

# Province, Center, and the World Trade Organization: Liaoning and China's WTO Accession\*

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*The provinces of Northeast China, known as China's "rustbelt," have been slow to implement reforms to reduce the role of the state in their heavily industrialized economies. With China's accession to the World Trade Organization (WTO) and the wider opening of China's economy to global forces that this move entails, however, the region must confront the exigencies of intensified market competition. This paper seeks to begin to understand the impact of China's WTO membership from a regional perspective by examining how Liaoning, the most populous and most heavily industrialized province in the region, has prepared for the country's WTO accession. This analysis evaluates the role that the central government (the authorities in Beijing) has played in this process in relationship to that of provincial authorities to date, and the analysis reflects on what this interaction suggests about the ways in which Liaoning will address the challenges and opportunities of economic globalization in this latest chapter of reform in China. As with other examinations of provincial issues seen through the lens of central-local relations in China, this paper is concerned with what this analysis suggests about evolving capacity and structure of the Chinese state.*

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The international spotlight has fallen on Liaoning Province (遼寧省) in Northeast China frequently during the past year, as large-scale workers' protests have erupted into violence. For many analysts, these protests have appeared to be harbingers of more widespread social restiveness to come now that China has acceded to the World Trade Organization (WTO)<sup>1</sup> and is opening the domestic markets to international competition to an unprecedented degree. From the perspective of China's economic reforms, the concentration of such large and violent protests in Liaoning<sup>2</sup> in particular is a reminder that the decentralization of decision-making authority—which was a hallmark of China's reform strategy and so critical to enlivening its developing markets amid relative social stability—has not been without cost. On the economic front, detriments have included contributing to growing differences both in levels of regional economic development and in the extent to which some have made the transition to a market-oriented economy.<sup>3</sup> On the political front, decentralization has resulted not only in considerable variation in the ways that provinces have interpreted and implemented central policy, but also in the ways in which provinces and central authorities in Beijing have interacted. In facing the challenges and

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<sup>1</sup>See, for example, James Miles, "Urban Discontent," *The Economist*, June 15-21, 2002 (special insert), 13-14.

<sup>2</sup>According to data from the Ministry of Labor and Social Security (MOLSS 勞動和社會保障部), labor disputes rose in all types of enterprises in the year 2000, with 8,247 collective actions involving 259,445 workers. See the MOLSS website at <[http://www.molss.gov.cn/index\\_zcwj.htm](http://www.molss.gov.cn/index_zcwj.htm)>. Protests have occurred around the country and in both rural and urban areas. For news stories see, for example, *China Labor Bulletin* website at <<http://iso.china-labour.org.hk>>.

<sup>3</sup>There is a wealth of scholarship on the effects of the reform policies on regional inequality in China. See C. Cindy Fan, "Of Belts and Ladders: State Policy and Uneven Regional Development in Post-Mao China," *Annals of the Association of American Geographers* 85 (1995): 421-49; Dali L. Yang, *Beyond Beijing: Liberalization and the Regions in China* (London: Routledge, 1997); Yehua Dennis Wei, "Regional Inequality in China," *Progress in Human Geography* 23 (1999): 48-58.

opportunities presented by moving toward the more globally organized economic growth and in implementing the regulatory norms that WTO membership entails,<sup>4</sup> China now must do its best to contend with these legacies of the reform strategy.

This paper seeks to begin to explore China's WTO entry from a regional perspective by examining how—both to what extent and in what ways—China's Liaoning Province has prepared for the transition to China's WTO membership. This analysis focuses heavily on the interaction between the central government in Beijing—the authorities responsible for setting China's national development goals and for pursuing WTO membership—and the province in Liaoning's preparation for the post-WTO economic environment. Numerous examinations of China's post-Mao reforms have illustrated that the dynamic between the center and locality has played a critical role in shaping their direction—from policy formation to implementation at both the national and local levels. From such works as Ezra Vogel's study *One Step Ahead in China: Guangdong Under Reform* (Harvard University Press, 1989) to a growing literature detailing the various reform experiences of provinces and regions, scholars have documented how provincial authorities have initiated, brokered, and bargained with central authorities for beneficial policies for their respective provinces, including greater fiscal discretion and decision-making authority.<sup>5</sup>

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<sup>4</sup>In discussing the impact of globalization on development—including the impact of multi-lateral organizations on developing economies, Philip McMichael uses the concept of "globally organized growth" in contradistinction to "nationally organized economic growth." See Philip D. McMichael, *Development and Social Change: A Global Perspective* (Pine Oaks, Calif.: Pine Forge Press, 2000), xii.

<sup>5</sup>There is an extensive literature on central-local relations in China. For an early review of this approach as it applies to understanding reform policy, see Jae Ho Chung, "Studies of Central-Local Relations in the People's Republic of China: A Mid-Term Appraisal," *The China Quarterly*, no. 142 (June 1995): 487-508; Jia Hao and Lin Zhimin, "Introduction," in *Changing Central-Local Relations in China: Reform and State Capacity*, ed. Jia Hao and Lin Zhimin (Boulder, Colo.: Westview, 1994), 1-15; and David S.G. Goodman and Gerald Segal, "The Politics of Regionalism: Economic Development, Conflict, and Negotiation," in *China Deconstructs: Politics, Trade, and Regionalism* (New York: Routledge, 1994), 1-20. For discussions of state capacity and central-local relations see, for example, Jia and Lin, *Changing Central-Local Relations in China*; Szu-chien Hsu, "Central-Local Relations in the PRC under the Tax Assignment System: An Empirical Evaluation, 1994-97," *Issues & Studies* 36, no. 2 (March/April 2000): 32-72; Dorothy Solinger, "Despite Decentraliza-

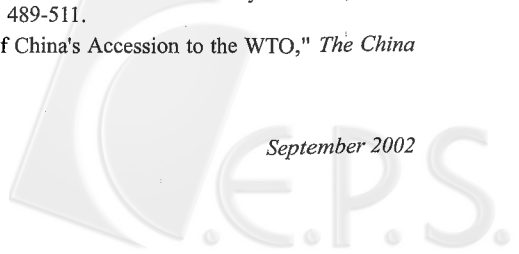
This dynamic has been greatly enabled by a policy environment characterized by administrative fiat and inconsistent enforcement of regulations. The wide economic opening that China has agreed to undertake by joining the WTO (including the deeper participation of foreign firms in China's domestic economy that this move entails) requires Beijing to move toward transparency in decision-making in its policies that impact foreign trade and investment, a requirement that also means a recentralization of rule-making authority. Such WTO principles as "national treatment" (General Agreement on Tariffs and Trade—GATT, Art. III) have implications for policy making and implementation that go beyond their particular objective—in this case, to protect imports from discriminatory treatment benefiting domestic producers. Regulations affecting China's WTO compliance must be implemented and enforced uniformly throughout China's national territory.<sup>6</sup>

In considering the question of how Liaoning has prepared for China's entry into WTO, this still very preliminary analysis begins by briefly assessing the extent to which two decades of economic reform readied the province for this eventuality. The next section then examines the ways in which the province responded to China's prospective WTO accession once membership appeared imminent and considers the role that China's central authorities have played in facilitating the province's transition to the post-WTO environment. This paper concludes by reflecting on what this suggests about the ways in which the province is likely to address the challenges and opportunities of economic globalization in this latest chapter of economic reform in China, and the implications of this for China's transition to developing as a member of the WTO.

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tion: Disadvantages, Dependence, and Ongoing Central Power in the Inland—The Case of Wuhan," *The China Quarterly*, no. 145 (March 1996): 1-34; Andrew Wedeman, "Budget, Extra-Budget, and Small Treasuries: Illegal Monies and Local Autonomy in China," *Journal of Contemporary China* 9, no. 25 (2000): 489-511.

<sup>6</sup>Pitman B. Potter, "The Legal Implications of China's Accession to the WTO," *The China Quarterly*, no. 167 (September 2001): 600.



## **Liaoning and Economic Reform**

By becoming a member of the WTO, China replaces the bilateral economic relationships it has had with its trade partners with a single set of rules shared by other signatories to the GATT. The result is a far more internationally open economy in which market principles for the most part determine the success or failure of an enterprise. China's comparative advantage lies in labor-intensive production, not in capital-intensive or natural resource-based industries. Inefficiencies associated with state-managed production enhance the likelihood state-owned firms will be uncompetitive in the global market.<sup>7</sup> Furthermore, nondiscrimination against foreign firms' participation in a country's national economy is a fundamental principle of the WTO, making direct state intervention in industry and agriculture a potential violation. WTO membership also requires China to phase out subsidies to industries in many sectors, including those in such heavy industrial sectors as the metallurgical, ferrous-metal, machinery, and oil industries. Others will see their tariff protection phased out. For the automobile sector, for example, import duties will be reduced to a maximum of 25 percent for personal vehicles; other vehicle imports are subject to an average maximum duty and most non-tariff sources of protection are phased out by 2005.<sup>8</sup> While the effects on agricultural prices have been debated, the government cannot preserve its monopoly on the import and export of corn under the terms of WTO; for example, China must eliminate export subsidies, and tariff-rate quotas on commodities are considerably relaxed.<sup>9</sup>

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<sup>7</sup>Leonard Cheng, "China's Economic Benefits from Its WTO Membership," for the Center for Economic Development (1999), available at <<http://www.bm.ust.hk/~ced/wto.htm>>.

