.6). Because the uneven development has brought political instability, the central government has had to reverse the policy by focusing on the interior and thereby redirecting state investment to these newly targeted areas. “The Chinese theory of regional development relies heavily on spatial forms and organization, such as regional delineations, zones and belts. Very often, researchers and policy-makers focus on ‘where’ rather than ‘what’ and ‘how’” (Fan, 1997: p.633).

Table 7.6 The Differences of GDP per person among the Three Macro-Regions

Years	Differences (<i>yuan</i>)				Relative Difference Ratio (%) ¹¹¹	
	Based on Price of the Same year		Based on the Price of 1978		East-Centre	East-West
	East-Centre	East-West	East-Centre	East-West		
1978	153.6	212.9	153.6	212.9	33.1	45.9
1979	160.9	224.0	157.7	219.6	31.1	43.3
1980	183.1	255.4	169.3	236.2	32.2	44.9
1981	195.6	285.2	176.7	257.6	31.7	46.2
1982	214.9	301.7	190.5	267.4	32.0	44.9
1983	218.4	325.2	190.7	284.0	29.8	44.4
1984	269.9	390.7	229.3	331.9	31.1	45.0
1985	341.0	474.1	266.2	370.2	32.6	45.4
1986	374.4	528.8	275.8	389.5	32.7	46.2
1987	431.3	645.7	296.1	443.3	31.7	47.5
1988	608.4	802.0	352.4	464.6	36.1	47.7
1989	685.7	897.1	337.2	441.2	36.8	48.1
1990	700.1	885.8	337.2	426.7	35.6	45.1
1991	900.9	1056.2	421.7	494.4	39.9	46.8
1992	1320.5	1514.2	586.4	672.5	43.5	49.9
1993	1874.8	2194.7	735.5	861.0	45.9	53.8
1994	2529.4	3029.2	815.4	976.5	46.7	55.9
1995	3086.7	3832.1	866.8	1076.1	45.5	56.5
1996	3525.7	4495.2	933.1	1189.7	44.3	56.5
1997	3897.4	5057.6	1023.3	1327.9	44.0	57.2
1998	4270.0	5490.9	1151.1	1480.2	44.8	57.7
1999	4643.1	5930.6	1290.3	1648.1	46.0	58.7
2000	4790.2	6162.0	1351.5	1738.5	44.5	57.2

(Sources: compiled from: Lu, 2003 and NSB: China Statistical Yearbooks, 1978-2000)

The Ninth FYP (1996-2000) identified polarization as a serious threat to China’s prosperity, stability and unity, and the reduction of regional inequalities as a top policy priority. From 1978 to 2000 the reality was rapid economic growth on the coast and economic stagnation in the interior, especially in the west. Without heavy investment and preferential central policies and without any effort by the regions themselves to break through the institutional

¹¹¹ Relative difference ratio = (region 1-region 2)/region 1x 100%.

constraints, the lagging economy of the western regions soon reached a crisis point. In the 1980s, the percentage of GDP increase in coastal regions like Hainan was 20.7 per cent, in Fujian and Guangdong 19.7 per cent, and in Zhejiang and Jiangsu 19.0 per cent and 18.1 per cent respectively, while in the western regions like Qinghai it was 7.3 per cent; Ningxia 7.6 per cent; Guizhou 8.5 per cent; and Gansu and Shanxi 9.2 per cent. Recently, seeing that the transition has generated escalating problems in the northeast, causing some social instability, in the tenth of National People's Congress held in Beijing in March 2004, the Chinese Prime Minister, Wen Jiabao, announced that a new strategy will target both rebuilding the heavy industry-based North East and also prolong the WDP which had started in 1999.¹¹²

The continually lagging regional economy obviously caused trouble for Beijing in many respects. In political terms, the west has large populations of minority groups, who share the same social values and historic roots with China's western, north western and northern neighbours. The demonstration effect through the media of the coastal regions' wealth made the west regions, especially minority peoples, unhappy with their relative poverty. Xinjiang's minorities were particularly dissatisfied, in view of their double losses – the “wealth drain” and “cultural assimilation” – reinforced their resentment towards the Han, and the result was occasional violent separatist protests. Rather late, “China is also clear about the inherent value of economic development in bringing about political stability. A sound, growing economy is certainly not the only way to create this stability, but it is an important factor.”¹¹³ In addition, the regional economy, being traditionally heavily weighted by resource industries and SOEs in the Maoist era, has been experiencing severe depression and, as a result, workers shed from the bankrupt SOEs have burdened the central as well as local governments with huge redundancy payoffs, welfare and pensions and there has been a surge in problems such as crime, and social instability, especially in China's northeast. Improving these regions' economies has therefore become very urgent. From an economic perspective, demand in the coastal regions, especially the output of local industries, has gradually reached saturation point, so the coastal enterprises need to find new markets for their products. In addition, the fast development of the coastal regions now desperately needs energy resources

¹¹² <http://www.news.sohu.com>, accessed on 03/02/2004.

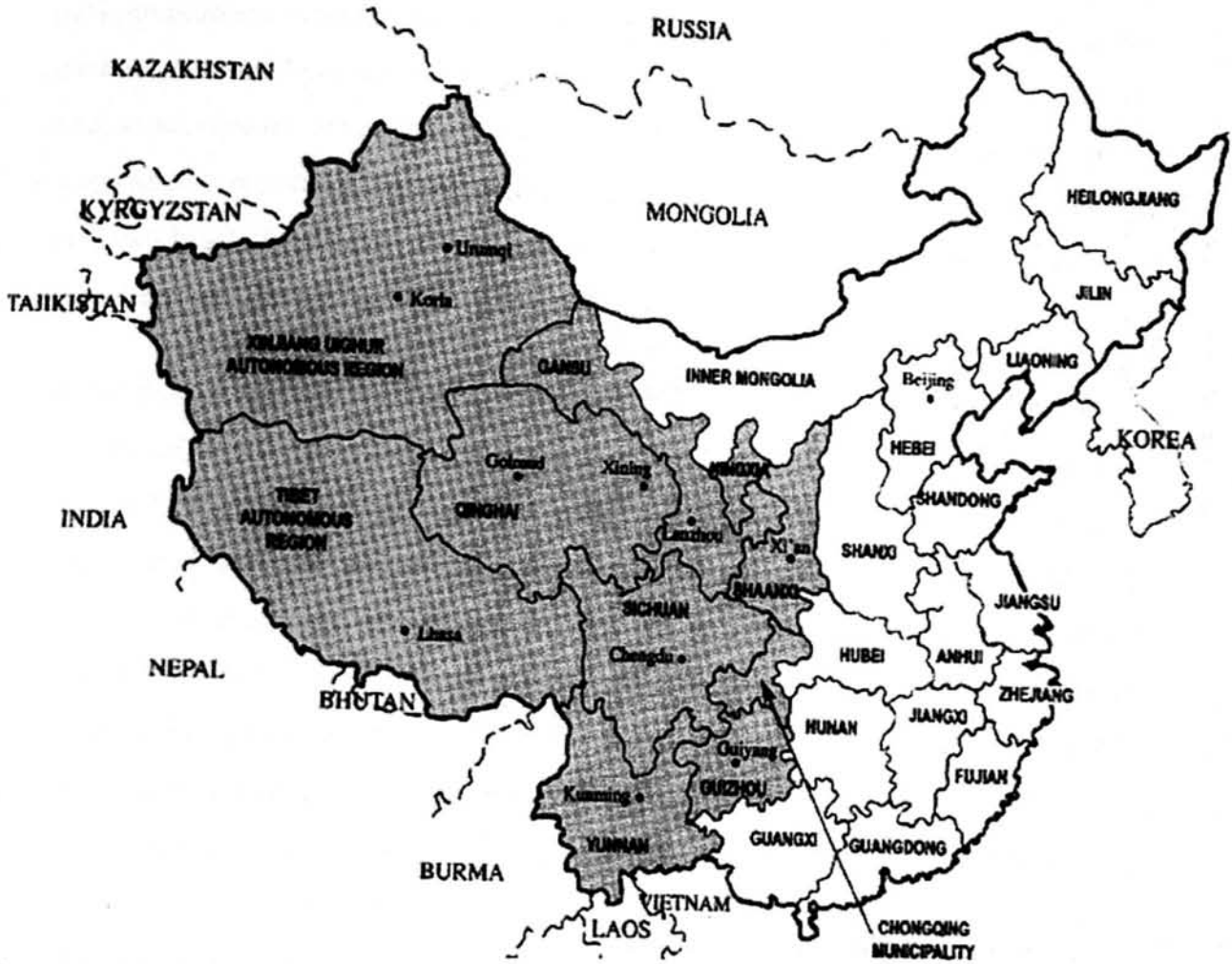
¹¹³ Sisci, Francesco. (2001 Jun.). “China Eyes Silk Road All the Way to the US.” <http://www.uvghuramerican.org/> Accessed on 4th Nov. 2001.

for its sustenance, and these are concentrated in the west. The fighting for resources and local economic protection is generating regionalism that has militated against the holistic intent of national planning. So the development of western China, opening it up to the outside world, and encouraging domestic and foreign enterprises to participate in the development of infrastructure facilities and natural resources in the region, has great significance in the country's middle term development.

The Chinese government is working out an overall plan for the development of the western regions, namely the WDP, which targets nine provinces, autonomous regions and one municipality: Chongqing¹¹⁴ (Map 7.3). The central government has formulated a series of preferential policies and measures to encourage domestic and international investors to set up economic connections with the west. The preferential policies and measures are seen as, first, transferring major state investments, including FDI, to the west through the allocation of ten key projects on local economic and social infrastructure, including the establishment of particular funds for local education, technological innovation, minority region development, reduced interest rates on bank loans or certain tax exemptions; second, the gradual redirection of key infrastructure projects to the west in the coming ten years, such as oil and gas pipelines from the west basin to the east coast, electrical power transmission from the west and southwest to the east, railway construction on the Tibetan plateau, highways, a water conservancy hub, and flood control measures. In Xinjiang a project for transmitting natural gas from the Tarim basin to Shanghai, involving more than 140 billion yuan of investment, is one of the ten key projects. Infrastructure projects generally put US\$6 billion on the budget of Xinjiang in the fiscal year 2001, within which a particular effort is being made to build up the transportation infrastructure in order to make the region more attractive to various investors (Loughlin and Pannell, 2001: p.478). Third, sustainable development is being promoted, with an emphasis on natural environmental protection, including returning land to forest and prairie especially where located near to water sources. In addition, poverty elimination, infrastructure improvement and technological upgrading and institutional change are all emphasized by the WDP.

¹¹⁴ Chongqing's upgrade to a municipality on March 14 1997, at the same administrative level with other three: Beijing, Tianjin and Shanghai, implies the centre's expectation to Chongqing to act largely as an economic leading role in the WDP.

Map 7.3 China's Western Regions in the WDP



(Source: www.tibetinfo.net accessed on 27/02/2004)

However, the WDP has been criticized by those, even including many Chinese scholars, for its “empty promises”, because there will be none of the removal of institutional constraints or “deregulation” that was seen on the coast.¹¹⁵ The effectiveness of these policies is questionable. First, the central government insists that regional growth inland must be achieved through “self-reliance”– efforts by local institutions coordinated with market regulation and with state preferential policies; but in reality remains of unreformed economic institutions and strong political control. Large unreformed and property-right-undefined SOEs continue to dominate the regional economy. At this stage of China’s partial reform, the local administration has, not only received no power to punish the failure of the SOEs, but it

¹¹⁵ Interviews, 2003

has also been tasked to retain and sustain them. There aren't sufficient revenues from these SOEs that the local budget can count on, which downgrades the autonomous power gained by local government to make efforts. Second, investment from Beijing focuses only on the targeted projects and bypasses local government, again undermining its capacity. Third, the political sensitivity of some inland regions in particular explains Beijing's reluctance to decentralise power politically or economically and its conservative attitude to experimental reforms. All in all, the success of the centre's regional development policies with regard to the inland regions during the WDP is debatable.

