

Peking complains that provincial officials are disobeying its economic dictates

by Gregory F. Buhyoff

When it comes to economic policy, Chinese strongman Deng Xiaoping can issue orders, but he finds himself unable to enforce them.

Prime Minister Zhao Ziyang and cabinet ministers alike complained at the June National People's Congress (NPC) in Peking that regionalism and localism are running rampant throughout the country. Local officials, they charged, continually defy central planning in order to pursue their own interests.

These officials, who control a large proportion of investment funds, have been proceeding with heavy industrial projects against orders from Peking, which has been trying to reduce the heavy industry ratio in the economy. The regional officials' independent actions have re-created many of the "imbalances" the 1979-81 "economic readjustment" was meant to correct. Premier Zhao Ziyang warned the NPC: "Some comrades now hold that reform simply means decentralization of power and interests. This view is both incorrect and harmful."

Figures released for 1982-83 show that officials and factory managers have ignored the central authorities, acting as though no Five-Year Plan existed. Vice-Premier Yao Yilin, who heads the State Planning Commission, told the NPC that heavy industry production increased by 9.9 percent in 1982, far exceeding the planned increase of only 1 percent. Light industry meanwhile grew at only 5.7 percent, falling short of the targeted 7 percent increase.

In the first half of 1983, production in heavy industry was running at 12.2 percent over the same period a year earlier, exceeding the 3.9 percent increase prescribed by the plan. Increased investment in fixed assets also grew at a much higher rate than planned. Factories are again emphasizing speed rather than quality of production, a practice which the readjustment was supposed to correct.

Peking's dilemma

In addition to the outright disregard of Peking's orders by

provincial officials, speeches by Chinese leaders at the June sessions reveal that, even at the center, the heavy industry versus light industry factionalism which has dominated the economic debate since late 1978 has not been resolved.

There is more to this factionalism than ideological predilections. The Chinese economy has extremely serious problems which Peking officials are struggling to figure out how to solve. Chinese leaders want to develop a certain amount of industry, including an industrial base for a growing, technologically oriented military. But they do not want to increase the urban-rural ratio, fearing accurately that this would eliminate the social basis of what they consider the Chinese culture.

Similarly, they want to give local factory managers more leeway and increase market mechanisms in order to introduce a reality principle into production: if factory managers have to sell a product, they must make sure it is not shoddy and there is a need for it.

On the other hand, such independence and "profit motives" encourage factory managers and local officials to ignore the plan—especially where the plan prescribes long-term projects not yielding immediate results in their locality, or where it tells them to give up investment which they need to improve or expand their own production. The lack of easy answers has created a genuine debate on what to do.

The attempted compromise

The long-delayed 1981-85 Five-Year Plan ratified at the last NPC in December embodied a compromise, a political truce between the Dengist light-industry-oriented grouping and the industry-army faction that wants to push heavy industry. It provided for revival of a number of large infrastructural projects with the caveat that such construction remain within the confines of China's financial limitations.

The new Five-Year Plan, China's sixth, is the first phase of a 20-year program, which advertises itself as quadrupling the value of China's industrial and agricultural production by

the end of the century. But the revival of key projects and talk of such ambitious goals has been taken by many officials throughout the country as a green light to pursue whatever endeavor they wish. Tendencies reminiscent of the much-maligned mismanaged growth of 1976-78 are now endemic throughout the country.

Yao Yilin warned that disregard of Peking's orders created "major problems . . . calling for attention and a prompt solution. . . . The main reason why heavy industrial production far surpassed planned targets," Yao declared, "was the excessively rapid increase of investment in fixed assets, which led to an abrupt rise in the demand for material and equipment." He blamed this on excessive investment by local factories and governments drawing funds away from key projects being carried out by the central government.

Premier Zhao Ziyang emphasized at the NPC, "Both the Twelfth National Congress of the Chinese Communist Party and the Fifth Session of the Fifth National People's Congress clearly enunciated the policy of concentrating funds for key construction projects and of strictly controlling the scale of capital construction. But this problem has not yet been solved in a satisfactory way due to a generally deficient recognition of its importance and urgency, the failure of the government to take sufficiently forceful measures, and the lack of strict checkup and supervision."

Another readjustment?

So serious is the unbridled defiance of central dictates that some prominent Dengists are threatening another "readjustment," the codeword for Deng Xiaoping's 1979-81 program against heavy industry.

Xue Muqiao, recently elected to the Central Committee and one of the most fervent proponents of the readjustment, inveighed against these trends in the *People's Daily* shortly after the opening of the NPC. "Resulting from the excessive scale of capital construction in 1982," he said, "the development speed of heavy industry has markedly surpassed that of light industry in the first four months of this year. If the scale of capital construction this year continues to expand, things will turn back to the old course before 1978 and within a few years there will have to be another readjustment."

Yao Yilin asserted at the NPC: "The main problem in national economic growth is that the volume of investment in capital construction has not yet been effectively controlled. The figure for the January-April period [1983] totaled 18.3 percent higher than for the same period of last year. . . . Over-decentralized use of funds is still very serious in spite of increased investment for key construction projects. Economic results in the fields of production, capital construction, and circulation have not yet improved significantly."

Enforcing adherence to the economic plan has become one of the main priorities of the State Council. Yao Yilin told the NPC, "investment in the form of funds collected by localities, departments, and enterprises themselves exceeded

the plan by 5.2 billion yuan and investment financed by domestic bank loans exceeded the plan by 3.7 billion yuan. Investment from these two sources accounted for much construction that seemed necessary from a local point of view, but not in full accord with the needs of development of the country as a whole from an overall point of view."

Such abuses have carried over into other areas of Dengist reform. Since the abolishment of the "unified receipt system," enterprises have been allowed to keep part of their profits while turning over a percentage to the state in the form of taxes.

However, many enterprises have withheld taxes owed the state, exacerbating the strain on finances caused by indiscriminate investment by local units outside the central plan. China is now experiencing a shortage of funds for centrally mandated projects. Many of the projects that may suffer lie in the energy and transport sectors, areas which must be modernized if China is to achieve the rates of growth required to meet its economic targets.

Finance Minister Wang Bingqian warned the NPC that "key projects badly needed by the state were affected by a lack of funds while investment by various localities, departments and units using their own funds or banks loans increased tremendously. This dispersed manpower, material, and financial resources, and overextended capital construction. We must speedily change this state of affairs by keeping to the policy of readjusting, restructuring, consolidating, and improving the national economy."

The bonus system, another Dengist reform, has been abused while unjustified price increases on products by factory managers has put added strains on what is already the world's most heavily subsidized economy. Last year over 33,000 such "economic criminals" were brought to justice, over 6,000 of whom were former government personnel.

The Dengists are conscious of the Pandora's box their policies have opened. Calls for a return to centralization and discipline were strong themes of both Yao and Zhao's speech at the NPC. Not only are circles within the bureaucracy and army opposed to another readjustment; those leaders normally associated with economic planning since Deng Xiaoping's return to power are showing signs of divisions.

According to reports, Communist Party General Secretary Hu Yaobang, is less interested in curbing excessive investment than in pursuing a 20-year program of quadrupling of national income. Whether Hu wants to admit it or not, such a program requires a restoration of emphasis on heavy industry. Differences in tone were also apparent in the speeches of Premier Zhao and Vice-Premier Yao on the question of capital construction.

Because the regime is a coalition of differing factions and because of the genuine economic dilemmas, no clear-cut policy can be expected to emerge in the near future, much less one enforceable under current political conditions. This debate, unresolved for the past five years, will continue.