<sup>8</sup>See China's WTO agreement at <[http://www.moftec.gov.cn/moftec\\_cn/wto/wtolaw.html](http://www.moftec.gov.cn/moftec_cn/wto/wtolaw.html)>; Eric Harwitz, "The WTO and the Automobile Sector," *The China Quarterly*, no. 167 (September 2001): 662.

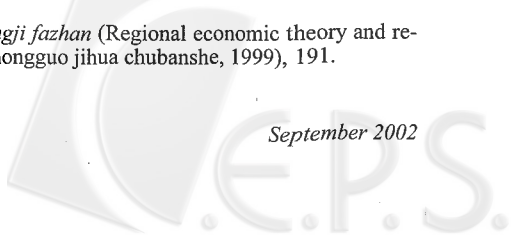
<sup>9</sup>For a discussion of this debate and the impact of the WTO on agriculture in China, see Jikun Huang, Scott Rozelle, and Linxiu Zhang, "WTO and Agriculture: Radical Reforms or the Continuation of Gradual Transition," *China Economic Review* 11, no. 4 (2000): 397-401; Center for Chinese Agriculture Policy, Chinese Academy of Sciences website at <<http://www.ccap.org.cn/englishtalk/WP-00-E26.pdf>>; and Fred Gale, "Subsidized Corn Exports

These factors associated with China's WTO membership, while significant for China's economic system as a whole, have acute implications for Liaoning's economy. Located in Northeast China, Liaoning is a coastal province and home to six ports, including Dalian (大連)—one of the country's busiest. With fellow northeastern provinces Heilongjiang (黑龍江) and Jilin (吉林), Liaoning forms China's regional center for heavy industrial production. With a population of approximately 42 million people, Liaoning is the most populous and industrially powerful province in Northeast China. While this paper's focus is on the province's industrial sector, Liaoning is also a producer of those commodity crops—including corn, wheat, and soy beans—expected to feel the effects of new agricultural policies under the terms of WTO. The province's Liaohe Oil Field (遼河油田) is the nation's third largest. The area is home to such heavily capitalized enterprises as steel mills (such as Anshan Iron and Steel 鞍山鋼鐵公司 or "Angang" 鞍鋼 and Benxi Steel 本溪鋼鐵公司 or "Bengang" 本鋼), petrochemical enterprises (such as the massive Liaoyang Chemical Fiber Corporation 遼陽化纖公司 or Fushun Petrochemical 撫順石化), heavy machinery and electronics producers, automobile plants, shipbuilders, and aircraft manufacturers. Many of these industries predate the establishment of the People's Republic of China (PRC). Liaoning came under Japanese control following the Russo-Japanese War of 1904-05 and erected such heavy industrial plants as Anshan Steel. During the First Five-Year Plan period (1953-57), the province's industrial economy was further developed with Soviet assistance—of the country's 156 major industrial projects constructed during this period, 24 were located in Liaoning.<sup>10</sup> The province's heavy state industries were vaunted as so-called "backbone enterprises" for their contribution to China's command economy, producing over half the

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Help Prices Rebound," in U.S. Department of Agriculture Economic Research Service, *China: Agriculture in Transition*: WRS-01-2 (2002), available at <<http://www.ers.usda.gov/publications/wrs012/wrs012e.pdf>>.

<sup>10</sup>Zhang Yaohui, *Quyū jingjī lilun yu dìqū jingjī fazhan* (Regional economic theory and regional economic development) (Beijing: Zhongguo jihua chubanshe, 1999), 191.



country's iron and steel.<sup>11</sup> Through the year 2000, approximately one-tenth of all of China's large state-owned enterprises (SOEs) were located in the province and Liaoning still accounted for a disproportionate share of the country's heavy industrial production, producing 24 percent of the national total that year. For the province itself, 73 percent of the total value of industrial production came from its heavy industrial enterprises. However, Liaoning's share of total domestic industrial production has fallen significantly since 1978 (from nearly 10 percent of the national total to only 5.3 percent in 2000) and, as China liberalized its economy, Liaoning's largely state-owned firms operated increasingly in the red.<sup>12</sup> Reports on provincial development frequently make poignant reference to the province's loss of status in the national economy.<sup>13</sup>

Liaoning's economic structure has proven a challenge as the province has sought to speed up its development in the post-Mao era. Along with bequeathing the province an economy burdened with massive heavy industrial enterprises at a time when such enterprises had become economic dinosaurs, Liaoning's unbalanced economic structure has had other critical implications for the province's experience during the first two decades of reform. For one, as a consequence of the weight of SOEs in the provincial economy and their role within the state-run economy as a whole, Liaoning's reform experience has been closely tied to the politics of SOE reform within the Chinese government. In the early 1980s, policies were introduced to boost enterprise efficiency and profitability in the state-owned sector, and local innovations in enterprise reform were encouraged. Guan Guangmei (關廣梅) was one Liaoning native who won national attention for his entre-

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<sup>11</sup>Margot Schueller, "Liaoning: Struggling with the Burdens of the Past," in *China's Reforms in Reform*, ed. David S.G. Goodman (London and New York: Routledge 1997), 100.

<sup>12</sup>Data from *China's Statistical Yearbook* (Beijing: China Statistics Press, 2001); Zhou Wan-feng, "Liaoning to Revive Economy," *China Daily*, February 19, 2001, available at <<http://www.chinadaily.com.cn.cndydb/2001/02/d3-liao/219/html>>.

<sup>13</sup>An article that appeared in the *People's Daily*, for example, referred to Shenyang's (瀋陽) decline. For detail see Xu Wencai, "Create Splendor Again Amid Reform—Shenyang City's Practice in Invigorating Old Industrial Base," *Renmin ribao* (People's Daily), December 5, 1998, in *FBIS-CHI* (FTS19990102000067).

preneurial approach to state enterprise reform, which included the practice of leasing SOEs and operating them as *de facto* private enterprises.<sup>14</sup> Several cities in the province were selected to experiment with the "director responsibility system" (廠長責任制) which shifted responsibility for the operation of an enterprise to its manager. The first bankruptcy case in China took place in Shenyang (瀋陽) in 1986, even before the bankruptcy law was in force. However, reform stalled as concerns about the implications of bankruptcy and related job losses for social stability offered a powerful incentive to prop up loss-making firms with soft loans. This was reinforced by a leadership within the province wary of policies that could compromise the role of Liaoning's heavy state-owned industry in the national economy.<sup>15</sup>

At the same time, for some senior Chinese leaders, allowing the province to pursue a slower path to reform was acceptable, even desirable, as was continuing to nurture the close ties between industries in the provinces and their supervising ministries in Beijing. As described in earlier analyses, there were many reasons for this. These included divisions within the upper echelons of the Chinese leadership over the future role of state industry in the Chinese economy, as well as the extent to which the province, with its strategically sensitive geographic location near Russia and the Korean Peninsula, should see its economy "disconnected" from state control. Moreover, the region's state industry simply remained an important source of income to a government with a system of tax collection still

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<sup>14</sup>Daniel Sutherland, "The Party Says 'To Get Rich is Glorious'," *Washington Post*, October 31, 1987, A1. The "Guan Guangmei phenomenon," Fewsmith asserts, prompted debate within the Party over the relationship between the Party and entrepreneurs. See Joseph Fewsmith, "Is Political Reform Ahead?—Beijing Confronts Problems in Society and the CCP," *China Leadership Monitor*, no. 1 (2001), available at <<http://www.chinaleadership-monitor.org/20011/CLM20011JF.pdf>>, 1.

<sup>15</sup>One such leader who retained positions of influence in Northeast China throughout the 1980s was Northeast native, Shen Yue (沈越), secretary of the CCP Liaoning Provincial Committee through 1983 and subsequently vice-chair of the CCP Liaoning Provincial Advisory Committee and director of the Northeast Energy and Coal Planning Office. See Shen Yue, "Some Questions about Giving Full Scope to Liaoning's Favorable Conditions in Heavy Industry," *Hongqi* (Red Flag), November 16, 1981, no. 22, in *FBIS Daily Report*, December 10, 1981, S1-S7.



in its infancy.<sup>16</sup> Industrial leaders in the region recognized that their critical role in the provincial economy as employers and sources of fiscal remittances was leverage against demands from market reformers pressing for radical restructuring of the state enterprise system in the interest of market efficiency.<sup>17</sup> As a result, while provincial statistics indicated that enterprise reforms such as the contract system had been widely introduced in Liaoning, in fact the state retained control over enterprise management, including organizational structure and employment, into the 1990s.<sup>18</sup> Liaoning's economy has remained heavily state-run with official figures indicating that only 24 percent of total provincial gross domestic product (GDP) in 2000 was generated by the non-state sector, well below the national average of approximately 33 percent.<sup>19</sup>

The importance of the state sector in Liaoning's economy—and of large, centrally-managed enterprises in the province—has also been critical in shaping the relationship between the province and authorities in Beijing. Interactions between central authorities and provincial representatives at the annual work conference of the Chinese Communist Party (CCP) Central Committee and State Council held in early 1999 reflected this relationship. At the conference, delegates from the three northeastern provinces were reportedly among those lectured on their failure to "solve the prob-

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<sup>16</sup>Carla Freeman, "China's Reform Challenge: The Political-Economy of Reform in North-east China" (Ph.D. dissertation, Johns Hopkins University, 1998).