Under the direction of the WDP, before the end of 9th FYP, Xinjiang's current CCP GS, Wang Lequan, and the provincial government initially suggested promoting two types of production by the region: "one black, one white (and one red, added afterward)" referring to oil, cotton (and tomatoes) and related production. Xinjiang's own 10th FYP highlighted high technology improvements, environmental protection, poverty reduction, and education and social welfare enhancement. In terms of economic development, the exploitation of natural resources and infrastructure construction are still the major priorities and oil, cotton and tomatoes have become key revenue earners (see discussion and table 6.28 in chapter 6). This is the evidence Wang used to produce his recommendation. Lu (2003) has criticised Wang's strategy for its simplicity, unprofessional and non-regional-orientation because Xinjiang's economic growth relies too heavily on central governmental investment in oil resource exploitation and land reclamation that manipulates the region to be one of leading regions in economic growth among the western provinces but achieves little for the region's own benefit. Second, Lu claims that it is not wise to rush into establishing Xinjiang as a cluster of oil and its manufacturing industries. The region is regarded as a major crude oil and gas supply base for China but the hi-tech processing facilities are largely located on the coast. Although the oil industries make the bulk of revenues for Xinjiang and involve a large labour force, their production is levelled at primary products. Their retention in state ownership and stifles the necessary long-term investment and holds back economic growth, not to mention the fact that all resource industrial developments are restricted by deficits in local transportation capacity and the need for ecological maintenance. Xinjiang's cotton production is also restricted by the international marketing price, which in the past has

caused huge losses to many plantations. To promote this sectoral development is only based on an assumption that its large output could generate the huge revenues by ignoring its market efficiency, which is an unjustified strategy (Lu, 2003: p.634).

On the examining Xinjiang's own regional policy, we can see that local government cannot think beyond being entirely tied in its development to the central interest. This reflects the weakness of local entrepreneurial activities, the SOEs' highly centralised economic structure, and the inadequate capability and economic management of local institutions, which are restricted by the financial dependence. This raises the question about whether Xinjiang's economy could survive a really profound reform.

7.1.2 Strategies for Sectoral Development

Before 1952 the provincial economy was dominated by its primitive agriculture. The shares of the three sectors (agriculture, industry and service) in GDP were 64.7 per cent, 22 per cent, and 13 per cent respectively. Since the first FYP, when China sought Stalin-style industrialization, Xinjiang could not escape from this approach and its large and varied resources in reserve and its geographical closeness to the Soviet Union seemed appealing to the central plan for heavy industrialisation. This made strides in its heavy industrialisation after receiving huge investments of up to 0.26 billion yuan in fixed assets during the first FYP. The implication of the 1st and 2nd FYPs was to move China's industry towards to the Soviet border, a matter of global strategy between two super-communist countries (Wu, 1967: p.63). In 1978, on the eve of reform, the sectoral shares of primary, secondary and tertiary in GDP were 35.76 per cent, 46.97 per cent, and 17.27 per cent. By 2000, after a series of restructuring and readjustment, with the service sector increasing its share (Table 7.7), the shares were 21.1 per cent, 43.0 per cent, and 35.9 per cent.

7.1.2.1 Industry

All regional policies so far have emphasized the development of Xinjiang's resource industries and, within heavy industry, resource extraction has taken a lead, contributing as much as 61 per cent of the total industrial GDP (Table 7.7) and 82.4 per cent of the industrial

added value (IAV) (Table 7.8), and oil and gas in particular represents almost 33 per cent of industrial output of Xinjiang in 2000. However, other sectors such as cotton and woollen textile industries, and the iron and steel industries, also make up a considerable portion that contributes half of gross industrial output value (GIOV). Xinjiang has become a cotton-wool-sugar supply base, comprising 8 key sectors: 6 production sites and a group of modern enterprises, contributing one-third of local GIOV. Xinjiang's other resource sectors, like Construction Materials, Chemistry, Black Metals, and Nonferrous metals are also important, with one-sixth of GIOV.

Table 7.7 Xinjiang's Sectoral Shares of GDP in 2000 (%)

	Xinjiang	China
Primary	21.1	15.9
Secondary	43.0	50.9
Industry, of which*	30.9	44.3
Light: Agriculture inputs	(11.6)	(24.3)
Non-agriculture inputs	(1.6)	(13.2)
Heavy: Extractive	(61.0)	(12.4)
Raw materials processing	(21.2)	(24.5)
Manufacturing	(4.6)	(25.7)
Construction	12.1	6.6
Tertiary	35.9	33.2
Transport/Post/Telecom	8.9	5.5
Trade/ Catering	8.7	8.2
Total	100	100

(Note: *For the sub-sectors of industry, shares are calculated based on a subset of enterprises for which sectoral data are available; this subset accounts for 85.4% of all industrial added value for Xinjiang and 64.2% for all China.

Source: Wiemer, 2000: p.174)

However, despite Xinjiang possessing a large capacity in resource and manufacturing industries other than oil-gas, the lack of proper strategic focus has meant that none of non-oil-gas sectoral developments lives up to expectation.

In Table 6.28 of chapter 6, we saw that the textile industry is the second economic sector after the oil industry. Xinjiang's sandy soils and dry, hot summer make it suitable for growing high quality cotton. Official figures show that the province has accounted for more than a quarter of China's cotton output since 1995, making it the second best of the leading sectors in terms of revenue submission. In 1995-1997, due to centrally directed cotton prices and centrally planned marketing channels, her plantations benefited from maximum output,

without needing to worry about demand. But, after the removal of the controls in 1998, the amounts of cotton in store and in production far exceeded demand. Despite rescue efforts by the state, through the China Cotton Corporation, to purchase large amounts of cotton and to reserve them in a national store, there were still huge amounts of cotton left over and the producers have not made any profits since then. In spite of the good quality of Xinjiang's cotton, the long distance delivery costs mean there is restricted demand and limited revenues locally in taxes and enterprise incomes.

Table 7.8 The Industrial Sectoral Structure of China's Regions in 2000

	IAV	Machine and Electronic Industries	Chemical Materials and Products Industries	Resource Industries	Light and Textile Industries	E-communication Industries	High Technological Industries
	billion yuan	%	%	%	%	%	%
China	2539.4	23.69	11.93	36.5	26.09	7.18	8.07
Beijing	72.27	39.92	10.48	27.68	22.83	23.96	22.07
Tianjin	63.01	36.73	14.25	30.80	16.96	22.45	9.60
Hebei	113.27	12.02	12.65	49.78	24.53	1.17	3.77
Shanxi	42.87	6.99	10.09	72.08	8.93	0.21	2.68
Inner Mongolia	27.95	4.05	7.56	63.50	22.79	1.24	2.15
Liaoning	119.40	20.55	9.99	55.10	12.66	4.51	6.11
Jilin	49.60	31.25	18.64	33.65	15.78	1.93	3.95
Heilongjiang	121.30	5.08	3.59	82.51	8.30	0.55	3.11
Shanghai	168.71	36.74	14.88	24.87	21.85	10.24	11.56
Jiangsu	260.43	30.96	17.12	19.88	30.69	8.14	9.23
Zhejiang	156.01	27.34	14.64	19.15	36.57	4.10	5.50
Anhui	50.74	20.33	11.99	36.92	29.44	1.72	2.86
Fujian	79.71	26.73	9.94	24.36	33.73	14.16	14.25
Jiangxi	26.97	19.90	12.88	39.86	25.40	2.09	7.86
Shandong	254.94	19.57	10.99	38.38	29.49	2.54	2.77
Henan	111.64	13.99	10.40	51.10	26.23	1.88	3.34
Hubei	101.18	24.09	11.66	31.20	29.62	2.57	4.70
Hunan	52.81	14.17	10.70	38.58	34.20	2.12	3.07
Guangdong	342.39	32.80	11.00	26.78	27.11	16.96	17.03
Guangxi	32.39	15.76	12.50	40.61	28.66	1.40	2.53
Hainan	6.33	8.87	20.46	32.73	32.44	0.32	8.22
Chongqing	28.37	34.46	15.82	27.86	16.57	0.57	2.54
Sichuan	66.25	24.07	12.81	29.95	31.75	10.79	13.19
Guizhou	21.70	11.63	16.30	40.79	30.46	1.57	6.64
Yunnan	53.15	3.68	7.38	24.95	63.49	0.17	1.15
Tibet	0.93	3.46	16.00	59.24	20.22	0.00	0.00
Shannxi	41.11	24.71	9.65	45.75	17.80	8.44	17.12
Gansu	24.47	8.29	11.35	62.84	15.53	2.58	4.66
Qinghai	6.53	1.73	8.59	83.67	5.75	0.05	0.46
Ningxia	7.37	9.05	18.15	56.49	15.76	0.00	1.63
Xinjiang	35.67	2.14	3.17	82.40	12.28	0.04	0.28

(Source: compiled from Lu, Fan, Liu, Jin, Sheng and Liu, (eds.) 2003: p.48)

Xinjiang's cotton textile industry was being established in the early years of the first FYP, but its production capacity has never reached a level where it used substantial amounts of local raw material and produced sufficient cotton-related textile goods to compete in the domestic market. A few features can be summarised here regarding the textile industrial development in Xinjiang. First, industrial production is largely (87.8 per cent) in the hands of SOEs. Production and sale are still under the centrally guided planning system, which gives it a double disadvantage, in the removal of price controls mentioned above. Second, most of the products are raw material-orientated, thereby adding less value than is possible. 80-84 per cent of the local cotton textile industries produce either raw cloth or yarn. The ratio among producers of yarn, raw cloth and processed cloth in the region is 1:0.2:0.02 in comparison to the national 1:0.8:0.8. Third, within the 75 cotton textile enterprises in the region in 1999, there were only 29 that possessed large-scale production lines of more than 30,000 spindles, a standard scale for large textile enterprises in China. Fourth, the industry is burdened by debt. 75 per cent of the productivity of Xinjiang's textile industries is gained from investments made using fully-scaled bank loans. The innovation funds rely on loans too. Few enterprises have enterprise capital and liquid funds. But each year all of the enterprises together have to pay back 0.58 billion yuan of interest on these loans. Fifth, most equipment and machinery are outdated and needs to be upgraded. 32.4 per cent was produced in the 1990s, 48 per cent in the 1980s and 18.8 per cent in the 1970s. The technical efficiency of the large and medium enterprises reaches only 0.2 per cent of the world's most advanced companies and about 24.8 per cent of China's best practice (Wang, 1999a: p.306-307). Despite the cotton and its related textile industries being regarded as one of two key economic units in Wang Lequan's policy, in reality neither cotton production nor the textile industries seem very promising for the regional economy. The total share of Xinjiang's cotton textiles is only 5 per cent of the region's GIOV. The local government has neither funds to finance this key sector for its production upgrading and innovation, nor institutional willingness and incentives to interfere or assist the qualitative development of the sector. Wang (1999a) has enthused about regional growth based on cotton's production, but how to develop the resource and how to make its best benefit are not clearly presented in the local policy. Especially given the long establishment cotton textile industries and the technological

and financial assistances offered from the coastal regions, Xinjiang's cotton sector could do much better than at present.

Xinjiang's fossil resources, apart from oil and gas, also include coal with the largest amount in reserve in the country; iron with six well developed mines; nonferrous metals, such as: copper with largeness in reserve and 17 mines sunk or expected to be developed; nickel with the biggest reserve in the country and one large scale mine under the construction; and others like gold and silver. Three large coal fields are well established and have developed into coal-supply-bases with the output annually of 10 million tonnes. Xinjiang also possesses top-class natural energy potential in her wind, solar and fossil fuel. There are seven areas in the region well known for wind power, which have been exploited to generate electricity with foreign technology and equipment, such as Philip turbines. Longer and strongest sunshine all year round produce clean and recyclable solar energy for the region. In 2003, China's biggest solar power controlling system was built in Xinjiang by Beijing and the region has put enormous hope into the development of this resource, though being well aware of high necessary investment.

All in all, despite Xinjiang's potentially strong natural resources and the related industries all being well established, according to the information provided in the Tables 6.27 and 6.28 (chapter 6), apart from oil and gas, none of them seem to have contributed significantly to the local economy. The related enterprises are even making losses, for example the power industries. All of these sectors together only contributed 12.62 percent of total gross provincial industrial output in 1997. Although local researchers have mentioned that water and capital shortages, transportation inconvenience and underdevelopment of high technology and manufacturing industries undermine the market attraction of these resources industries, however, the neglect and incapability of the major economic actors and planners to raise these sections is another key. The development of these industries needs large investment. The provincial government has not been able to raise sufficient funds alone. For instance, with two recent discoveries, a big copper mine and a big potassium-salt mine in Xinjiang in 2001, all of the 1.2 billion yuan investment came from the centre. The shortage of independent investment capital neuters the provincial government in terms of its own

plans to promote these industries. Xinjiang's Bayi Iron and Steel Co., one of China's biggest mills, was founded by Wang Zhen in the early 50s. Due to the shortfall of steel supply in the domestic market, Beijing decided to promote cooperation between China's largest mills, the Baotou Steel Group of Inner Mongolia and the Bayi Iron and Steel Co of Xinjiang, in order to increase the output of steel. But before Beijing's decision, Bayi faced many difficulties and remained in a fight for survival despite the strong domestic steel market.¹¹⁶ On examining Xinjiang's FYPs, all of the resource industries considered by the plans for promotion have been largely the result of state funded projects. However, given the large amount of various natural resource industries in Xinjiang and the limited state's funds, only a few resource industries are in the favour and the rest of them are left to struggle. Local government involvement is completely absent.

7.1.2.2 Agriculture

Xinjiang's agriculture is based on arable farming and animal husbandry, which together contribute 97.5 per cent of agricultural gross output value (AGOV) in 1997. Arable farming agriculture alone take up 78.46 percent of AGOV in 1997 and 73.99 percent in 2000 (Table 7.9). Although since the reform the weight of agriculture's GDP share has been reduced from 35.76 per cent to 21.1 per cent, it still employs 11.6 million people, 64.48 per cent of the total. 86.50 per cent of agricultural labour force is devoted to two major products: grain and cotton. These crops and their related manufactured products represent 70-90 per cent of the province's export volume. Xinjiang produces one-fourth of China's cotton and is the major sugar base in the west. Grain output makes the region self-reliant. However, agricultural production remains at a low standard of land regeneration and productivity: for instance from 1978 to 1995 the rate of high-technology application is only 33 per cent in total¹¹⁷. Within the light industrial sector agricultural raw material input manufacturing makes up as much as 88 per cent of the total light industrial share of GDP. But all primary agricultural productions are still vulnerable to natural environmental disasters. Every year the local government has to pay out nearly one billion yuan to cover losses due to natural destruction.

¹¹⁶ Interviews, 2003

¹¹⁷ 0.28 out of 0.86 billion yuan of Xinjiang's agricultural output is contributed by high technology improvement (Liu, 2000: p.43).

Table 7.9 The Change of Arable Farming Agriculture in China's Regions' Agricultural Structure 1997-2000

	Percentage of Arable Farming in AGOV (%)		Ratio of Change	Ratio of Regional Percentage to National Average		Ratio of Change
	1997	2000		1997	2000	
China	56.40	55.68	0.72	1.00	1.00	1.00
Beijing	50.91	46.67	4.24	0.90	0.84	-5.88
Tianjin	60.32	53.36	6.96	1.07	0.96	9.66
Hebei	58.80	54.81	3.99	1.04	0.98	5.54
Shanxi	66.59	67.71	-1.12	1.18	1.22	-1.55
Inner Mongolia	61.50	56.77	4.72	1.09	1.02	6.56
Liaoning	47.11	47.91	-0.80	0.84	0.86	-1.12
Jilin	53.94	52.56	1.38	0.96	0.94	1.92
Heilongjiang	67.62	66.29	1.32	1.20	1.19	1.84
Shanghai	41.68	41.48	0.20	0.74	0.74	0.28
Jiangsu	59.75	58.62	1.13	1.06	1.05	1.57
Zhejiang	51.37	48.96	2.41	0.91	0.88	3.35
Anhui	57.16	55.35	1.81	1.01	0.99	2.51
Fujian	42.28	40.59	1.69	0.75	0.73	2.35
Jiangxi	50.24	50.94	-0.70	0.89	0.91	-0.98
Shandong	50.05	56.68	-6.63	0.89	1.02	-9.21
Henan	64.66	63.81	0.85	1.15	1.15	1.18
Hubei	57.24	54.70	2.54	1.01	0.98	3.53
Hunan	49.92	51.88	-1.96	0.89	0.93	-2.72
Guangdong	51.40	49.24	2.15	0.91	0.88	2.99
Guangxi	50.69	50.52	0.17	0.90	0.91	0.24
Hainan	45.95	46.49	-0.54	0.81	0.83	-0.75
Chongqing	60.21	59.31	0.90	1.07	1.07	1.25
Sichuan	57.20	55.57	1.63	1.01	1.00	2.26
Guizhou	69.26	67.70	1.56	1.23	1.22	2.17
Yunnan	64.88	61.15	3.73	1.15	1.10	5.18
Tibet	52.64	51.56	1.08	0.93	0.93	1.50
Shannxi	69.33	70.51	-1.18	1.23	1.27	-1.64
Gansu	68.63	73.99	-5.37	1.22	1.33	-7.45
Qinghai	51.89	43.68	8.21	0.92	0.78	11.40
Ningxia	67.95	60.41	7.54	1.20	1.08	10.47
Xinjiang	78.46	73.99	4.47	1.39	1.33	6.21

(Source: compile from Lu, Fan, Liu, Jin, Sheng and Liu, (eds.) 2003)

As we have discussed in the chapter 2, China's reform is distinguished by her success in agriculture since 1978, which has stimulated large numbers of the TVEs in the coastal provinces, improved peasant income and made a great contribution to local agricultural economic upgrading. In 1978 Xinjiang's agricultural economic structure displayed the following percentages of three sectors: primary agriculture, urban industry, and agricultural tertiary¹¹⁸ in the ratios 84.3: 10.7: 3; but in 1985 this remained stagnant at 83.7: 11.4: 4.9. It was not until 1986 that Xinjiang's local government decided to take measures to readjust

¹¹⁸ Agricultural tertiary refers to those commercial sectors run by the agricultural labor force.

local agricultural structure by advocating a policy to promote TVEs¹¹⁹. As we have discussed before, this has not been significant, make no effective contribution to the upgrading of the agricultural economy. So by 1997 the ratio of the three sectors had only adjusted to 71.8: 18.0: 10.2, while in China the ratio in general was by now 25.1: 63.5:11.4.

Primary agriculture is still dominant in Xinjiang. According to the statistics in 1997, only 9.1 per cent of the agricultural labour force is involved in agricultural processing and commercial sectors. The composition of the peasants' income shows that 1,160.73 yuan out of the average income of 1,378.52 yuan per person, or 84.2 per cent, comes from primary activities. This explains why Xinjiang's agriculture has made little progress since the reform. Its average annual rate of growth has been 7.5 per cent since 1978, only 2 points above the national average, and large numbers of farmers still have low incomes (Table 7.10).

Table 7.10 Groups of the Average Net Income of China's Peasants from the Different Regions in 1999

Above 3000 yuan per year	Beijing, Tianjin, Shanghai, Jiangsu, Fujian, Guangdong
3000-2000 yuan per year	Hebei, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Shandong, Jiangxi, Hubei, Hunan, Guangxi, Hainan
2000-1500 yuan per year	Shannxi, Anhui, Henan, Chongqing, Sichuan, Ningxia
Below 1500 yuan per year	Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Xinjiang

(Source: NSB: *China Statistical Yearbook, 2000*)

During the WDP, along with cotton, other major products like tomato, red chilly, grape, pear, wool, and milk, have become alternative attractions, and are expected to be developed further, with related manufacturing industries. However all of these products lack of appropriate management in product promotion and marketing, and are not living up to expectations.

The Xinjiang Maiquer (Group) Co., Ltd produces dairy products including milk, yoghurt, ice cream and cake. These are regarded as the quality products by local people and they have dominated the region's dairy market since the company founded in 1988. The company has reinvested its revenues to purchase advanced equipment and it now possesses high-tech assembly lines and production systems. However, the management of sales and promotion of

¹¹⁹ Xinjiang's People Government announced a policy: "the decision on the problems of promoting the town and village enterprises" on 26th February 1986 (Wang, 1999a).

products are again mainly locality-orientated. In Beijing and other major cities, the markets are dominated by products from Inner Mongolia's Ili Co., Ltd,¹²⁰ whose advertisements appear frequently in the national media. The same is true of local enterprises processing tomato purée, chilli sauce, and wine. Their assembly lines and production quality meet international standards and in theory they could compete in the international markets or domestic markets on the coast. Manas County, for instance, has many such plants in its area and the local authorities here have shown some enthusiasm for their further development. However, their strategy only narrowly focuses on the recruitment of capital for investment and the expansion of production, and no effort has gone into the promotion of the products and the development of markets.¹²¹ The sectoral development of tomatoes and the related industries is the one of components of Wang's strategy, but his government gave only a broad direction and no plan, financial support or intervention on marketing and production of these agricultural products. This is yet another example of the incompetence of government institutions in releasing local talent and performing an economic role.

7.1.2.3 Transportation

Since 1960, and especially since 1978, despite many efforts in railway improvement, by 1998 there is still only one route, the LanXin line, linking Xinjiang to the outside world (Table 7.11). It lies along the northern terrain of the Tian Shan Mountain in the middle of the territory centred at the capital Urumqi and eastbound it links to the capital city of Gansu, Lanzhou, and westbound it reaches the Kazakhstan border via the Alar Pass. Trains from Urumqi to Beijing and Shanghai run once daily and takes 48-72 hours to complete the journey. There have been trains too between Urumqi and Almaty twice a week since 1993. The intraregional rail network fans out from Urumqi linking up 18 out of 87 local cities and towns and the major southbound line to Kashigar via Korla around the northern sphere of Tarim Basin was completed in 1998, and the construction of extension lines north linking up to Alytai via Kuytun and south to Hotan via Kashigar is under way. The length of railway in Xinjiang has now reached 3,008 km in 2003 (2000 km in 1997) but this amounts to only 3.3

¹²⁰ Fieldwork, 2003

¹²¹ Fieldwork, 2003

per cent of the national total (3.7 in 1997) and the density of network is lower as 0.11 (0.12 in 1997) km per sq km, 17 (21.6 in 1997) per cent of the national average (Table 7.12).

Apart from railway as the major form of transport to access the outside, roads are fundamental for the travelling within the region and by the end of 2004, 99 per cent of counties, towns and villages had been linked up by the road network, which is now a total of 35,600 km. The density of road network by 1997 was 1.92 km per hundred sq km, which is 15.14 per cent of national average and ranked at very bottom of the list compared to other provinces (Table 7.12). The network of standard highways is based mainly on two internal lines, Tur-U-Dai (Turpan-Urumqi-Dahuangshan) and U-Kai (Urumqi-Kuytun); and three external lines, LanXin (Lanzhou-Xinjiang), QinXin (Qinghai-Xinjiang) and XinTibet (Xinjiang-Tibet). In addition, the aviation service is gradually taking on an important role, with increasing numbers of passengers, though it is expensive. There are 59 air routes, including 52 domestic and 7 international lines with a total distance of 170,000 kilometres linking 11 airports¹²².

The long distances, mostly across deserts, results in long travelling times, high costs, and various logistical problems of operation. In 1995 the average of distance per delivery for export was 1944.5 km and for import 2854.8 km, 3.5 times the national average. Internal deliveries are also costly as they are mainly by road across the huge territory. For example, the road from Urumqi to the southern city of Kashigar is longer than the rail route from Beijing and Shanghai. According to 1995 statistics, transport expenditure per unit of GDP is 2 to 3 times higher than the national average. The national average of cargo prime cost on railway was 0.0397 yuan per ton km, but the prime cost on freight train of northern Xinjiang was 0.0598 yuan per ton km of the south was 0.1354 yuan per ton km (Han, 1998).

Transport development and economic growth are strongly related in China's regional development (Demurger, 2001). "Considering China's huge size, important regional differences arise naturally in geography and in natural endowments. These may have a substantial impact on the economic returns of any kind of reform"(Demurger, 2001: p.96).

¹²² Xinjiang's 10th FYP, 2002.

Localities with advanced infrastructure are generally more open to marketisation. Local efforts to provide sufficient transport can change the comparative advantage of a region and facilitate the implementation of a variety of development policies. In the case of Xinjiang, needless to say, its past, even during the early phase of reform, has been a story of neglect. Neither Beijing nor Urumqi made a strong commitment to the improvement of local infrastructure facilities. According to Demurger (2001), Xinjiang's peripheral location, its inadequate transport network, and the expense of travel to the main markets elsewhere in China obviously contributes to her slack economic growth. Xinjiang has lowest growth per capita in transport contributing to the region's negative growth relative to the national mean (Table 7.13). Figure 7.1 shows the investment changes in basic construction of transportation and communication (T&C). From the figures we can see that the period having the lowest point of investment in the T&C was during the eighth FYP, which was the exactly the period of the "three-ladder-step" and, ironically, matched the period that Xinjiang started to drop down the growth ranks of provinces, from 1991 onward, after having been in the top group of growth regions for years.