<sup>17</sup>See Andrew G. Walder, *Communist Neo-Traditionalism: Work and Authority in Chinese Industry* (Berkeley: University of California Press, 1986). According to Steinfeld, Anshan Iron and Steel, the region's largest firm, operated through the mid-1990s paying out revenue to the central government while the firm stayed afloat largely through the accumulation of short-term liabilities, terms acceptable to central authorities. See Edward S. Steinfeld, *Forging Reform in China: The Fate of State-Owned Industry* (Cambridge: Cambridge University Press, 1998), 94.

<sup>18</sup>Schueller, "Liaoning," 104.

<sup>19</sup>The percentage was about 60 percent for Guangdong (廣東) and 45 percent for Zhejiang (浙江), for example. See "3 Million Private Firm Jobs," *China Economic Information Network*, available at <<http://www.china.org.cn/english/27314.htm>>; Li Ning, "Private Economy: The Most Dynamic Sector in China," in Beijing.review.com (2001), available at <<http://www.bjreview.com.cn/2001/NationalIssues/200050Private%20Economy.htm>>. This article suggests that if China's agricultural sector were considered in the estimate of the share of GDP contributed by the private sector, the figure would rise to 51 percent.

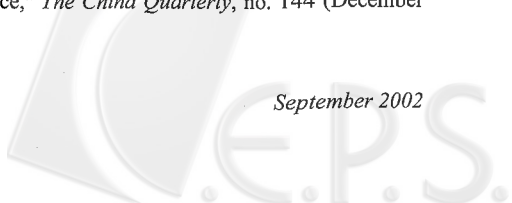
lems in economic and social life that have accumulated over the years." Their response was to argue that central policies had offered them little concrete with which they could use to address the challenges of enterprise reform. The delegates made the case that the mergers, closings, work suspensions, and bankruptcies demanded by central authorities—specifically the leading groups of key commissions and ministries—were creating dangerous social instability. Pointing to the rise in the number of violent protests from workers and peasants and petitions filed with provincial officials, delegates from Liaoning called for greater accountability from those leading group members who pressed for reform but did not assume responsibility for the impact of their demands at the local level.<sup>20</sup>

This interchange reflects the complexity of the dynamic between the region and central authorities throughout the reform period—one that was very different from Guangdong's (廣東) relationship with Beijing, for example. The latter pattern followed from those central policies that decentralized control over economic interests to the subnational level "in order to mobilize local enthusiasm" (調動地方積極性 *diaodong difang jijixing*) alluded to earlier.<sup>21</sup> Moreover, for provinces like Guangdong, far from Beijing, with only limited industrial development at the beginning of the reform period, and with special geographic and cultural access to the Hong Kong entrepôt, this decentralization policy yielded innovation and rapid economic growth, particularly in the collective and private sectors.

In contrast, for much of the reform period to date, relations between Liaoning and leaders in Beijing reflected the legacy of the region's deep integration into—and economic and political importance within—the planned economic system. Put differently, the region had operated for

<sup>20</sup>Li Zijiang, "Inside Information on Central Economic Work Conference," *Hong Kong Cheng Ming*, January 1999, no. 1:29-30, 31, in *FBIS-CHI* (FTS19999012000237).

<sup>21</sup>Jia and Lin, "Introduction." In fact, many central policies followed innovations introduced by localities, even following a path that was without clear objectives. As Thomas Rawski commented, "Even the slogan *mo shitou guohe* (摸石頭過河 crossing the river by stepping from stone to stone) exaggerates the systematic component of China's reforms by suggesting a firm objective—the far bank of the river—where none existed." See Thomas Rawski, "Implications of China's Reform Experience," *The China Quarterly*, no. 144 (December 1995): 1151-52.



much of the period since 1949 according to a policy process that measured success by compliance with state directives. The dominance of state-owned industry in the provincial economy sustained a culture of relying on central authorities, such as the industrial ministries responsible for overseeing state firms—known informally as "mothers-in-law" (婆婆). The region's leadership, both enterprise managers and political leadership, tended to wait for specific instructions before taking action. As one of Liaoning's first Party secretaries himself stated: "While implementing policies, the Cantonese people think about which things must not be done; but the people of Liaoning think about which things are permitted. We dare to do only those things that have been put forward in documents."<sup>22</sup> As argued in earlier analyses, there is evidence that this tendency was reinforced or sustained by political patronage within central leadership circles. In relative terms, the South was the stronghold of supporters of market-oriented reform; the Northeast was left a bastion of economic conservatives<sup>23</sup> for whom the Northeast's heavily planned economy remained the economic alternative to market liberalization.<sup>24</sup> The threat of social instability associated with restructuring and closing SOEs reinforced the opposition of those within the leadership who were concerned about over-dismantling of the state-run economy.

The central leadership's commitment to transforming China's national economy into one based on market forces really came into force as the Party leadership consolidated its control over the direction of China's economic policies between the 14th and 15th Party congresses. At this point, Liaoning began to make significant inroads into restructuring enterprises in the state sector.<sup>25</sup> Authorities in Beijing went as far as to criticize Liaoning

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<sup>22</sup> *Liaoning ribao* (Liaoning Daily), April 30, 1988, 1.

<sup>23</sup> In the 1980s, "conservatives" were those—such as Deng Liqun (鄧力群)—who argued that the Party-state system should remain fundamentally intact, with reforms restricted to strengthening practices such as collective leadership and ending Maoist campaign-style politics. See Joseph Fewsmith, *Elite Politics in Contemporary China* (Armonk, N.Y.: M. E. Sharpe, 2001), 98.

<sup>24</sup> Freeman, "China's Reform Challenge," 366.

<sup>25</sup> This followed the amendment to the PRC Constitution of March 1993 designating China a "socialist market economy."

and its northeastern neighbors, Jilin and Heilongjiang, for resisting reform, with some central leaders disparaging the region's tendency to "*deng, kao, yao*" (等、靠、要 or wait for directions, rely on the state, and ask for assistance). Indeed, by 1995 only 9 SOEs had been declared bankrupt in the province, although official surveys published in late 1994 indicated that 50 percent of the 1,320 large and medium-sized SOEs in the province had a negative net worth.<sup>26</sup> Around the country, the term "Northeast phenomenon" (東北現象 *dongbei xianxiang*) became synonymous with the mounting debts and poor economic performance of the state sector.<sup>27</sup>

Following the creation of a national leading group headed by the State Economic and Trade Commission (國家經濟貿易委員會) to oversee reform of the state sector in 1997, central authorities, and Zhu Rongji (朱鎔基) in particular, pressed for the implementation of state policies for enterprise reform as a critical step in strengthening the government's fiscal power and in its ability to make effective monetary policy. Following Zhu's ascension to the premiership in 1998, the central government set a three-year target for making large and medium-sized state firms accountable to their bottom lines. For Liaoning, this meant additional central attention to the progress the province was making in this area. Zhu had become directly involved in efforts to clear up Liaoning's severe "chain" or "triangular" debt problem in the early 1990s and had played an energetic personal role, while vice-premier, in other efforts to pressure the province's industrial sector to improve its efficiency.<sup>28</sup> Administrative restructuring at the level of the central government meant that many of the centrally-managed enterprises in the province saw their administrative relationships with central departments severed. Direct administrative oversight was replaced with

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<sup>26</sup>Freeman, "China's Reform Challenge," 305, 307.

<sup>27</sup>Ibid., 369, 371.

<sup>28</sup>Zhu Rongji can be credited with taking the lead in using the central government's power to hire and fire to rid the province of leaders who he felt were obstructing economic reform in the region, replacing them with leaders more friendly to the ideas of enterprise reform and the benefits of economic competition. In addition, under his influence, local "leading" or "cooperation" groups were established in cities like Shenyang to oversee enterprise restructuring according to national guidelines and enterprise laws.