Xinjiang has taken 50 years to complete its basic transport network and most of the investment came from the central state. Before 1979 Beijing had responsibly for planning, funding and constructing transport assets in Xinjiang. Since the reform, the division between the state and locality in sharing financial investments has varied. The central government, represented by the Transport Ministry (TM), is in charge of building-up the major inter-or intra-regional trunk lines of railway, highway and pipe, military roads and also of hub airports. The local transport department is responsible for funding all local branch lines and minor airports. For example, the investment in the construction of railway from Urumqi to the Alar Pass in 1986 was shared 50:50 between the TM and the local government. The money came largely in the form of bank loans and commercial goods loan, and also state distributed and locally collected funds. The main sources for generating funds to construct the regional infrastructure are state budgetary funds through the TM allocated to the region for state-planned-infrastructure-projects, plus locally self-collected funds mainly from local extra-budgets. Local government has either to rely on raising local production revenues or on negotiating with the central government for more extra-budgetary fund allocations. In the case of Xinjiang, given the size of the land, any infrastructure project requires huge

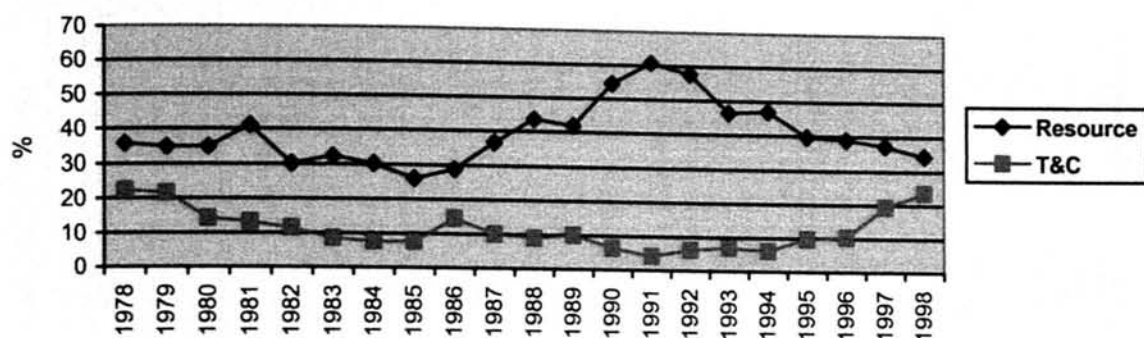
investment, which is unlikely to be raised easily by either the local government or private sources, not to mention that the local governments below the provincial level have always struggled to solve their deficits of local revenue. Therefore the sectoral development of Xinjiang's transportation has not only been tied to investment from the centre but has always been planned according to central interests. Large network extensions of highways and railways are always focused on regional resource development rather than local agendas.

Table 7.11 Infrastructure Availability and Structural Characteristics by Province 1985-1998 Average

Provinces	Transport Network Density (km/1000km ²)			Tele- communication	Population Density	Coal Production	Electricity Production
	Railway	Highway	Waterway	(Telephones/ 1000 persons)	(sq km)	(Tonnes/ 1000 persons)	(kWh/person)
Zhejiang	9	310	104	50	418	31	672
Fujian	9	350	32	38	250	289	594
Guangdong	4	372	61	59	360	137	796
Jiangsu	7	245	231	45	660	357	727
Shandong	14	301	12	23	547	803	646
Hainan	6	401	10	26	199	2	291
Henan	13	273	7	14	521	1048	461
Anhui	12	226	43	16	409	636	406
Hubei	9	259	46	23	294	197	667
Hebei	17	252	0	25	327	1085	748
Jiangxi	10	199	29	15	229	552	357
Xinjiang	1	17	0	17	9	1443	558
Jilin	19	151	6	36	132	1008	864
Inner Mongolia	4	38	1	19	19	2410	957
Sichuan	5	173	15	12	192	687	383
Yunnan	4	154	3	14	96	628	49
Guangxi	7	163	19	13	183	237	356
Shanxi	9	188	4	20	161	2018	560
Shanghai	42	547	370	139	2193	0	2620
Beijing	58	617	0	149	665	859	1114
Tianjin	42	370	15	90	798	0	1275
Hunan	11	276	48	11	291	653	393
Liaoning	24	276	3	44	271	1315	1192
Shannxi	15	214	1	14	189	9777	1268
Guizhou	8	178	10	9	187	1298	456
Gansu	5	76	0	11	50	750	845
Ningxia	8	125	6	27	72	2931	1416
Heilongjiang	11	102	0	31	76	2131	896
Qinghai	2	23	0	21	6	620	1194
National Average	13	237	37	35	338	1134	798

(Source: Demurger, 2001)

Figure 7.1 Investments in Basic Construction of T&C and Resource (%)



(Source: Xinjiang Statistic Bureau (XSB): Xinjiang's Glorious Fifty Years, 1999b)

Table 7.12 The Comparison of Transportation Development of Xinjiang and China in 1997

	Units	China	Xinjiang	Xinjiang/China %
Railway mileage	thousand km	54.6	2.0	3.73
Density of railway network	km/sq km	0.569	0.12	21.59
Railway mileage per person	km/person	0.45	1.59	352.37
Road mileage	thousand km	1157	30.3	2.62
Density of road network	km/sq km	0.12	0.02	15.14
Road mileage per person	km/person	9.55	23.61	247.21
Goods mileage	10 thousand tons	12,348,100	400,490	3.24
Goods turnover	billion ton km	3573	40.763	1.14
Passenger turnover	billion people km	900.2	23.98	2.66

(Source: compiled from Wang, 1999a)

Table 7.13 Contributions to Provincial Growth Gaps Relative to the National Mean 1985-1998 (%)

Contribution of Each Variable to the Difference in per capita Growth Relative to the National Mean											
Region	Growth Difference Predicted	Fixed Effects	Initial GDP	Investment	Education	Agriculture	Coll. Sector	FDI	Urbanisation	Transport	Telecom.
East: Non-Agricultural, Transport-rich, Successful Provinces											
Guangdong	2.97	2.64	-8.50	0.22	-0.54	2.49	0.29	2.00	1.27	1.79	1.31
Fujian	2.87	2.65	-2.29	-0.56	-4.16	1.19	0.73	2.11	0.37	2.38	0.45
Zhejiang	2.40	2.24	-8.73	-0.14	-0.35	2.98	2.82	-0.12	0.55	2.28	0.86
Jiangsu	2.25	1.60	-10.63	0.52	1.80	3.16	3.05	0.37	0.06	1.67	0.65
Shandong	1.40	-0.29	-2.76	0.20	0.37	-0.19	1.38	0.29	0.47	2.00	-0.06
Hebei	0.98	-1.98	-0.97	-0.07	0.58	1.35	1.12	-0.21	-0.31	1.45	0.00
North: Non-Agricultural, Education-rich, Unsuccessful Provinces											
Jilin	-0.15	-2.92	-3.37	-0.16	6.23	0.31	-0.81	0.17	0.90	-0.64	0.48
Liaoning	-0.87	-4.84	-12.21	-0.18	8.05	4.98	-0.35	0.19	0.77	1.99	0.72
Shanxi	-1.45	-10.08	0.02	0.56	3.65	3.95	0.43	-0.40	0.17	0.64	-0.39
Heilongjiang	-1.71	-0.38	-5.51	-0.48	5.96	1.60	-1.13	-0.24	0.54	-2.34	0.26
Centre: Agricultural, Transport-rich, Unsuccessful Provinces											
Jiangxi	0.26	4.59	3.47	-0.92	-3.06	-2.87	-0.81	-0.27	-0.53	0.99	-0.34
Henan	0.23	-4.68	5.00	-0.19	-0.10	-0.92	0.75	-0.29	-0.74	1.79	-0.38
Hubei	-0.31	-0.66	-1.51	-0.90	0.74	-0.99	0.44	-0.21	0.66	2.14	-0.04
Anhui	-0.36	0.29	4.73	-0.66	-3.68	-2.34	0.52	-0.28	-0.29	1.65	-0.30
Hunan	-0.73	-2.89	5.18	-1.74	-0.46	-2.24	0.11	-0.25	-0.30	2.31	-0.47
Southwest: Agricultural, Education-poor, Unsuccessful Backward Provinces											
Guangxi	0.34	-1.25	10.71	-1.07	-2.96	-3.78	-0.74	0.27	0.17	-0.28	-0.04
Yunnan	-0.48	5.30	7.39	-0.01	-7.63	-2.15	-0.81	-0.36	-0.68	-1.13	-0.04
Sichuan	-0.72	0.68	4.79	-0.67	-3.12	-1.23	-0.04	-0.30	-0.31	-0.10	-0.43
Guizhou	-2.07	-1.98	12.58	-0.16	-6.71	-2.96	-1.55	-0.40	-0.33	0.00	-0.55
Northwest: Transport-poor, Unsuccessful Provinces											
Xinjiang	-0.49	8.20	-1.77	2.70	3.87	-4.00	-1.36	-0.40	-0.40	-7.09	-0.25
Gansu	-0.51	5.78	2.31	-0.32	-2.89	1.32	-1.04	-0.42	-0.60	-3.98	-0.48
Shannxi	-0.84	-5.22	2.04	0.79	2.23	0.35	-0.56	-0.12	-0.36	0.14	-0.14
Inner Mongolia	-0.86	6.31	-0.46	-0.01	2.41	-1.33	-1.06	-0.43	-0.25	-5.84	-0.20
Ningxia	-2.14	-3.12	0.65	3.24	-0.23	1.30	-1.39	-0.38	-0.49	-1.82	0.10

(Note: Positive (negative) figure means one higher (lower) than the national mean. *Source: Demurger, 2001*)

7.1.2.4 Spatial Development

The spatial distribution of economic development is also problematic. The Tian Shan mountain range divides Xinjiang not only geographically but also economically into north and south. In contemporary history, it is due to its geographical convenience and a friendly natural environment that a major travel route passed through it and the capital city was established in Urumqi of northern slope of the Tian Shan under the old governmental regime of pre-1949, but cultural and social activities were mostly hosted by the south across the Taklimakan desert in the areas of Kashigar in particular, and Hotan. So Kashigar is always regarded as home by the Uygurs. After 1949, the space economy was reconstructed by shifting most activities into areas near to the railway route, oil fields and the political administrative centres, and therefore social activities were also shifted to the northern slope of the Tian Shan where many Han migrants, the plantations of the XPCC, and modern resource industries were settled. This area, stretching from the Hami-Turpan Basin to the Ili Valley is now being promoted by the 9th and 10th FYPs as an economic special zone, namely, the Tian Shan Northern Slope Economic Zone (TNSEZ) (Map 7.4), and this has become a centre of gravity of most resources, regional wealth, and various communication networks and industrial sectors, banking, trade and commerce, information, high technology and educational institutes, and agricultural commercial plantations. The urbanization and industrialization of the TNSEZ is the greatest in the province, with 69 per cent of large-and medium-scaled enterprises and 90 per cent of public listed companies here and 9 of Xinjiang's total 17 standard cities. In 2000, the TNSEZ produced a GDP of 60 billion yuan, 44 per cent of Xinjiang's total. The TNSEZ also includes Karamay, a key city on the edge of the south Zungharian Desert and the centre of the oil extraction industries. Within the TNSEZ, Kuytun-Urumqi-Karamay including Shihezi is further being promoted as a golden triangle for regional growth. The second biggest city of the region, Shihezi, is home to all members of the XPCC and was reclaimed from the desert. This city is under the direct political administration and financial sponsorship of the SC via the XPCC. Karamay and Dushanzi (a city next to Kuytun) are united for Xinjiang's oil exploration and refinery industries. Those zones and cities were designated specially to attract investment in 1997, with the best economic conditions, and with various preferential policies in expectation that it would become an economic pole to generate rapid growth for the region.