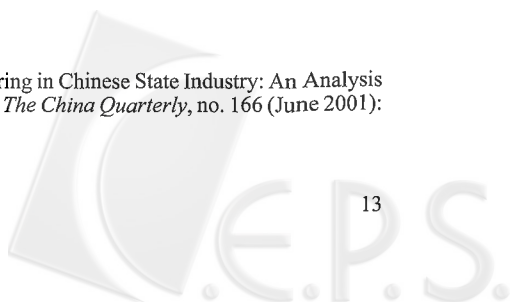
administrative "guidance" under which, with central technical and financial assistance, some of the province's largest firms began to restructure themselves along corporate lines. Both Angang and Liaoyang Chemical Fiber received access to special funds under a State Council-approved technological transformation plan, for example, and Angang was granted the ability to issue "H" shares in the Hong Kong stock market.<sup>29</sup>

While progress was made in restructuring the province's largest state firms, reducing the influence of the state across its economy proved to be more challenging. Indeed, a recent study of SOE reform in China has concluded that the process of industrial restructuring was itself largely controlled by enterprise managers and supervising agencies at the local level. This may have been a result of the downgrading in 1998 of the agency initially formed to oversee this process, the central State Asset Administration (SAA 國有資產管理局), to a department within the Ministry of Finance (財政部). While perhaps aimed at strengthening provincial and local support for enterprise restructuring, this move may have contributed less to accelerating the restructuring process than to enhancing opportunism.<sup>30</sup> At the same time, local governments' regulatory departments, whose power had been considerably expanded as a result of the decentralization of decision-making and implementation associated with the post-Mao reforms, jealously guarded their influence over how enterprises conducted business, including appointing enterprise managers. Local officials ignored repeated orders by central officials that they relinquish this control, associated not only with continued enterprise inefficiencies but with the facilitation of corruption as well. Regulatory departments issued regulations designed to protect the firms they once managed and to gain, often illicit, profit. These same regulations might also block the entry of firms not under departmental purview into markets or economic sectors, thereby inhibiting the growth of non-state economic activity, while the same power

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<sup>29</sup>Freeman, "China's Reform Challenge," 318-19.

<sup>30</sup>Yi-min Lin and Tian Zhu, "Enterprise Restructuring in Chinese State Industry: An Analysis of Evidence on Initial Organizational Changes," *The China Quarterly*, no. 166 (June 2001): 321, 341.



could allow officials within regulatory departments to operate private firms behind the scenes. According to an economist with the Chinese Academy of Social Sciences, Yang Fan (楊帆), rent-seeking activities on the part of officials actually worsened and grew more systematic throughout the country following the formal separation of administrative departments from the firm. This was aggravated, he argues, by the fact that the basis of the relationship between department and firm was no longer formal, but based on personal ties.<sup>31</sup> In Liaoning, even senior provincial officials complained that bureaucratic interference hampered the development of the private sector,<sup>32</sup> which, as noted above, remained well below the national average. The extent to which Liaoning's government was riddled with corruption was revealed in 2000; Shenyang's mayor, Mu Suixin (慕綏新), his deputy, and others who held municipal posts in the province, including municipal judges, were arrested on charges of accepting huge amounts of money in bribes, among other criminal activities.<sup>33</sup> The scandal threw reported economic progress in Shenyang into question and cast a shadow on the entire provincial leadership. It is notable that only half of the deputies who attended the 12th People's Congress of Shenyang in February 2001 voted in favor of the annual work report of the municipal people's intermediate court, a nationally unprecedented development.<sup>34</sup>

The centrally-set pace for enterprise restructuring also met with provincial resistance. As described earlier, at the late 1998 Central Economic Work Conference, party and government officials from the province had argued that central expectations for the reform process were too high. They pointed to the declining foreign investment associated with the Asian financial crisis, as well as problems in the quality of key national infrastruc-

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<sup>31</sup>Speech by Chinese economist Yang Fan on "How International Competition Will Change China," May 2000 Report from the U.S. Embassy-Beijing, available at <<http://www.usembassy-china.org.cn/english/sandt/yangtalk.htm>>.

<sup>32</sup>Schuessler, "Liaoning," 107-9.

<sup>33</sup>"Former Mayor of Shenyang Expelled from CPC on Corruption Charges," Xinhua, in *BBC Summary of World Broadcasts*, June 15, 2001.

<sup>34</sup>"More on PRC Municipal Government Rejecting Court Report," Xinhua, in *BBC Summary of World Broadcasts*, February 14, 2001.

ture projects designed to support development in the province, as among the problems to which the central government had given insufficient consideration as it continued to demand both high growth targets and rapid reform of the industrial sector.<sup>35</sup> Deputies from Liaoning and the other Northeast provinces took their worries about the impact on social stability of pressures to restructure state firms to the National People's Congress (NPC 全國人民代表大會) a few months later, with the growing unemployment they confronted topping their list of concerns.<sup>36</sup> Liaoning reported that half of its large and medium-sized enterprises were failing, while rising crime and violence attributed to unemployed workers plagued the province.<sup>37</sup> Indeed, estimates of unemployment ranged from above 12 percent for the province as a whole to as high as 25 percent in the provincial capital, Shenyang, where more than half of the reported 500,000 unemployed were former SOE workers.<sup>38</sup> One survey indicated that 70 percent of all laid-off workers in Shenyang remained unemployed after a year of leaving their company.<sup>39</sup> These concerns found a receptive audience among the more conservative leadership within the central government, among them Li Peng (李鵬), who pressed for a more cautious pace in proceeding with state enterprise reform.<sup>40</sup>

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<sup>35</sup>Li, "Inside Information on Central Economic Work Conference," 29-31.

<sup>36</sup>"NPC Deputies on State Enterprise Reform," Beijing Xinhua, March 11, 1999, in *FBIS-CHI* (FTS19990326000985).

<sup>37</sup>Daniel Kwan, "Half Liaoning State Enterprises Struggling, Says Chief," *South China Morning Post*, March 4, 1999, at <<http://special.scmp.com/npc1999/Index.asp57.html>>; "Crime Crackdown Cleans Streets of Violent Industrial City," *South China Morning Post*, March 12, 1999, at <<http://special.scmp.com/npc1999/Index.asp97.html>>.

<sup>38</sup>Provincial leaders have used the figure of around 1 million (with Governor Bo Xilai 薄熙來 citing 1.04 million in recent speeches, or around 6 percent of the work force). According to estimates by Hu Angang (胡安鋼), in 1998 real unemployment ranged from 12.8 to 15.5 percent in Northeast China (Liaoning, Jilin, and Heilongjiang). Referred to in Shaoguang Wang (王紹光), "Implications of China's WTO Membership," *Journal of Contemporary China* 9, no. 25 (2000): 384. Kazuyoshi Uehara estimates that in 1998, Liaoning's unemployment rate was 14.9 percent, the highest of all Chinese provinces. See Kazuyoshi Uehara, "State-Owned Enterprise Reform and the Labor Force in China," at <<http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan002537.pdf>>.

<sup>39</sup>"Unemployment and Reemployment," *China News Analysis*, no. 1602 (February 1998): 5.

<sup>40</sup>Todd Crowell and Allen T. Cheng, "Under Fire," *AsiaWeek.Com*, November 10, 2000, at <[http://www.asiaweek.com/asiaweek/magazine/2000/1110/nat.wto\\_sb1.html](http://www.asiaweek.com/asiaweek/magazine/2000/1110/nat.wto_sb1.html)>.

In this context, Zhu Rongji's move to undertake negotiations with the United States on the WTO in order to conclude a bilateral agreement in anticipation of the WTO Ministerial Conference scheduled for November 1999 can be seen as reflecting a sense of urgency on the part of those within the senior Chinese leadership eager to deepen economic reform in the country, including holding to the three-year timetable for reform of the country's large and medium-sized state firms.<sup>41</sup> On the one hand, there were familiar economic arguments for China's accession as a way of stimulating export-led growth and drawing in foreign investment as China's economy felt the effects of the malingering Asian financial crisis. At the same time, Chinese leaders were increasingly concerned about the potentially inflationary effects of their efforts to stimulate economic growth with high levels of fiscal spending leading to deficit spending. Another concern was that the state banking system was accumulating many nonperforming loans amid state enterprise failures.<sup>42</sup> On the political front, WTO membership and the prospect of global competition promised an effective means to shake up the political barriers to industrial reform. A spokesman for Zhu, responding to reporters' questions about Zhu's March 1999 government work report, stated: "The speed of state-owned enterprise reform and the process of China's entry into the World Trade Organization are in complement to each other and mutually advancing."<sup>43</sup>

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<sup>41</sup> According to an analysis by Joseph Fewsmith, it was not until mid-1998 and President Bill Clinton's visit to China that Zhu Rongji became personally committed to seeing China achieve accession to the WTO as he recognized the potential usefulness of membership in deepening economic reform in China. Even in his direct exhortations to Liaoning and Northeast China to restructure its economy, deepening regional industries' linkages and role in international markets, or even within the economic sphere of Northeast Asia, had not been an important part of his rhetoric as vice-premier. See Joseph Fewsmith, "China and the WTO: The Politics Behind the Agreement," *National Bureau of Asian Research*, November 1999, at <<http://www.nbr.org/publications/report/html>>. For another analysis of the political dimensions of the agreement, see Ka Zeng, "Domestic Politics and the U.S.-China WTO Agreement," *Issues & Studies* 37, no. 3 (May-June 2001): 105-41.

<sup>42</sup> Nicholas R. Lardy, "China's WTO Membership," *Brookings Institution Policy Brief*, no. 47 (April 1999), available at <<http://www.brook.edu/dybdocroot/comm/policybriefs/pb047/pb47.htm>>.