According to year 2000 statistics, the per capita income of Kashigar Region is RMB 2241 yuan, Hotan Region RMB 1653 yuan, and Kizilsu-Kirghiz Autonomous Prefecture RMB1832 yuan, far below the Xinjiang average of 7470 RMB. The population of these three areas make up 30 per cent of the region's total and 45 per cent of the ethnic population. 95 per cent or more of local people are ethnic, led by the Uyghur at 58.6 per cent. Eighteen out of the total of 21 towns in these three areas are among the 30 towns in the province that have been classified as state standard poverty towns. The 2.98 million people of these poor counties account for 41 percent of the entire Uyghur population of China. These areas attract much less investment in fixed assets – only 4.62 per cent of Xinjiang's total from 1990 to 1997, and the numbers are still in decline. The land area comprises 27.5 per cent of Xinjiang's total but produce only 11.82 per cent of its GDP. There aren't many natural mineral reserves here and the local economy largely depends on agriculture, particularly 672.7 thousand hectares of irrigated lands, taking up 20.84 per cent of province's cultivated land. Handcrafts and agricultural input manufactories constitute the local industry, representing 1.57 per cent of Xinjiang's industrial enterprises. As a result of its dry desert climate, the ecological system here is extremely fragile. Although Kashigar is on the railway network, accessing the rest of the area is only possible by road or air and even these are not well established. The area shares a long border with Tibet but cross-border trade is prevented by the Tibetan Plateau and the Kunlun Mountains. There is only one border crossing for trade with Uzbekistan but this is underutilized.

The Ili Valley, Turpan-Hami basins, the foothills of the Altay Mountains and southern slope of the Tian Shan, located respectively in the west, east, far north and middle-south, have relatively advanced economies compared to K-H-K. A newly developing oil industry, traditional cotton plantations and tourism are important for Turpan-Hami. Ili once was popular for cross-border trade in the early 90s, but now the local economy is declining. Table 7.15 provides an overall development of Xinjiang's sub-regions between 1949- 1997. Apart from those cities and towns on the northern slope of the Tian Shan, their inter-relations in terms of transportation, information exchange and economic cooperation among the other cities and towns remain to some extent sparse and distanced.

Table 7.14 GDP by Xinjiang's Districts, Prefectures and Key Cities in 2000

Place	Area (10,000 sq km)	Population	GDP (10,000 yuan)	GDP per Person (yuan)	Output Value of Agriculture (10,000 yuan)	Grain (tonnes)	Cotton (tonnes)
Urumqi (city)	1.2	2081988	2790547	15426	47557	63668	871521
Karamay (city)	0.95	269611	1385871	42498	8919	2517	4046
Shihezi (city)	0.76	590106	253584	9066	60100	34069	27313
Bayingolin	48.27	1056424	1348986	12874	306342	262686	83601
Changji	9.39	1503547	1198195	7580	554492	863806	90888
Turpan	6.97	551030	598400	10912	130960	94173	16895
Hami	15.3	492093	338199	6894	69959	853449	6903
Ili	5.6	2387066	849881	3834	414845	923739	2716
Tacheng	9.56	892420	837572	6703	387755	479548	88566
Bortala	2.7	423660	224333	5446	115260	158754	45159
Altay	11.7	561670	315030	5345	148843	211610	0
Aksu	13.2	2141084	935339	4548	524726	1106767	230767
Kashigar	16.2	3406342	754366	2241	623668	1537181	257054
Kizilsu- Kirghiz	7.09	439650	79632	1832	62271	176003	4906
Hotan	24.55	1681526	271280	1653	316862	807091	40020
Total	160	18,462,572	13,643,600	7470	4,872,005	8,086,000	1,500,000

(Source: author, fieldwork, 2002)

The regions of Xinjiang show an extremely uneven spatial development. The highest GDP is produced by the TNSEZ and is 4.6 times that of K-H-K. It attracted 51.6 per cent of fixed asset investment from 1990 to 1997, remained highly increasing of industrialisation and took 80.93 per cent of the total volume of foreign trade, while the K-H-K area received only 4.6 per cent of investment in 1997 (Table 7.15). Since granting a developing priority to the TNSEZ, inspired by the growth-pole theory, the gap between the poor and rich areas is widening.

Table 7.15 Economic Development of Xinjiang's Five Economic Regions

	Rank of Land Coverage	Rank of Population	GDP		Increasing Rate	GDP per Person	The Ratio of Economic Sectors	Economic Spatial Centre and Major Economic Activities		The Ratio of Agricultural Output Value to the Total	The Ratio of Industrial Output Value to the Total	
			billion yuan					A: I: S	1949			1997
			1990	1997								
The TNSEZ	5	2	13.2	24.44	84.83%	10984	13.62 : 45.1 : 41.38	Changji Urumqi (1955) (industry, commerce, etc.)	Urumqi (combined with Industries, commerce, etc.)	24.78%	66.71%	
The Ili Valley and the Altay Mountains Area	3	3	4.56	7.57	66.32%	3685	51.79 : 17.93 : 30.28	Ili (agriculture, trade)	Ili (agriculture, trades, tourist)	21.24%	7.62%	
Turpan-Hami Basins	4	4	1.93	3.95	104.61%	7254	19.96 : 52.72 : 27.32	Turpan (agriculture)	Turpan-Hami (oil industry, tourist)	6.04%	6.49%	
The North Tarim Basin	1	5	4.21	9.67	129.95%	6453	35.24 : 40.67 : 24.09	Aksu (agriculture)	Aksu-Bayingolin (oil industry, agriculture)	23.5%	13.1%	
The South Tarim Basin K-K-H	2	1	4.56	6.13	34.37%	2040	63.67 : 10.22 : 26.11	Kashigar (agriculture, trade)	Kashigar (tourist, agriculture)	24.43%	3.26%	
	Cities 1997	University Graduates per thousand People			Illiterate or Half Illiterate per thousand People	Fixed Asset Investment 1990-1997 %						
The TNSEZ	8	44			74	51.6%						
The Ili Valley and the Altay Mountains Area	4	12			98	7.96%						
Turpan-Hami Basins	2	15			110	11.68%						
The North Tarim Basin	2	10			142	20.69%						
The South Tarim Basin K-K-H	3	5			182	4.62%						

(Note: A:I:S: agriculture : industry : service; Source: author, fieldwork, 2003)

Simply concentrating all energies on the TNSEZ to generate a fast growth in a limited area and then expecting that wealth to spread to the vast, poor areas is not realistic or practical. First, the poor areas of Xinjiang are not only short of natural resources and transport facilities and have a low standard of industrialisation, but they also have less skilled labour and low levels of modern development seen as education. The human and natural development indicators of those areas show no market attraction for investment from either inside or outside Xinjiang. Given the hugeness, distance and primitive economic development of these poor areas, planning and investment to help them out of poverty is obviously not easy but rather large and long-term. The capability of the TNSEZ to generate autonomous growth is doubtful. In 1997 the GDP per person in Shanghai is 25,253 yuan, the average for Guangdong is 11,184 yuan, that of TNSEZ is 10,984 yuan, and the Xinjiang average is only 6,629 yuan.

Second, the plausibility of a real spread effect is questionable in a market economy. It is unlikely that, without governmental intervention, capital and other resources will flow freely into a poor area with such low market capacity. China eventually gave up on the strategy of the “Three ladder Step” in 1999 because it hadn’t performed as expected. It is not wise for Xinjiang still to apply this outdated approach. Most importantly, as it is impossible for the gap to be narrowed down by the poor sub-regions themselves and, as the local government is handicapped by a shortage of funds, all hope once again is pinned on the central government. However, central government is only interested in oil development and this reinforces the growth pole effect of TNSEZ, which in turn exacerbates Xinjiang’s unbalanced development and creates social tensions. Xinjiang has proved to be a slave to the central plan and, in the 10th FYP, developing TNSEZ is a major strategy for the region.

7.2 The Impact of Development Policies on the Regional Development

7.2.1 Natural Environment Causes Problems

With Xinjiang’s strenuous development of its fossil resources industries, there is a potential price to pay given the fragility of the local environment. Located at the very centre of Eurasian continental block, the province is barricaded on all sides by ranges of mountains and deserts, which impose a continental, dry ecosystem. Both Xinjiang’s north and south have a desert dominating the landscape: the Zungharian Basin in the north, with the second

largest shifting sand sea in the world after the Sahara, the Gurbantagut Desert; and the Tarim Basin, in the south, with Taklimakan Desert. The Altay Mountains are on the northern boundary and the Kunlun, with average heights of 5000-6000 metres, is on the southern border each beyond the two deserts.

Human settlement is only possible in 8000 oases, taking up merely 3.7 per cent of the territory while the deserts and sandy land cover 45.5 per cent. Before 1949, there were 2650 thousand sq km of oases developed over thousands of years of human history, however, by the end of the 1980s the total area of water irrigation oasis had sharply increased to 7070 thousand sq km. 4420 thousand sq km of land has been developed in the space of only 40 years. In the same period Xinjiang lost 25 per cent of mountain forest and ushered in degeneration of 80 per cent of its natural grassland. The economy traditionally relies on livestock fed on the grassland taking up 34.44 per cent of territory, of which one third has now reached a warning point of serious degradation. The rate of grassland withdrawal is 0.5 per cent per year and its productivity is now reduced by 30-60 per cent. Xinjiang has 19 million hectares of forest lands only covering 1.68 per cent of the region, the lowest rate of forest coverage anywhere in China. Due to the massive deforestation during the last 20 years of economic development, desertification has occurred on 60 per cent of the total land since 1949 and speeded up to 84.2 sq km per year, 2.44 times faster than the average of over the past 2500 years. 20,000 sq km of oasis has been lost, 110,000 sq km of land salinized. 85 per cent of the severe desertification is attributed to human over-exploitation of the land.

Water is a key to social and economic development in this parched landscape. The region annually receives an average of merely 120 to 150 millimetres of rainfall, distributed unequally. 60-70 per cent of rainfall in Xinjiang is concentrated in the summer, causing floods in piedmont areas, but the rest of the land remains dry most of the year. The water sources for the region come largely from 18,000 glaciers totalling 24,000 square kilometres and feeding rivers in spring time. Although there are 570 rivers, most of them have short route with annual flow rate: 88.4 billion cubic metres, which is 3 per cent of China's average. The underground water reserve is 25.2 billion cubic metres. According to a survey by the Xinjiang Academy of Science, there is a need of approximately 23.8 billion cubic metres of water for basic ecological maintenances. However, the total amount of water resources is 87.8 billion cubic metres and, after reductions from agricultural irrigation and industrial production water usages, and from the water flowing away across the borders, only 19.1

billion cubic metres are left. This means a shortage of 4.69 billion cubic metres water for the region's ecological. Local people are keen on extracting more water from underground and, according to *The People's Daily*, 2003 "geologists have also found fresh water that can be drunk directly in a 140-square metre groundwater distribution area in east Lop Nur¹²³, a renowned wilderness named as the 'forbidden zone of life' in Xinjiang".¹²⁴ However, there is no clear research on whether the extracted water from underground is fossil water or an aquifer resource that can be replenished (Hoppe, 1987).¹²⁵

Due to massive water extraction upstream for domestic and industrial use, the Tarim River has been shortened by more than 400 km, one-fourth of its length; its flow rate has been reduced to 10 per cent of the amount in the 70s, and the water table has dropped from 4-5 to 10-12 metres below ground. Vegetation has been degraded on a large scale: for instance, 529.2 thousand hectares of Populus tree land in the 50s was reduced to 281.0 thousand hectares by the end of the 80s. As a result, the 70s' scene of the Tarim River running freely within banks up to 50 to 100 kms wide, with the luxurious forests of Populus trees on them, has disappeared. The lakes downstream of the Tarim and the Manas rivers in the north of the Tian Shan, and the lake of Lop Nur have disappeared too since the 70s. Turpan's Idi Lake and Ili's Ibi Lake have also shrunk considerably. As a result Xinjiang's lakes have thus been reduced by 51 per cent from 9700 sq km in the 50s to 4748 sq km in the 70s.

The first major problem has been inappropriate reclamation for agriculture. Huge population growth and a tendency for overheated economic growth have encouraged large projects for reclaiming deserts to increase irrigated land. This began in the first FYP and, by 1959, irrigated land had increased from 0.97 million in 1949 to 2.27 million hectares.¹²⁶ From the 50s to 60s, a few cities were also built on desert land, such as Shihezi and Karamay, settled by immigrants. Since the reform, the land reclamation surged and by 1992, 3 million hectares had been developed and up to 2001 the area was continually increasing at a rate of 67 thousand hectares per year.¹²⁷ After the WDP, although the land reclamation is required to be cautious, still two more large reclamation projects have been proposed: developing the Ili River Valley and diverting water from the Irtysh River of Altay Mountain to Karamay. By

¹²³ In the east of the Tarim Basin.

¹²⁴ Geoscience News in the Australian Institute of Geoscientists, http://www.aig.asn.au/News_2003/groundwater_discovery.htm, accessed on 18/01/2005.

¹²⁵ Cited by Toops, 2004b: p.270.

¹²⁶ See Lo, 1961: p.96.

¹²⁷ Fieldnotes, 2003

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¹²⁵ Cited by Toops, 2004b: p.270.

¹²⁶ See Lo, 1961: p.96.

¹²⁷ Fieldnotes, 2003

very scarce. Therefore the density of population per sq km of oasis land is considerably high at 277 people: 13 times more than China's total average, especially in considering that Xinjiang's oasis land is much less productive and low capacity. Obviously the area of cultivated land per person is relatively low and, with the population increasing, it is continually going down (Table 7.16). This obviously adds pressure on land usage and forces people continually to reclaim cultivable land from forest, grassland and deserts.

Pollution is another serious threat to the region due to rapid resource-intensive industrialisation. In Chau's (2004: p.268) article, 7 out of 10 cities in the world labelled as seriously atmospherically polluted are in China and Urumqi is one of them. Large coal mines developed near to the cities and towns and coal burning for heating and energy supply to cities and industries bring serious air pollution, which is difficult to disperse because of the high mountains surrounding all the major cities in the region. The smoke is thick with SO² and CO² from burning coal and oil, and sand and dust contribute to major sulphur pollution with average 348 mcg per standard cubic metre in the air (446 mcg in Urumqi). The rate of recycling industrial solid wastes reaches only 40 per cent and the rest is discarded into the environment. Acid rain and pollution is getting worse, with 19 rivers and 7 lakes seriously polluted.

Table 7.16 Xinjiang's Population and Cultivated Lands 1949-1997

Year	Total Population million	Average Increasing Rate %	Possessing Cultivated Land by the End of Year thousand hectares	Cultivated Land per person hectares / person
1949	4.3334	---	1209.76	0.28
1950	4.4390	2.44	1332.35	0.30
1952	4.6517	2.37	1543.14	0.33
1957	5.5801	3.71	1953.03	0.35
1962	6.9897	4.6	3053.82	0.44
1965	7.8910	4.13	3164.72	0.40
1967	8.7184	5.11	3376.83	0.39
1970	9.7658	3.85	3131.86	0.32
1975	11.5453	3.40	3146.97	0.27
1980	12.8324	2.14	3181.70	0.25
1985	13.6114	1.19	3082.52	0.23
1990	15.2916	2.36	3086.89	0.20
1994	16.3270	1.65	3124.15	0.19
1997	17.1808	1.71	3228.76	0.19

(Source: compiled from Wang, 1999)

Since the WDP in 1999, sustainable development has been backed by the central government in western China due to the high pressure of environmental degradation. A specific project in the tenth FYP was "Reclaiming the Land for Forestry from the Cultivation", with state investment of RMB 340 billion yuan over ten years. The project, including a series of

actions, tries to reconstruct natural land by preventing people from land reclamation from the water source areas, river banks and lake districts; replanting trees and grass on the land being seriously affected by desertification due to over-cultivation and over-grazing; and compensating peasants with crops and other subsidies for giving up their farm land.

However, despite the determination of the central state and the collaboration of various local institutes, the effectiveness of the project is questionable for its unrealistic planning, its lack of cohesive implementation by all involved non-and state's institutes, and dissatisfaction and non-cooperation from local peasants in pursuit of their own economic benefits.

7.2.2 Regional Economic Development in China's Overall Development

Despite the heavy investment from the state and regional development under the direction of policies made by the regional government in accordance with state planning over the past few years, Xinjiang's economic growth is steady but is not living up to expectations in matching the large funds of transfer, and its rank in GDP annual growth rate has sharply declined in the latter years of reform: from rank 7 in 1978-1990 to 20 in 1990-1999 (Table 7.17). Over the twenty years since 1980, the local GDP growth rate remained at 10 per cent annually, slightly lower than the national average. Compared to one of China's most economically advanced provinces, Guangdong, Xinjiang's GDP per capita in 1991 was only 57 per cent of Guangdong's after 12 years of reform. The relative decline of individual income has directly affected local residents, both of Han and non-Han ethnicity. Table 7.18 shows that urban incomes have dropped from 10th position in 1978 to 17th in 1999 in the rank orders of 30 provinces and municipalities, and the income of peasants is down even further from 18th to 25th. Even among all western regions, Xinjiang's incomes of urban and rural household are not impressive at all (Table 7.19). And the rate of unemployment in the region is also considerably higher. Table 7.20 shows that Xinjiang is the second highest among western regions in the ratio of registered unemployment¹²⁸ to employment and the highest in the ratio of registered unemployment to total unemployment. The latter means in Xinjiang the capacity of financial self-support or self-management of unemployee is low. In another words, the local government's financial burden of supporting those employees is high.

In the 7th FYP 258 out of 331 identified poverty towns were located in the central and western provinces and 458 out of 567 towns in the 8th FYP. The criteria used were that the

¹²⁸ Registered unemployment means people claim the state's unemployment benefit, such as: dole.

annual average income per local person should be less than RMB 180 yuan in 7th and RMB 300 yuan in 8th FYP. 51.9% of poor towns in 1994 were found in the west where there is a large minority population living. In 1993, 25 out of China's 592 identified poverty towns were located in Xinjiang and involved 1,760, 000 people (Table 7.21), 90% of whom were in south Xinjiang. By 2000, the numbers of poverty towns in Xinjiang had increased to 30, again concentrated in the south, especially the K-H-K area which is dominated by minorities, led by the Uyghurs (see discussion in section 7.2.1.4). During the eighth FYP, China adopted a new poverty alleviation policy, with a focus on western China. The measures taken under the "State's Eight-Sever Poverty-Improving Policy" in 1994 included: improving local infrastructure, establishing intra-or-inter-provincial economic collaborations, especially between rich and poor regions; raising funds specially for local education and technological improvement; reducing taxes; and providing loans for local enterprises. According to the Chinese news media,¹²⁹ the poverty alleviation plan seems to have achieved a great deal in Xinjiang. During the 10th Five-Year Plan, 1.41 million poor households are said to have shaken off poverty. However, there are still as many as 1.5 million people remaining in poverty. Moreover, although poverty is not as widespread in comparing to other provinces, in south Xinjiang the income of households that are said to have escaped from poverty is still only one thousand yuan per year, about 40 per cent of the average income of a Chinese peasant.

Although scholars like Mackerras (2004) have claimed that the wealth brought by the WDP and the reform has not reached only the Han, in fact many non-Han, especially the Uyghurs, have also had a share. Thus one of the richest local private business tycoons was once a Uyghur woman, Rebiya Kadeer. But the unequal division of rich-poor between TNSEZ and cities occupied largely by Han and K-H-K and remote villages by non-Han remains a basis for ethnic discontent. Moreover, the large numbers of Han immigrants have increased competition in local labour markets and put increased pressure on Muslim defensiveness over social and cultural purity. The violence of Uyghur separatism and anti-Han movements have become a major social problem in the region.

¹²⁹ <http://english.gov.cn/2006-01/05/content> accessed on 08/02/2006.

Table 7.17 Economic Growth Rate by Provinces in Different Periods in China (%)

Index	NI Annual Growth Rate	Relative Rate	Region	GDP Annual Growth Rate	Relative Rate	Region	GDP Annual Growth Rate	Relative Rate	GDP Annual Growth Rate	Relative Rate
Period	1952-78			1978-90			1990-99		1999	
↑Increase										
1Beijing	12.54	1.99	1Zhejiang	11.94	1.42	1Fujian	16.1	1.32	10.0	1.14
2Shanghai	8.66	1.37	2Tibet	11.84	1.41	2Zhejiang	15.4	1.26	10.0	1.14
3Qinghai	7.74	1.23	3Guangdong	11.29	1.35	3Guangdong	15.1	1.24	9.4	1.07
4Tianjin	7.36	1.17	4Jiangsu	11.06	1.32	4Jiangsu	14.4	1.18	10.1	1.15
5Liaoning	7.29	1.15	5Fujian	10.49	1.25	5Shandong	14.2	1.16	10.1	1.15
6Shanxi	6.98	1.11	6Shandong	9.91	1.18	6Hebei	13.2	1.08	9.1	1.03
			7Xinjiang	9.88	1.18	7Hainan	12.9	1.06	8.6	0.98
			8Yunnan	9.33	1.11					
			9Henan	8.99	1.07					
			10Anhui	8.9	1.06					
			11Hubei	8.89	1.06					
-Steady										
7Heilongjiang	6.33	1.00	12Guizhou	8.31	0.99	8Anhui	12.6	1.03	8.1	0.92
8Ningxia	6.20	0.98	13Ningxia	8.21	0.98	9Shanghai	12.3	1.01	10.2	1.16
9Yunnan	5.96	0.94	14Beijing	8.16	0.97	10Jiangxi	12.2	1.00	7.8	0.89
10Xinjiang	5.78	0.91	15Jilin	8.14	0.97	11Hubei	12.1	0.99	8.3	0.94
11Gansu	5.77	0.91	16Inner Mongolia	8.11	0.97	12Guangxi	12.1	0.99	8.3	0.94
12Shandong	5.73	0.91	17Shanxi	8.09	0.97	13Henan	11.7	0.96	8.1	0.92
13Zhejiang	5.72	0.91	18Jiangxi	7.96	0.95	14Tianjin	11.6	0.95	10.0	1.14
14Inner Mongolia	5.69	0.90	19Sichuan	7.87	0.94	15Beijing	10.6	0.89	10.0	1.14
			20Hebei	7.87	0.94					
			21Shannxi	7.76	0.93					
↓Decline										
15Jiangsu	5.56	0.88	22Gansu	7.45	0.89	16Hunan	10.7	0.88	8.3	0.94
16Jilin	5.52	0.87	23Hunan	7.23	0.86	17Jilin	10.5	0.86	8.1	0.92
17Fujian	5.42	0.86	24Shanghai	7.16	0.85	18Sichuan	10.2	0.84	5.6	0.64
18Henan	5.36	0.85	25Guanxi	7.16	0.85	*Chongqing			7.6	0.86
19Hebei	5.33	0.84	26Liaoning	6.89	0.82	19Tibet	10.1	0.83	8.5	0.96
20Guangdong	5.32	0.84	27Tianjin	6.86	0.82	20Xinjiang	9.9	0.81	7.1	0.81
21Hunan	5.19	0.82	28Heilongjiang	6.23	0.74	21Shanxi	9.7	0.80	6.1	0.69
22Shannxi	5.17	0.82	29Qinghai	5.90	0.70	22Inner Mongolia	9.8	0.80	7.7	0.88

Table 7.17 contd

23Hubei	5.12	0.81				23Yunnan	9.5	0.79	7.1	0.81
24Sichuan	5.01	0.79				24Gansu	9.5	0.79	8.3	0.94
25Guangxi	4.99	0.79				25Liaoning	9.5	0.79	8.1	0.92
26Guizhou	4.61	0.73				26Shannxi	9.0	0.74	8.0	0.91
27Jiangxi	4.60	0.73				27Guizhou	8.7	0.71	8.3	0.94
28Anhui	3.56	0.56				28Heilongjiang	8.4	0.69	7.5	0.85
						29Ningxia	8.4	0.77	8.7	0.99
						30Qinghai	8.1	0.66	8.2	0.93
Nation Total	6.32	1	Nation Total	8.38	1	Nation Total	12.2	1	8.8	1

(Notes: Chongqing was separated administratively from Sichuan and established as municipality in 1997; NI refers to national income.