<sup>43</sup> Sheng Huaren on State Enterprise Reform," Beijing Xinhua, March 5, 1999, in *FBIS-CHI*, (FTS19990311001994).



## Province and WTO

As it appeared probable that China would accede to the WTO in the near future, some provinces and localities chose to initiate very public steps to signal their efforts to prepare for the impact of the WTO on their economies. In late 2000, Shanghai (上海) was poised to develop to rival Hong Kong as a financial center after WTO entry; the city inaugurated the Shanghai WTO Affairs Consultation Center and the Standardization Research Institute, established to conduct research and monitor progress on standardization issues in areas such as international technology and environmental standards relevant to Shanghai's industrial products and to develop a data base of national and international standards.<sup>44</sup> This was followed by a WTO-sanctioned Shanghai WTO Affairs Data Center four months later.<sup>45</sup> These organizations were set up explicitly to provide services to the commercial community in Shanghai, particularly to assist large and medium-sized state-owned firms in the transition to China's WTO member status.<sup>46</sup> Shanghai's mayor, Xu Kuangdi (徐匡迪), also announced plans for "sweeping" property-market and legal reforms in preparation for WTO entry.<sup>47</sup> Through a local organization, the Marco Polo Award Foundation, Tianjin (天津) established a WTO-China Forum with participation from Beijing, Chongqing (重慶), Shanghai, and Xi'an (西安).<sup>48</sup> Chongqing later established a WTO Coordination Office.<sup>49</sup> Jiangsu (江蘇) also established

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<sup>44</sup>Huang Ying, "Standardization Research Institute Established in Shanghai," *People's Daily*, December 20, 2000, at <[http://english.peopledaily.com.cn/200012/20/eng20001220\\_58316.html](http://english.peopledaily.com.cn/200012/20/eng20001220_58316.html)>.

<sup>45</sup>"WTO Affairs Data Center Established in Shanghai," *Xinhua*, April 11, 2001, in *FBIS-CHI* (2001-0411/CPP20010411000010).

<sup>46</sup>"Center to Offer WTO Intelligence," *China Web (South China Morning Post)*, September 27, 2000, at <<http://www.chinainfoland.com/shownews.asp?cate=3&id=111>>.

<sup>47</sup>"Shanghai Braces Itself for Impact of WTO," *Asian Wall Street Journal Weekly*, February 19, 2001, A:3.

<sup>48</sup>"WTO-China Forum to Be Set Up," *Xinhua*, April 25, 2001, in *FBIS-CHI* (2001-0425/CPP20010425000112).

<sup>49</sup>"WTO Coordination Office for Chongqing," *People's Daily*, January 30, 2002, available at <[http://english.peopledaily.com.cn/200201/30/eng20020130\\_89644.shtml](http://english.peopledaily.com.cn/200201/30/eng20020130_89644.shtml)>.

the Jiangsu WTO Research Consultation Center within its Academy of Social Sciences in late 2001.<sup>50</sup> In cooperation with WTO officials, Hainan (海南) set up a center for WTO information in its China Reform and Development Academy in Haikou (海口), geared both to support local preparations for WTO entry and to serve as a national resource for information on WTO issues.<sup>51</sup> As early as November 1999, Guangdong had begun conducting meetings with the WTO Research Institute in Beijing on how to prepare the province for the market opportunities associated with WTO membership and established a Guangdong China Marine Arbitration Committee to help arbitrate trade disputes concerning commerce in the South China Sea.<sup>52</sup> The creation of such organizations by these localities on the one hand indicated that officials were seeking to be proactive in managing the effects of WTO entry. They also served to advertise these localities to prospective foreign economic partners and investors as prepared for the deeper involvement of foreign economic interests in their economies associated with WTO membership.

The reaction from within Liaoning was quite different. The announcement that China had concluded an agreement with the United States on the terms of accession was followed by a surge in Liaoning of articles in both policy/academic journals and the mainstream press about the likely impact on and implications of WTO membership for the province. In general, academics in the province supported the position that WTO membership would be a boon to provincial development, both from the perspective of trade liberalization and enterprise reform. An economist from Liaoning University argued further that, along with pushing the province as a whole to participate in international markets, WTO would give the province an "impetus to join the national market" after decades of slow

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<sup>50</sup>"The 2nd Provincial Special Organization in China Studying 'Entry WTO'—Jiangsu WTO Research Consultation Center Established," *Yangtze News*, November 12, 2001, available at <[http://www.yangtze.com/gb/content/2001-11/12/content\\_183026.htm](http://www.yangtze.com/gb/content/2001-11/12/content_183026.htm)>.

<sup>51</sup>"Hainan Sets Up Centre for WTO Information," *Xinhua in BBC Worldwide*, December 8, 2000.

<sup>52</sup>"Guangdong Province Holds WTO Research Symposium," *Xinhua*, November 18, 1999.

reform and increasing local protectionism (both interprovincial and intra-provincial).<sup>53</sup>

Articles written by representatives from different provincial industries were less sanguine about the prospect of the country entering the WTO, frequently reading like pleas for special dispensation—supporting reports that most industries in the region were not well prepared for China's WTO entry.<sup>54</sup> Throughout 2000, a series of such articles appeared in the provincial journal, *Liaoning jingji* (遼寧經濟). Although China's largest banks could be expected to survive global competition, one analyst from the banking sector wrote that many smaller banks would fail as a result of the "lash" of competition, given their lack of electronic sophistication as well as the assets available to international banks doing business in China.<sup>55</sup> Representatives from the region's automobile industry (both vehicles and parts manufacturers) echoed concerns by members of the industry around the country that WTO entry would prove disastrous without sustained government intervention. Staff from the Economic Research Center of Liaoyang City, an industrial city with a sizeable automobile parts industry, wrote, for example, "The clash [that will be] associated with free trade is tremendous." However, the writers continued, "because the [auto] industry is a national pillar industry ... and the number of personnel in the industry is high, ... national policies to safeguard the industry and buffer will certainly enjoy a fairly long period."<sup>56</sup> This view was echoed in analyses by

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<sup>53</sup>Shi Jiaxian (Economist at Liaoning University), "Ru Shi—Liaoning shichang jingji fazhan de xin qiji" (Entering the WTO—A new miracle for the development of a market economy in Liaoning), *Liaoning jingji* (Liaoning Economy), 2000, no. 3:19. Shi's article is one of many articles with similar perspectives by academics published in that journal. On local protectionism, see also "Harm Done by Local Protectionism, WTO Issues," Xinhua, June 27, 2000, in *FBIS-CHI* (FTS20000727).

<sup>54</sup>Interviews with researchers and with representative from the U.S. Foreign Commercial Service in Shenyang in July 2001 suggested that few companies had formal plans for WTO entry. This is supported by the findings of analyses of enterprises in heavy industrial sectors. One consultant reported that only 25 percent of China's carmakers had post-WTO plans. See Trish Saywell and Yan Zhihua, "Ready for the Deluge," *Far Eastern Economic Review*, March 23, 2000, at <<http://www.feer.com/-00003-23/p44economic.html>>.

<sup>55</sup>Guan Xianlong, "Jiaru WTO hou Zhongguo yinhang de gaige yu fazhan" (The reform and development of Chinese banks after WTO entry), *Liaoning jingji*, 2000, no. 6:23.

<sup>56</sup>Tian Chunming et al., "Zhongguo jiaru WTO dui Liaoyang jingji fazhan de yingxiang ji

representatives from other key economic sectors in the province. An analysis focused on the impact of WTO entry on Benxi Iron and Steel (Bengang)—the province's largest enterprise following the massive cuts in employees and subsidiary enterprises by the steel giant, Angang. The piece, by a member of Bengang's planning department, argued that not only the short-term but the long-term impacts on the enterprise would be challenging and "grim" (嚴峻 *yanjun*). Although there were opportunities both abroad and within China, including the country's push to develop its western region, failure to prepare for global competition would result in the industry finding itself left behind. The writer concluded by stating that it was important that the national policy to support large enterprises be well implemented so that the enterprise could develop amid stability, particularly given the need to find work for those left unemployed by restructuring.<sup>57</sup> Possible is that management at Bengang—already among those enterprises granted special central assistance under the "*zhuada fangxiao*" (抓大放小) or "grasp the big and release the small" enterprise policy—was appealing for additional support in the face of WTO entry.

While contemplating WTO accession, the province's leadership issued statements of concern for WTO's impact on provincial industries. While careful in its public statements to point out that the full integration of the Chinese markets into global ones according to WTO rules would take place in stages,<sup>58</sup> the leadership also reflected the views of those economic sectors that WTO membership was expected to hit hardest. Then-governor of the province, Zhang Guoguang (張國光), echoed the central line supporting China's WTO accession, but in addressing WTO's impact, cautioned that the benefits would be felt only in the longer term. In the short run, many enterprises would face "relatively many difficulties." Enter-

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duice" (The effects of China's WTO entry on Liaoyang's economic development and countermeasures), *ibid.*, 2000, no. 1:24.