Source: Lu, Liu, Fan, Xue and Jin; (eds.) 2000)

Table 7.18 Rank Orders of GDP per person and Personal Income of China's Western Provinces from 1978-1999

Indicators Year	GDP per person		Urban People Income		Peasant Income	
	1978	1999	1978	1999	1978	1999
Xinjiang	20	13	10	17	18	25
Yunnan	28	25	12	9	15	28
Shannxi	21	20	17	25	13	27
Sichuan	25	26	22	14	16	21
Guizhou	30	31	24	20	25	29
Gansu	14	30	13	29	28	30

(Source: Lu, 2003)

Table 7.19 The Comparison of Income and Consumption Level between Urban and Rural Areas in China's West

	Income Level			Consumption Level		
	Urban Disposable Income	Rural Pure Income	Ratio Urban/Rural	Urban Consumption	Rural Consumption	Ratio Urban/Rural
	yuan	yuan		yuan/ person	yuan/ person	
Chongqing	5896	1737	3.4	5711	1363	4.19
Sichuan	5478	1843	2.97	4702	1578	2.98
Guizhou	4934	1363	3.62	4197	1072	3.92
Yunnan	6179	1438	4.30	5032	1555	3.24
Tibet	6909	1309	5.28	4169	981	4.25
Shannxi	4654	1456	3.2	4428	1175	3.77
Gansu	4475	1357	3.07	4263	962	9.19
Qinghai	4703	1467	3.21	4087	1185	3.45
Ningxia	4493	1754	2.55	3633	1290	2.82
Xinjiang	5320	1473	3.61	3614	1872	1.93
Western regions	5302	1519	3.49	4384	1303	3.37
China's average	5854	2210	2.65	6182	1895	3.26

(Source: Lu, Lu, Fan, Liu, Jin, Sheng and Liu, (eds.) 2001)

Table 7.20 Unemployment in Cities and Towns in China's West (10,000, %)

	Registered Unemployment	Layoffs	Total	Ratio of Registered Unemployment	Ratio of Total Unemployment	Ratio of (1)/(2)
	10,000	10,000	10,000	% (1)	% (2)	
Ningxia	3.9	3.8	7.7	4.7	9.4	0.5
Xinjiang	12.8	7.7	20.5	3.9	5.9	0.7
Guizhou	19.7	12.6	23.3	3.8	8.5	0.4
Sichuan	30.2	43.6	73.8	3.7	10.0	0.4
Chongqing	10.1	12.4	22.5	3.5	6.6	0.5
Gansu	8.3	17.7	25.4	3.3	9.1	0.4
Shannxi	12.2	41.6	53.8	3.1	11.7	0.3
Qinghai	1.8	4.0	5.8	2.5	8.4	0.3
Yunnan	6.0	6.3	12.5	2.2	3.3	0.7
Tibet	-	-	-	-	-	-
Western regions	96.0	149.1	245.3	3.4	8.1	0.4
China's average	486	873.3	1359.3	2.4	6.4	0.4

(Source: Lu, Fan, Liu, Jin, Sheng and Liu, (eds.) 2001)

It is too early to assess the WDP's success in bringing economic prosperity and social harmony to the region. However, judged from the economic development of the region, and based on the examination of all economic sectoral development in the past, the local policies made by the central and local governments are obviously not leading the region toward an impressive level of development: transportation still remains poorly developed, especially in terms of links with the rest of the country; and the income of local people is becoming lower

and lower in comparison to huge wealth achieved by the coastal provinces. Local ethnic groups are scared by the large-scale immigration of Han Chinese into the region. The local government of Xinjiang has been dependent upon the central government for huge subsidies to manage economic growth but the resulting slow rate of economic growth doesn't match the high rate of investment.

“In more recent years up to 50 per cent of its operating budget had to come from Beijing. Over the whole period 1950-84 the centre provided 60 per cent of the region's government expenditure.” Thus it is not surprising to learn that “Beijing seemed to be both subsidizing and exploiting Xinjiang” (Fedinand, 1994a: p.102). Western observers have viewed central policies as a form of exploitation of local resources: “Within the province there was a sense that Xinjiang was being allowed or forced to fall further behind in the race to develop a modern, industrialized economy” (Fedinand, 1994b: p.279).

Table 7.21 Numbers of Poverty Counties and Population in China's West in 1993

	Counties	Poverty Counties	Ratio %	Population 10 000
Sichuan	158	43	27.2	1000
Guizhou	80	48	60.0	1000
Yunnan	123	73	59.3	700
Tibet	77	5	6.5	48
Shannxi	88	50	56.8	500
Gansu	76	41	53.9	400
Qinghai	39	14	35.9	119
Ningxia	19	8	42.1	140
Xinjiang	85	25	29.4	176
Western regions	745	307	41.2	4083
China's average	2142	592	27.6	8066

(Source: Lu, Fan, Liu, Jin, Sheng and Liu, (eds.) 2001)

In setting China's regional development policies, central leaders have to balance the interests between local economic efficiency and central control for political domination and stability to maximise growth. When the centre perceives no political threats from decentralisation and is convinced that political stability will be enhanced by the maximization of economic growth, then regional development is likely to be approached by institutional relaxation to provide incentives and by reinforcing local interest to maintain the growth along the path seen in the coastal regions. But when there is a perception of political instability resulting from decentralisation, then the central leadership will probably call for institutional constraints on regional development and ignore local interests. Beijing's regional development policy is very politicized and centre-orientated. Thus a key role of China's

be developed and the wealth can be protected and continued and at the same time the centre's interests are furthered as well.

So, it is local government who during decentralisation need to produce effective policies to help local development out of the restrictions in terms of institutions and to minimize unfair treatment by central government policy. But Xinjiang's local policies have not only failed to counter unfair treatment from the centre, they have willingly facilitated such "central predation" and remained paralyzed and powerless to handle the local economy. As a result, they have failed to look after the interests of their locality.

It is just like what Li, Yeung and Qiao (2004: p.44) have said "institutional innovation is fundamental to western development. ... Although these endogenous factors are more or less a local heritage, the government's participation is still important. The government can establish quasi-government organisations for financial and technological promotion and thereby directly foster local institutional networks. Through training and educational programmes, the government can also introduce and spread modern industrial culture and value to the western region. The aim is not to act in defiance of local cultural value but to fertilize the local soil to encourage the growth of economic tree."

In sum, as we discussed in the chapter 2, Xinjiang's provincial government, based on their understanding of the region in terms of the geo-political location in the central strategic framework, identifies and orientates the dynamic role of bureaucratic administration toward political administration. Therefore, in particular, the government has failed to integrate local economic strengths with market regulations and it has failed to protect property rights as a means of releasing local talent. No economic self-reliance means no real power and no mechanism for providing rational administrative services. This is predicted by Weber (Hamilton, 1991) as a problem of bureaucratic inefficiency, which has continually put the region at the discretion of Beijing, with wealth predation and bailout, the problems discussed by North (1990) and Kornai (1980). The economic inefficiency of the region encourages political instability and challenges China's unity.

In this chapter I have tried to bring out all of the problems of Xinjiang's regional development in terms of economic sectoral development, transportation deficiency, uneven spatial development and environmental degradation. We have to acknowledge that its economic development is constrained by its transportation deficiencies and environmental fragility caused by its geographical location, by the rigidity of socialist economic system, and by a series of ill-fitting policies. Challenges to the local government are not only a matter of how to transform the regime into an efficient agent with dual roles – political administration and economic institutions – but also how to work out a strategy fitting local conditions which could lead it to the best path toward sustainable growth. Orientating Xinjiang's economy by balancing the interests of the locality and the state, skilfully readjusting central policies, enforcing financial independence to gain sufficient investment in economic production and environmental and human infrastructure, are all tasks that should be designed within the governmental blueprint. Whether this can be achieved or not is a commentary on the leaders' integrity, capability and dynamism to facilitate Xinjiang's economic transition. In this regard, Xinjiang's local government has failed to meet its new role as determined by China's reform.

Chapter 8 Conclusions

Xinjiang, due to her ethnicity and geopolitical position, provides a good case study for debating the sustainability of China's partial reform and also a basis for challenging the country's present centralized polity, which is undermining economic decentralisation and restricting growth in some provinces.

8.1 Chapter Summaries

Chapter 2 provides a conceptual framework for unfolding the argument of the thesis. There are many existing criticisms of China's partial reform for its incompatibility of the current polity with the decentralised economy, and Qian and Weingast (1996, 1997); Qian and Roland (1998) have developed these in theoretical and empirical terms into an argument about the long-term sustainability of the reforms. According to them, local government is the key middle agent responding to central institutional constraints and to the potential of the locality in facilitating economic reform and growth. During the process of decentralisation, local government is empowered to be involved in local economy to the extent that it can minimize two of the greatest ills of socialist planning: Kornai's soft budget constraints (SBC) and North's political predation. The chapter introduces these ideas of Kornai, North, Qian and Weingast, Roland, and also Weber's theory of rational-ideal bureaucracy. They are used as a basis to argue that the decentralisation has not been equally undertaken and that there is a regional bias in which some regions with political sensitivities have been disadvantaged in institutional terms. It is examined as the non-change of administrative role of local government, which leads to economic stagnation. Continuing poverty, coupled with political restrictions, has directly led to escalating social unrest in these regions, in particular in the province of Xinjiang. In this regard, the thesis raises concerns about the sustainability of China's partial reform and challenges Qian, Weingast and Roland's argument through a case study of Xinjiang.

Chapter 4 examines the nature of the autonomous system granted to Xinjiang. In considering the characteristics of the minorities, in terms of religion, culture and racial identity, we found these to be significantly different from the national majority, the Han Chinese. The

autonomous system is in theory designed to provide institutions that enable Xinjiang's minorities to undertake self-determination through political autonomy, cultural preservation and socio-economic development, and at the same time preserve the integrity of the People's Republic. Any ideas of secessionism are vigorously discouraged. Although autonomy acknowledges the ethnicity of a region through territorial definition, political apparatuses of autonomous government and various preferential policies in favour of local people developing their self-determination, nevertheless the vital mechanism that could promote secessionism has been "skilfully" withdrawn. Close examination reveals that in reality autonomy has been institutionalised as a mechanism that effectively and efficiently serves the central goals of Beijing. Firstly, the local autonomous government has to act under the leadership of the CCP, the main leaders of which in Xinjiang, from the top committees to the grass roots level, are largely held by Han personnel. In this way the Han have "colonised" the region through CCP penetration (Bovingdon, 2004). Secondly, by granting multi-level and extended autonomy to marginalized minorities such as the Kazakh and Hui, and by establishing the Han-dominated XPCC, Beijing has weakened the power of the leading minority, the Uyghur. So the autonomous system is regarded more as a game of "take" and "give". These institutions and the nature of day to day political administration have led on the one hand to low-level lack of cooperation by local people and, on the other hand, they have "exacerbated regional conflict", "provoked" the local Uyghurs and encouraged more "violent separatism" (Bovingdon, 2004: p.7; Millward, 2004).

Chapter 5 discusses the bureaucratic administration and organisational construction, the leaderships of the autonomous government and the CCP in Xinjiang. We learn that, due to a strong emphasis on political-orientation by local government, and its weak bureaucratic performance, the operation of the local state has been seriously irregular and conducive to bureaucratic inefficiency and irrationality. This is manifest, first, in the CCP's increase of its super-domination in Xinjiang at the same time as a nationwide call for detaching the party from local government administrative affairs. Second, staff recruitment has given priority to ethnic staff intake but has ignored the technocratic quality of recruits and emphasised instead their political inclination. This is particularly true of the Uyghur governors.

As a result, the bureaucratic infrastructure of local government has been problematic due, firstly, to too many organs and staff, and consequent slackness and inefficiency, and, secondly to the dilemma facing administrators between rationality and political orientation.

The latter affects local leaders, who face a choice between, on the one hand, being a regional defender and rational administrator or, on the other hand, being an advocate of national policy and delegates of Beijing.

In the recent period of escalating anti-Han violence, local leaders have tended to focus more on political administration instead of bureaucratic rationality and economic administration, and this has fostered the incompetence, lack of commitment of local government to its economic role and rational policy-making. It has also facilitated the incoherence of the regime, seen in frequent personnel confrontation and poor collaboration between Han and non-Han staff. Xinjiang's local government has shown itself to be unable to meet the requirements of a market economy or to exercise its key function of target-focused steering of regional development.

Chapter 6 analysed Xinjiang's financial management throughout China's fiscal reform and revealed the province's large and increasing financial deficit. The chapter analysed the causes of these deficits and their impacts on the economic management of local government. There was a discussion of incomplete nature and built-in bias of China's fiscal system, rooted in the partial nature of the reform. An example of this is the neglect of potential incentives in the clarification of property rights. So a series of fiscal reforms produced only partial success in regions with a large portion of non-state sector, while in the regions with state-dominated economies, the reforms were a failure. Xinjiang is a case in point. The large reserves of natural resources, in particular oil and gas, should be a major economic strength for the province and for the government in Urumqi as a source of revenue; but, in reality, the lion's share of the profit produced by the oil industries is extracted by Beijing via the state ownership of the assets. This leaves Xinjiang to struggle with chronic financial deficits. In order to sustain its economy and maintain the satisfaction of the local minority population, Xinjiang's government has had to count on central financial handouts. In order to pursue a political stability, on the principle of a trade-off, Beijing is willing to subsidise instead of punish the failure of the provincial economy. As a result, the local state is locked into continuing dependence on bailouts, which in turn distort its own financial behaviour and management and reduce its commitment to financial discipline and the pursuit of self-reliance. More importantly, the local government has gained no vital power from the financial decentralisation to enable it to perform as a real economic agency, and to act in its

own terms and on the par with its counterparts against unfair treatment from the centre. So, “central predation” remains.

Chapter 7 examines the policy made by the region in response to the central call for economic reform. We see that Xinjiang’s economic underdevelopment is partly the result of the centre’s regional policies unfairly treating the region as a strategic raw material supply site without considering the local natural conditions and local benefits. Moreover, central regional policies gave preference to the coastal regions at the outset of the reform in terms of institutional relaxation of economic decision-making and politics, which gave incentives and permission to local actors for entrepreneurship. In Xinjiang, although the WDP provides support for local infrastructure improvement and key sectoral development, there is an absence of the institutional deregulation of state property rights to kick start local economic development.

The local government’s poor performance and irresponsibility are another facet of Xinjiang’s economic standstill. The chapter examines policies and development strategies in terms of sectoral promotion and spatial designation made by the local government in response to the central overall development planning. Local policies are by and large centre-orientated, without paying attention to local interests: key economic sector such as oil industry has been exploited without changing its ownership or bargaining for privatisation; resource industries has been developed without considering region’s insufficient infrastructures; economic preferential zone has been designed without concerning the equality of regional development as a whole; economic growth has been sought only from land reclamation and resource exploitation without caring environmental degradation. These all lead to the second explanation: the local government has neither the political self-confidence nor economic capacity seen as financial sufficiency to take risks, and therefore is not able to produce efficient and justified policies to exploit local talents. This is also explained by the local government having lost desires for producing a harmonious regional development for Xinjiang and having less interest in local people due to its administrative orientation: not acting as a local defender but a state defender or central policy guarder. The political instability of the region is threatened by the consequent economic decline, which is the combined result of incompetence, injustice and misleading local policies, with added pressures caused by Han expansionism, Muslim minority sensitivities and environmental degradation.

8.2 Achievements of the Research

Based on the arguments of the four main discussion chapters, the findings and achievement of the research may be summarized as follows.

Firstly the centrepiece of the thesis is the argument is that China's reform is incomplete and complex, as a result of which the sustainability of the reform is questionable. This is on the same lines as arguments by scholars such as Walder (1996a), who considers that its partial nature creates new conflicts that have challenged and sometimes even blocked the intended path of the reform. These new conflicts are acknowledged as the incompatibility of economic decentralisation with political dictatorship. But in the thesis, I argue, along with the purely institutional problem, there is a geo-political issue which not only holds back the institutional decentralisation in some regions but also deepens the conflicts and complexity of removal of institutional constraints in the reform.

The vastness of China and her many geo-economic and geo-political differences, tend to differentiate the degree of decentralisation from region to region. Many researchers attribute the country's uneven regional development purely to its transitional market economy, which determines the central preferential policies, including resource allocation and institutional decentralisation toward the region, but I argue that it is in fact the local geo-politico position and the relationship that this creates with Beijing through the single-party political system, that determines central attitudes to the granting of permission for change and the commitment to decentralisation of each province. When a province has political sensitivities, which might jeopardise central political control or national unity, the centre is unwilling to grant decentralisation. Without institutional cooperation and central commitment, the province cannot achieve success in economic decentralisation and economic growth in a market economy. This uneven decentralisation produces uneven regional development, seen as rich-poor division across the country, which obviously is a danger to China's social well-being, national unity and political stability.

Therefore the thesis extends the argument on the sustainability of Chinese partial reform from the purely institutional respect discussed by Qian and Weingast, to the combination of

both institutional and geopolitical respects, and deepens the argument on and complicates the possibility and the solution of China's central government in prolonging the reform.

In some poor inland regions it can be seen as a purely institutional problem, for example, institutional inflexibility that caused economic recession in North East China, a traditional heavy industrial centre established since Mao's era. However with increasing marketisation and the need for economic growth, it is possible to envisage the more profound revolution of the decentralisation of the ownership of property to the local level, maybe even including the strategic resources and sectors. But to a minority region like Xinjiang, institutional inflexibility is not just a matter of the state ownership of local property but also political control over the region's non-Han population. This political factor makes the decentralisation of ownership less likely here because of fears of fuelling secessionism.

Using Xinjiang as a case, the thesis has found that Xinjiang's geo-politics, including her ethnicity, determines her position in China's whole transitional framework and that institutional reform has to be handled cautiously and differently from other Han or Han dominated minority regions. Beijing sees Xinjiang's Muslim minorities and her close connection with the central Asian countries as factors that could easily generate self-determination of minority people toward territorial independence from China's institutional relax. Therefore Beijing has decided not only not to relax political control but also to reinforce single-party domination over the region. However, this seriously affects the region's economic development in terms of economic institutional decentralisation and creates the problems like undefined property rights for the locality and consequently no incentive for marketisation. Both non-relaxed political and economic institutions shape the performance of local government in examining its bureaucratic administration and economic management of the region.

Political control ensures that local government in Xinjiang has strong bureaucratic administration and leadership. This seriously undermines its economic administrative role. Undefined property rights bring no incentives and resources for the key economic actor -- local government to consider local interest, to take a risk on economic reform and to make appropriate development policies for the region's economy. This is seen by North as "political predation" in his institutionalism (North, 1990). In order to maintain economic growth in Xinjiang and bail the local government out of its poor performance in managing

Xinjiang's economy, the central government uses subsidies. This does not improve the performance of local government but contrarily it enhances the incapability of local government. This has been explained by Kornai's SBC theory (Kornai, 1986, 1989; Kornai, Maskin and Roland, 2002). The poor performance of local government of Xinjiang invalidates the explanation of the success of China's partial reform by Qian, Weingast, Roland and others in their theory of Market Preserving Federalism, Chinese Style and challenges the stability of China's reform as a whole. The case of Xinjiang's partial reform support the argument by Kornai (1990) in considering that partial reform is not ideal but is only prolonging fundamental problems such as political protection against economic natural selection which will eventually result in economic shortage that lead to the final collapse of social economy. North (1990) also explains that in partial reform property rights are not defined and there is a potential danger for political predation. As a result, the economic actors might lose incentives to pursue economic wealth, and therefore economic success can be easily lost or not protected. Xinjiang provides a good case study of North's argument.

Xinjiang's partial reform not only challenges whether China can continue or deepen her partial reform in general but also challenges whether China can maintain her national unity. The non-relaxed political institutions constrain economic institutional liberalisation, which produces a poor performance of Xinjiang's economy. Beijing's political tight control over the region fuels local minority discontent towards and violent action against the Han political administration, and results in local minorities seek support from people who share the same Islamic values on the other side of the western border. This puts China into a dilemma between institutional decentralisation and political control. If the central government grants more institutional relaxation, there is no doubt that it could secure and accelerate economic growth. But the institutional relaxation definitely brings in more political decentralisation, which not only threatens China's current single party regime, but also ushers in opportunities for secessionism, which many among the minority populations are seeking. Beijing seems determined to keep a tight control over her political administration and retain an unchanging one-party polity. As a result, economic growth will be held back or reversed. From the analysis above, we can say that China's partial reform creates a vicious circle, and the solution sought by China's CCP to consolidate its control may ultimately be counterproductive.

Secondly the sheer scale and variation of China's reform makes it difficult to have a single unified theoretical framework to capture a full explanation of its evolution. The theory of Market Preserving Federalism, Chinese Style by Qian and Weingast (1996, 1997); Qian and Roland (1998) tries to give such an explanation of the reform's success, but their emphasis on the coastal regions does not capture the full picture. The fundamental argument in the theory of Market Preserving Federalism, Chinese Style is the state's commitment to granting decentralisation to the locality. However, Xinjiang's ethnicity and her geo-politics determine that this commitment has not existed. Without such a commitment, no matter how capable the local government and how much talent the region possesses, Xinjiang's partial reform cannot achieve the same success as in the coastal regions. On examining Xinjiang's governmental bureaucratic administration and economic management, the "representative middle agent" (see chapter 2 section 2.2.1) acting for local interests, described by Qian and his fellow researchers as required features for constructing the central argument of the theory, is missing. Instead, Xinjiang's government and leaders are in particular required to act as political guardians of the interests of Beijing. Therefore there is no vertical decentralisation in the relation between the state's and Xinjiang's governments. Without local government action against central predation and without vertical decentralisation in Xinjiang's partial reform, Chinese-Style Market Preserving Federalism cannot be applied in Xinjiang's case. The realities of Xinjiang and other provinces challenge the interpretation of this theory. As a result, we consider the theory to be incomplete and geographically biased in describing the whole picture of China's partial reform. And the theory cannot be used uncritically to explain whether China's partial reform is or would be sustainable or not.

Therefore, on examining Xinjiang's partial reform, the theories of Kornai and North are still valid and helpful in explaining the difficulties of decentralisation in this minority region and also for questioning the sustainability of the partial reform nationally. As long as the problems remaining in Xinjiang's partial reform is not solved, the China's partial reform cannot be regarded as stable, as the associated problems can generate violent separatism among the minorities, which challenges China's unity and security, and could cause the disintegration of the region from the rest of China. That might lead to the final collapse of China's partial reform as a whole.

8.3 Importance of the Research to China's Development

It is far beyond the scope of this research to predict whether China can work out a strategy that will enable her reform to operate successfully in all circumstances. But I have pointed out the problems faced by Xinjiang and China's central state, and the analysis does provide some lessons that could profitably be considered by China's reformers.

Firstly, a profound decentralisation of both economic and political institutions to this region is still needed and it is the job of China's central government and the CCP to make commitment to granting the decentralisation and find a means of balancing decentralisation and political control, and to construct a mechanism to ensure the termination of central discretion and the growth of regionalism, to divide the wealth and decision-making power fairly between the centre and the locality, and to produce justified development plans with the consideration of all legitimate interests.

Secondly in considering the problems in Xinjiang's regional development, as we know she has her own economic attractions and development strengths but finding a dynamic role for local government is crucial. Considering the province's geo-political and ethnic special features, and her stagnation relative to the coastal regions, a strong and skilful local government is needed to maximise the opportunities. Before the "Cultural Revolution" the regime of Wang Enmao was a good example of successfully taking political control of the issues of ethnicity and integrating the region economically and socially with the rest of China. A genuine decentralization under the present reform could allow local government to be still more proactive.

Thirdly, Xinjiang's local government must be able to gain vital power through financial self-reliance by increasing budgetary revenue and eliminating deficits. They could possibly use their bargaining leverage through exploiting the sensitivities of ethnicity to lobby Beijing for more economic favours, such as 1) maximising ownership transformation of local or state's SOEs or productive sectors, maximising the locally-retained profits of the state's enterprises; 2) exploiting state preferential policies, especially toward minority regions for bargaining or managing bank loans and public funds, in order to promote industries controlling non-state core resources; 3) taking measures, such as making practical politics or establishing governmental agents to promote or help with the development of private or TVEs in the

region; 4) disciplining the local government's financial behaviour in pursuit of financially efficient management. These approaches will train the local government to be more entrepreneurial and to become an economic agent, which meets the requirement of the reform for a new role to be adopted by governmental administration. Government's involvement in local economies is a special point made by Walder (1996a, p.16-17): "A transitional economy must alter incentives not merely for individuals and firms but for government agencies and government officials themselves, for the behaviour of the latter can have enormous economic consequences. ... the task is not to revile state involvement but to change it".

Fourthly, local government should take action to improve its own organisational bureaucratic administration and personnel recruitment. In this respect, a few matters can be considered: 1) training the current administrators and recruiting new highly qualified administrators regardless of gender and race from China's outstanding universities and the governmental organisations of other provinces; 2) increasing the intake of technocrats in local governmental staff teams.

Fifthly, improving the relations between Han and non Han, especially the Uyghur population is the key. Chinese scholars think¹³⁰ that the emphasis on the improvement of the relation between Han and non Han population will be more effective in tackling the escalating anti-Han movements than simply promoting a policy such as "strike hard", which will only worsen the situation. On this point, Wang Enmao did well before the CR period. His "soft but firm" manner, seen as paying respect to minority cultures, religious faiths and customs and establishing rapport between nationalities, convinced most minority peoples willingly to work with their Han colleagues. So, the preservation of Muslim culture and respect from the Han, equal rights granted to the religious beliefs and customs, will all help with local governmental efficiency, rational administration and political control.

¹³⁰ Interviews, 2003

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