<sup>57</sup>Li Junmin, "Jiaru WTO dui Bengang de yingxiang ji duice" (The effects on Benxi Iron and Steel of entering WTO and countermeasures), *ibid.*, 2000, no. 6:22.

<sup>58</sup>See, for example, "Liaoning jingji quxiang" (Liaoning's economic forecast), *Liaoning jingji ribao* (Liaoning Economic Daily), January 6, 2000, 2.

prises in all sectors, not merely the so-called traditional "backbone" industries of the province of machine-building, processing, electronics, and steel, and agriculture, but service sector industries as well could expect to have to make many changes to operate effectively after China's WTO accession. These changes would be difficult to make in the short run given ongoing problems with funds, technology, and weak markets; participation in international markets through partnerships and joint ventures (in the post-WTO environment) would, however, serve to help redress these problems.<sup>59</sup> An article by members of Liaoning's Office of Foreign Trade, for example, called for sustained protection of the country's (and the province's) fledgling vehicle industry. The article made the infant industry argument that, while in the past the government's protectionism was designed to shield outdated industries from competition from their superior foreign competitors, the government should continue to protect the nation's automobile industry so that it "could develop its competitive ability."<sup>60</sup>

There is also evidence that officials in the province asked that Beijing include the western part of the province under the "Go West" policy (西部大開發 *xibu dakaifa*), a major western development initiative, arguing that the region confronts many of the same issues as western China and, particularly given its historical contribution to national development, deserves similar emphasis. Although some officials have reportedly expressed skepticism of the extent to which Beijing's "Go West" policy will offer that region tangible benefits, they believe that Liaoning should also enjoy the public focus given to the development of the western region; they fear that, otherwise, the province could fail to secure future large-scale investment projects.<sup>61</sup>

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<sup>59</sup>"Shengzhang Zhang Guoguang zuo de zhongdian" (Key points made by provincial governor Zhang Guoguang), *Liaoning jingji*, 2000, no. 1:5.

<sup>60</sup>Wang Meilao and Wang Yong, "Rushi hou Zhongguo qiche gongye fazhan duici sikao" (Reflections on the development of China's auto industry after WTO entry), *ibid.*, 2000, no. 5:20.

<sup>61</sup>Interviews with Chinese academics and members of the Office of Foreign Affairs, Liaoning Academy of Social Sciences, July 2001.

Provincial authorities also reflected concerns about social stability. A piece exploring the social impact of WTO accession on the province by a staff member of the Provincial Planning Commission advised early preparations in anticipation of the massive dislocations workers were expected to experience.<sup>62</sup> Other articles addressed additional concerns about employment and social stability. An article by members of the Bureau of Taxation in Shenyang expressed concern about the post-WTO labor market. Its authors worried about the anticipated effect of increasing unemployment in a province already attempting to cope with growing numbers of unemployed. Another prime concern was a possible "brain drain" of the talented and better-educated work force so vital to economic development in the region as a result of opportunities available to them in China's now global marketplace.<sup>63</sup> In addition to these concerns, another view represented in the press included the prediction that, while WTO membership might contribute to integrating China's national market in the medium to long term, it would also exacerbate regional economic inequalities—particularly the division between hinterland and coast and the gap between larger commercial centers and smaller industrial cities. The implication was that this would further increase the risk of social instability associated with China's membership in the WTO.<sup>64</sup>

There was mounting evidence that these negative impacts would be hard to avoid. The voices of workers advocating a return to job security or, at the least, an effective system of unemployment benefits, were expressed increasingly forcefully in protests on the streets. Demonstrations, sometimes erupting into riots, reportedly involving thousands of factory workers

<sup>62</sup>Tang Tiegung, "Zhongguo jiaru WTO dui Liaoning renkou he jiuye de yingxiang chutan" (A preliminary exploration of the implications for Liaoning's population and employment after China's WTO entry), *Liaoning jingji*, 2000, no. 4:14-15.

<sup>63</sup>Zhang Lianyi and Chen Qiang, "Lun rushi dui woguo jiuye de yingxiang" (The effects of WTO entry on employment), *ibid.*, 2000, no. 6:19-20. Despite a number of excellent universities and technical colleges, the province already faces a shortage of qualified managerial and marketing personnel. See "Liaoning Pushes SOEs to Become Market-Oriented," Beijing Xinhua, March 3, 2000, in *FBIS-CHI* (CPP20000302000038).

<sup>64</sup>See, for example, Mao Seming, "Jiuye shiheng jidai tiaozheng" (Employment imbalance urgently needs adjusting), *Liaoning jingji ribao*, January 2, 2000, 2.

or miners, were becoming more common.<sup>65</sup> Street demonstrations began to occur so commonly in Shenyang that local radio stations began notifying commuters about the locations of "man-made roadblocks."<sup>66</sup> Protestors were unequivocal about assigning blame to the government for their plight. As one laid-off worker stated, "Government leaders misspent the money and wasted it."<sup>67</sup> There were indications that the protests were growing in scope and organization. One large-scale protest that took place in Liaoyang during the past year involved former and furloughed workers from as many as ten factories expressing shared grievances about their economic welfare.<sup>68</sup> For many workers unable to find work and often living hand to mouth, there is considerable nostalgia for the "cradle to grave" employment security that they enjoyed in the era of the "iron rice bowl" (鐵飯碗).

Provincial concerns were reflected in the March 2000 session of the NPC. Although China's WTO accession was not on the agenda, deputies from Liaoning were among those who reportedly urged that Beijing consider delaying WTO entry or introduce ways to sustain non-tariff barriers (including providing direct subsidies) to help protect local industries. In addition, some provincial deputies asked that Beijing consider directly providing additional funds to localities or particular enterprises to help compensate the unemployed.<sup>69</sup> In a group discussion with Zhu Rongji, the province's governor reiterated concerns about the centrally-set pace of reform, stressing that the process of reforming the province's state sector could not be rushed but was a long-term one: "To really improve [the sec-

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<sup>65</sup>James Kyngé, "Survey-China: Switch to a Funded System: Social Welfare," *The Financial Times*, November 13, 2000, 6.

<sup>66</sup>"Protests Proliferate to Get PRC Government Attention," Hong Kong Agence France-Presse, June 11, 2000 (FBIS-CHI-2000-0611/CP200000611000013).

<sup>67</sup>Xu Feng and Wu Yi in *China News Digest*, no. 34 (June 15, 2000), at <<http://www.cnd.org>>.

<sup>68</sup>See, for example, John Pomfret, "China Cracks Down on Worker Protests," March 21, 2002, at <<http://www.washingtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A58956-2002Mar20>>.

<sup>69</sup>Willy Wo-Lap Lam, "Delay to WTO Membership Sought," *South China Morning Post*, March 11, 2000, available at <[http://special.scmp.com/npc2000/Article/FullText\\_asp\\_ArticleID-20000311032610372.html](http://special.scmp.com/npc2000/Article/FullText_asp_ArticleID-20000311032610372.html)>.

tor], we would have to work hard for a decade."<sup>70</sup>

Indeed, there was little evidence that Liaoning's officials were prepared to be proactive in preparing the province for the country's joining the WTO even as membership appeared increasingly imminent. In a piece for *Liaoning jingji* in January 2000, Zhang Heling (張鶴齡), the head of the Provincial Planning Commission, reflected upon the implications of China's WTO entry for the province as if it was prospect he had only begun to consider. He wrote, "We must deeply investigate the implications of China's WTO accession for our province, begin now to prepare, and adjust our economic structure rapidly."<sup>71</sup> At the annual meeting of the Liaoning Provincial Committee of the Chinese People's Political Consultative Conference (CPPCC, 政協遼寧省委員會)—at which WTO entry figured prominently on the agenda, its chairman, Sun Qi (孫奇), acknowledged that the province was relatively uninformed about the WTO and what membership would bring for the province.<sup>72</sup> Only the officials of the province's major coastal city and key national port, Dalian, publicly heralded WTO accession as an opportunity for the city's industries to penetrate new markets and for the city to expand its role as an international commercial center, and announced plans to simplify investment procedures, improve city services, and provide additional preferential policies for high-tech investment soon after the China-U.S. agreement was announced.<sup>73</sup>

Liaoning's leadership took few steps that can be seen as directly targeted at facilitating the province's transition to developing its economy after the country's WTO accession. In early 2000, provincial officials pledged 28 billion *yuan* to enterprises for technological renovation.<sup>74</sup> In addition, the province proceeded with plans to simplify entry/exit proce-

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<sup>70</sup>"Zhu Rongji on State Enterprise Reform at NPC Group Discussion," *Xinhua*, March 18, 2000.

<sup>71</sup>Zhang Heling, "Kuoda neixu, jiaukai jiegou tiaozheng..." (Expand internal needs, adjust structures...), *Liaoning jingji*, 2000, no. 1:8.

<sup>72</sup>Sheng zhengxie bajie sanci huiyi bimu" (The third session of the CPPCC eighth provincial committee meeting closes), *Liaoning jingji ribao*, February 25, 2000, 1.

<sup>73</sup>"City Poised to Be Trade Center," *China Daily*, December 13, 1999, 6.

<sup>74</sup>"Economic Goals Set for Liaoning," *Xinhua* in *BBC Worldwide*, January 5, 2000.



dures for foreigners and their families working and investing in the province, by granting green card-style permanent residence certificates.<sup>75</sup> Other policies were aimed at the agricultural sector, such as the provision by the province of subsidized loans to grain-producing farmers to diversify production in anticipation of competition from further trade liberalization.<sup>76</sup>

### Center, Province, and WTO

Certainly, from the perspective of the central-local political relationship, a major challenge for the central government is to see that implementation of policies and regulations required to meet the terms of WTO membership takes place at the local levels.<sup>77</sup> The central government cannot, however, achieve this if it simply ignores the difficulties faced by local authorities in pushing for changes that are seen as undesirable and even painful for so much of the population they govern. As the famous saying goes, "The center decides policy, local authorities devise countermeasures" (上有政策下有對策 *shang you zhengce, xia you duice*).<sup>78</sup> Beijing's recent experience with the power sector offers a case in point. According to reports, efforts to introduce competition into the power sector have been resisted by the five provinces it would have affected. These included Liaoning, as well as its neighbors Jilin and Heilongjiang, along with the more prosperous provinces of Shandong (山東) and Zhejiang (浙江). Although power in these provinces is notoriously overpriced—at least 20 percent above what official sources feel it might be following the introduction of competition—and is also a net drain on the provincial economies, provinces have encouraged foreign investment into their power plants.

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<sup>75</sup>"Liaoning Province Simplified Entry-Exit Procedures," Xinhua, March 7, 2000, in *FBIS-CHI-200000307/PPP200030700004*.

<sup>76</sup>Interview with faculty members, Shenyang Institute of Technology, July 2001.

<sup>77</sup>Long Yongtu (龍永圖) stressed this point in a speech made at the Northeast Asia Economic Conference, January 28-29, 2002, reported in *Erina Report*, no. 45 (2002): 25-26.

<sup>78</sup>An Chen, *Restructuring Political Power in China: Alliances and Opposition, 1978-1998* (Boulder, Colo.: Lynne Rienner, 1999), 183.



With the introduction of competition, many of the least efficient plants could be forced to close. To thwart Beijing's ability to proceed with the plan, which would have required the provinces (and cities) involved to purchase their electrical power from the lowest bidder through a computerized auction system, the localities simply failed to submit plans for reform and implementation.<sup>79</sup>

Given the imperative of cooperation in the area of implementation at the local level, what steps has Beijing taken to help cultivate an economic and political environment in Liaoning more favorable to China's WTO membership? As in the past, the center has used its power of personnel selection to help to signal its interest in seeing forward momentum in the province. In the early 1990s, the central leadership brought a provincial outsider, Yue Qifen (岳岐峰), from Hebei (河北) to govern the province. Yue was an outspoken critic of the conservatism of cadres in Liaoning's government and state-owned enterprises.<sup>80</sup> In late 2000, the center replaced the provincial governor, Zhang Guoguang, with former mayor of Dalian, Bo Xilai (薄熙来).<sup>81</sup> A Liaoning native, Zhang had become governor in 1998 after serving his entire career in the province, including working within the Shenyang municipal government.<sup>82</sup> His management of the province had been tainted by the corruption scandal centered around Shenyang and questions about the implementation of state enterprise reform under his watch.<sup>83</sup> Although mayor of Dalian since 1993, Bo is a provincial outsider, the son of Bo Yibo (薄一波) with family roots in Shanxi (山西).<sup>84</sup> In Dalian, Bo Xilai earned a reputation for managing municipal

<sup>79</sup>Bruce Gilley, "Power Play," *Far Eastern Economic Review*, June 29, 2000, 27.

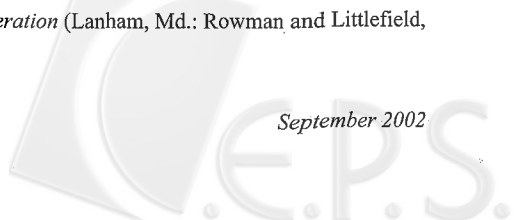
<sup>80</sup>Schueller, "Liaoning," 99.

<sup>81</sup>Since 2001, about 50 percent of provinces have been assigned new Party secretaries or governors, including many younger officials like Bo Xilai (born in 1949).

<sup>82</sup>Freeman, "China's Reform Challenge," 341.

<sup>83</sup>One report indicated that under Zhang's watch, "murky regulations on restructuring" and "opaque accounting" were tolerated to make losing enterprises appear profitable. See Jeremy Page, "Murky Figures Cloud State Sector Reform," Reuters, June 19, 2000, at <<http://csf.colorado.edu/pen-1/2000II/msg02782.html>>.

<sup>84</sup>Cheng Li, *China's Leaders: The New Generation* (Lanham, Md.: Rowman and Littlefield, 2001), 165-66.



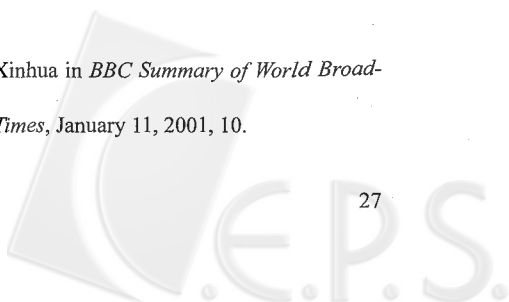
affairs with a firm hand—if at times flamboyantly, yet winning commendation from city residents and foreign businesses for his achievements in making the city both a more livable and economically dynamic place. When he left Dalian to take his post in Shenyang, tens of thousands of people came to send him off. Under Bo's watch, Dalian not only developed its capacity as a port to rival Shanghai, the city also benefited from his aggressive efforts to attract foreign investment. These included winning free trade zone status for Dalian and promoting the city in potential investor markets, developing its infrastructure to facilitate business development, establishing enterprise groups in key industrial sectors, and making the city an appealing place through beautification projects and by introducing environmental protection efforts. In the last case, such efforts often included securing involvement from foreign partners—particularly with entities from the city's dominant source of foreign investment, Japan.<sup>85</sup> In addition, he has been a strong advocate for the development of an effective social welfare system as a critical step in the transformation of state-owned enterprises into firms capable of participating in competitive markets. Bo's positive record in Dalian gave him an international reputation that could be an asset to the province in attracting foreign investment. As the news of Bo's promotion was reported in the *Financial Times*, "China [has] chosen Bo Xilai ... to try to boost the fortune of industrial northeastern Liaoning province."<sup>86</sup>

In addition, consistent with past patterns in which Beijing has encouraged reform in the province by including it in national economic initiatives involving central financial or technical assistance, Beijing involved Liaoning in a number of new programs designed in anticipation of WTO entry. Cities in Liaoning were included among the fifteen around the country selected as pilots to standardize export processing zones in order to make them consistent with "international conventions" (and to "minimize current

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<sup>85</sup>"State Enterprises in Dalian Out of the Red," Xinhua in *BBC Summary of World Broadcasts*, April 24, 2000.

<sup>86</sup>"Beijing Acts to Boost North-East," *Financial Times*, January 11, 2001, 10.



procedures.")<sup>87</sup> Beijing also included Shenyang in the early stages of its construction of a system for regulating insurance. Shenyang's participation, with that of Harbin (哈爾濱) and Changchun (長春), followed the opening of regulatory offices in Beijing, Shanghai, and Guangzhou (廣州). In addition, Dalian, with Shanghai, Shenzhen (深圳), and Tianjin, has been selected as one of the locations where foreign banks will be able to conduct *renminbi* (人民幣) business with Chinese enterprises two years after accession.<sup>88</sup> Finally, Beijing made the province a pilot for new programs to reform the social insurance system—an area for development that Zhu Rongji had stressed during his April 2000 tour of Liaoning to examine the province's progress in SOE reform.<sup>89</sup> The pilot program, launched in 2001, adds central support and funding to what were in fact efforts initiated by the province to implement a social security network that had been stalled due to financial shortfalls.<sup>90</sup> This followed the announcement of national plans to end the system of furloughing SOE workers so that they may continue to receive limited benefits from their former units; instead, a system of direct unemployment would be instituted within three years.<sup>91</sup>

Beyond this, the central government has itself appeared uncertain as to how best manage the myriad of changes in the regulatory process that must be implemented at the local level. Beijing urged provincial officials to prepare for the WTO; yet, perhaps in an effort to help contain concerns at the local level until China concluded its negotiations on WTO entry, Beijing did not immediately make the text of its agreement with the United States available to the public in Chinese. Only after China's accession was

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<sup>87</sup>"Customs to Standardize Trade Zones," *China Daily*, June 24, 2000.

<sup>88</sup>Louis Beckerling, "Finance Sector Eyes China," *South China Morning Post*, October 13, 2000, 14; also available on line at <[http://special.scmp.com/review2000/article/FullText.asp\\_ArticleID-20001012154132300.html](http://special.scmp.com/review2000/article/FullText.asp_ArticleID-20001012154132300.html)>.

<sup>89</sup>Zhu Rongji Tours Liaoning, Promotes Social Security System," *Xinhua* in Chinese, April 27, 2000, in *FBIS-CHI* (2000-0427/CPP20000427000081).

<sup>90</sup>"China's Traditional Industrial Base to Expand Social Security System," *People's Daily* in English, November 14, 2000, at <[http://english.peopledaily.com.cn/200011/14/eng 20001114\\_55132.html](http://english.peopledaily.com.cn/200011/14/eng 20001114_55132.html)>.

<sup>91</sup>"Chinese Central Government to End *Xiagang* System," *China News Digest*, no. 36 (August 21, 2000), available at <<http://www.cnd.org>>.

announced were local officials made fully aware of the details of the commitments made in the agreement.<sup>92</sup> Since then, the central government has launched programs to inform officials in the provinces about the specific implications of China's WTO membership, with accompanying structural changes aimed at promoting the implementation of WTO-related policies at the local level. Beijing has organized training sessions to help educate local officials about WTO-related legal and regulatory changes. In 2001, for example, a centrally-organized intellectual property training center conducted a series of seminars for administrative leaders above the county level in Liaoning, as well as Heilongjiang, Sichuan (四川), Guangxi (廣西), Ningxia (寧夏), and Fujian (福建).<sup>93</sup> China Central Television has been another important source of information, and most Chinese ministries have included WTO-related information on their websites. Beijing has also encouraged central as well as local officials to attend training seminars and courses organized by foreign governments and non-profit organizations on WTO both in China and abroad, including the U.S. Foreign Commercial Service Office in Shenyang.<sup>94</sup>

In addition, as China's negotiations on WTO neared their conclusion, leading groups or special committees were formed within various ministries and commissions to adjust the laws and regulations under their purview to make them consistent with the terms of WTO, with similar groups established at the provincial level. Agencies at the central and provincial levels coordinated their efforts with the corresponding law and regulation committee under the NPC Standing Committee.<sup>95</sup> In Liaoning, this resulted in an immediate flurry of revisions to local regulations and the abolition of as many as half of the review and approval processes to which

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<sup>92</sup>Brian L. Goldstein and Stephen J. Anderson, "WTO at Last: Foreign Contributions to China's WTO Capacity Building," *China Business Review*, January-February 2002, available at <<http://www.chinabusinessreview.com/0201/goldstein.html>>.

<sup>93</sup>State Intellectual Property Office of China, "Publicity, Training, and Academic Activities," available at <[http://www.sipo.gov.cn/sipo\\_English/gftx\\_e/ndbg\\_e/2001nb\\_e/2002\\_04260009.htm](http://www.sipo.gov.cn/sipo_English/gftx_e/ndbg_e/2001nb_e/2002_04260009.htm)>.

<sup>94</sup>See note 92 above.

<sup>95</sup>Interview with researchers at the Liaoning Academy of Social Sciences, July 2001.

business had been subject.<sup>96</sup>

Along with these developments, the department within the Ministry of Foreign Trade and Economic Cooperation (MOFTEC 對外貿易經濟合作部) on WTO has included six functional divisions to coordinate domestic and international affairs related to WTO.<sup>97</sup> However, MOFTEC itself does not have the authority to dictate to economic ministries or provincial governments with which it shares a bureaucratic level. While leading groups have been associated with many national policies (such as China's "Go West" development strategy as well as efforts to promote the use of information technology) and there have been formal offices for these groups in most provinces involved in these efforts, only recently has Beijing taken the critical step of establishing a "WTO Leading Group." This group led by State Councilor Wu Yi (吳儀) does have the authority to oversee implementation across the country.<sup>98</sup> If the Group's formal status is matched by support within the upper ranks of the CCP, this will have an important impact on its capacity to break down the bureaucratic barriers to policy implementation—and interagency coordination—at the provincial level that are hampering efforts to prepare the provinces for WTO.

### Whither Center and Locality in the Post-WTO Era?

For Liaoning and its relationship to the central government, the implications of China's WTO accession are not without irony. Liaoning's heavily planned economy once gave the province close economic ties to central authorities, as well as political leverage with conservative leaders, making provincial leaders slow to innovate and likely to seek direction

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<sup>96</sup>"China Undergoes Conceptual Changes After WTO," *People's Daily*, January 17, 2002, at <<http://www.chinabig.com.cn/en/market/wtochina/china08.htm>>.

<sup>97</sup>American Chamber of Commerce in China, "The Climate for American Business in China," American Chamber of Commerce website <<http://www.amcham-china.org.cn/publications/white/2002/en-5.htm>>.

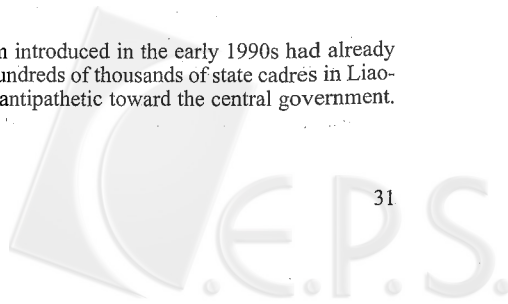
<sup>98</sup>Ibid. and Susan Shirk, "Opening Up China," *Financial Times*, May 14, 2002, available at <[irps-web@ucsd.edu](mailto:irps-web@ucsd.edu)>.

from Beijing as Liaoning approached reform of its economy. This conservatism made the province the target of criticism from proponents of economic liberalization in the capital. In the post-WTO environment, however, Beijing must change the way in which it extends reforms to all Chinese provinces. It must insist on compliance from its provinces, not with a plan, but with a regulatory and operational framework with profound implications for the economic relationship between the state and the economy. For some provinces, this may constrain their freedom of action in the policymaking area. In Liaoning's case, as the bureaucratic structures that once tied the province so closely to the central state are dismantled in keeping with this framework, it must forge a new relationship with Beijing.

At present, Liaoning appears to lag behind other coastal areas in its progress toward adapting to the post-WTO economic environment. This slow start is consistent with the province's slow pace of reform to date. As in the past, central officials are likely to have to play a hands-on role in assisting Liaoning as the province makes the transition to the post-WTO environment. This will include helping the province manage its labor issues, by sustaining their role in the province's implementation of an effective social security system, while ensuring that the province also has the fiscal resources to develop its competitiveness, through worker training or the construction of new infrastructure projects, for example. Central support will also be critical to the province as Liaoning proceeds with SOE restructuring, not only because of the social challenges this poses, but because the province will find it very difficult to dismantle the bureaucratic structures established to manage the planned economy to reduce political intervention in economic activity. Liaoning must achieve this without costing the Party the critical support of those now in that bureaucracy who are loyal Party members—and creating a new population opposed to further economic liberalization.<sup>99</sup> At the same time, Liaoning, like other provinces, may find

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<sup>99</sup>Reforms of the enterprise management system introduced in the early 1990s had already greatly eroded the power and job security of hundreds of thousands of state cadres in Liaoning's state-owned enterprises, making many antipathetic toward the central government. Discussed in Schueller, "Liaoning," 106.



itself more formally constrained in its capacity to interpret and implement central policy according to its own imperatives and timetable. Along with the rest of China's provinces, however, Liaoning will retain the critical role of fostering an economic environment conducive to trade and investment (foreign as well as domestic) and for growth.<sup>100</sup> Indeed, as provincial economies are integrated more deeply into regional ones, provincial leaders are likely to give even more weight to their roles as economic ambassadors for their regions through provincial participation in regional economic organizations. Liaoning, with other northeastern provinces, has already taken part in regional economic development activities as the Northeast Asian Economic Forum, for example. There are plans for the province to become further involved in the Forum's projects, which include functional cooperation in areas such as transportation, telecommunications, energy, and development finance.<sup>101</sup> The province will also participate in the development of other regional activities, such as a proposed United Nations-sponsored platform for social development cooperation in Northeast Asia.<sup>102</sup> For a province like Liaoning unlikely to see its once glorified status in the national economy restored, cultivating foreign economic relationships and raising its profile abroad and in international regional organizations may also become an opportunity to build provincial prestige. Where trade relations between the province and its economic partners are of significant weight in the national economy, these relationships are likely to give the province greater influence in shaping China's international policy, an area in which historically provinces have played little role.

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<sup>100</sup>As provinces' international trade has grown, provincial governments have become increasingly independent actors in external relations, to "enhance their own international images and pursue their own economic interests." According to Peter Cheung and James Tang, Liaoning had defined its foreign affairs work as early as 1995 as "the promotion of exchange and cooperation with Japan and South Korea, the expansion of links with North America, and the strengthening of relations with North Korea to establish a stable environment in the province's neighborhood." See Peter Cheung and James Tang, "The External Relations of China's Provinces," in *The Making of Chinese Foreign and Security Policy*, ed. David M. Lampton (Stanford, Calif.: Stanford University Press, 2001), 104.

<sup>101</sup>Comment by Dr. Lee Jay Cho of the East-West Center, July 2001.

<sup>102</sup>"UN to Promote Social Development Cooperation in Northeast Asia," Xinhua, in *BBC Summary of World Broadcasts*, June 11, 2001.