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# One Party, Many “Vassals”

## *Revival of Regionalism in China and Governance Challenges of the Party State*

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### Nationalization of Chinese Regions

*Huanqiu Shibao* (Global Times), a popular and influential newspaper in China focusing on international news, introduced the concept of Quanguohua (nationalization of the entire country) in two editorials in January 2011, on the eve of the Spring Festival—the traditional Chinese New Year (“Quanguohua” 2011; “To Build a National Consensus” 2011). The editorials assert that China is undergoing a process of nationalizing socioeconomic standards within its own territory to reduce the urban–rural gap and regional disparities. Moreover, the process is so tremendous and profound that it is comparable to, if not greater than, that of globalization. Truly, the challenge of regional differences and inequality is most vividly reflected in the annual Chunyun (Spring Festival travel season), when several hundred million people travel to their hometowns for family reunions and for the traditional Chinese New Year celebrations.

The concept of Quanguohua highlights an increasingly serious problem in China: regional heterogeneity in development. In fact, regional differences and disparities in China are not a new phenomenon. In socioeconomic terms, the coastal

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*The Independent Review*, v. 18, n. 1, Summer 2013, ISSN 1086–1653, Copyright © 2013, pp. 89–101.

areas in eastern and southern China have been more prosperous than the other parts of the country, in particular the interior regions, and the disparities between the rich and poor regions have been exacerbated over the past three decades. An *Economist* article published in February 2011 (All the parities in China 2011) compared Chinese provinces with different countries and showed how these provinces differ considerably from one another in terms of total gross domestic product (GDP), GDP per capita, population, and exports. Some provinces themselves would rank fairly high in the global league. For example, Guangdong's GDP (\$665 billion at market exchange rates) is almost as high as that of Indonesia (\$703.2 billion); the output of both Jiangsu (\$596 billion) and Shandong (\$574 billion) exceeds that of Switzerland (\$527.9 billion); Guangdong (\$362.4 billion) and Jiangsu (\$207.5 billion) export as much as South Korea (\$363.5 billion) and Taiwan (\$203.7 billion), respectively; and Shanghai's GDP per person (\$22,983) is as high as that of Saudi Arabia (\$22,850)—at purchasing power parity. On the other extreme, one of the poorest provinces, Guizhou, has an income per head (\$3,335) that closely matches that of India (\$3,480).

In fact, these regional differences have been evident for a long period, and since 1998 the United Nations Development Program (UNDP) consistently publishes an annual report on China's national human development. A persistent issue highlighted in the report is regional disparity. It is vividly represented in a table comparing the Human Development Index (HDI) of Chinese provinces (see, e.g., UNDP 2010, 132). There is a huge difference between high-HDI provinces and low-HDI ones. The HDI of Shanghai, for example, is equivalent to that of Portugal, whereas the HDI of Tibet, one of the poorest regions in China, is similar to that of Laos. In between are a few provinces that are on par with the level of high-HDI countries, but most other provinces fall into the medium-HDI category. Thus, we observe a China that has an uneasy collection of heterogeneous regions.

More profound, the issues of regional differences and disparities have raised a fundamental problem in China: the lack of nationwide coherence and the governance challenges faced by the central government. China has long been recognized as a unitary state with a high degree of centralization and homogeneity. However, the call for China's nationalization by *Huanqiu Shibao*, which is also affiliated with the Chinese Communist Party's (CCP) *Renmin Ribao* (People's Daily), warns us that this view may be a very superficial understanding of the country. The massive intrastate migrations alone indicate that China is not as homogenous as we perceive it to be.

Furthermore, the name "Quanguohua" is not a new invention, as the editorials claim. It refers to the existence of Chinese regionalism in the process of nation building, a topic long addressed by political scholars. China indeed exhibits a serious problem of segregation along socioeconomic and administrative dimensions. Contemporary China is a country of various regional "vassals"—not to be confused with the European feudal subordinate owing allegiance to a lord, but rather a number of regional lords who are almost autonomous, usually compete against one another, and

sometimes challenge the imperial authority. These “vassals” are only interwoven by the encompassing CCP. The segregated features of China and its severe consequences are largely attributable to the often acclaimed “China Model” of state development, which is a hybrid of the strictly controlled party state and the incorporation of a partial market economy. The paradox is further compounded by historical legacies of ancient empires and the incomplete building of a modern nation-state. The CCP finds itself faced with ever-demanding challenges.

### Reemergence of Chinese Regional “Vassals”

The stereotypical view of China is that it has had a long history of centralization ever since the reign of Qin Shi Huang, the first Chinese emperor, more than two thousand years ago; moreover, this centralized characteristic was strengthened after the Communist regime assumed power in 1949. However, veteran historians of Chinese studies may remind us that the ancient Chinese empires frequently struggled to bind the different parts of the country (Lü 2011, 76, 167, 250, 537; Huang 2007, 79-89, 127-137, 142-144, 224-226, 295-299). Some careful observers of contemporary China may further argue that, in reality, not only regional differences and disparities but also regional segregation and autonomy exist in this apparently centralized state.

Indeed, regionalism has been a recurrent issue in Chinese history. In imperial China, the relationship between the central government and its different regions was complicated, and the country was constantly oscillating between unification and disintegration. This relationship of mutual interaction was interrupted only when the Communist regime came into power.

In the first decades of its rule, the CCP instituted a very strict governance mode in China, covering all aspects of social life from personal affairs to the national economy. However, this typical Stalinist style was unsustainable, and the country was almost on the brink of bankruptcy in 1976 following the Cultural Revolution and other social and political upheavals. Beginning in the late 1970s, the Chinese leadership decided to undertake a strategic transformation by implementing the policy *Gaige Kaifang* (Reform and Opening Up).

A revival of Chinese regionalism began when the Chinese central government steadily delegated increasing powers to provincial and local governments in order to introduce the so-called socialist market economy. China vaguely defined the role of regional governments and the relationship and division of power between the central and regional governments in the Organic Law of the Local People’s Congresses and Local People’s Governments of the People’s Republic of China in 1979 and the revised Constitution of 1982. Therefore, the readjustment of the central–regional relationship and process of decentralization are subject to the discretion of the CCP’s leadership, which is largely arbitrary and changeable.

Economic regulation is key to this decentralization policy. The regional governments have been granted substantial powers in economic matters within their

jurisdictions. At the initial stage of implementing Gaige Kaifang, the leadership assumed a cautious approach, and Deng Xiaoping, the architect of China's reform and opening-up policy, for example, decided to begin in the countryside by adopting the so-called household responsibility system, which granted farmers more freedom. In March 1980, the Chinese government designated four special economic zones—all in South China's coastal provinces Guangdong and Fujian—and granted them more freedom and flexibility in conducting economic activities and transactions with foreign countries. In 1984, the central government decided to grant similar preferential policies to fourteen coastal cities, including the major metropolises Shanghai, Guangzhou, and Tianjin. Although these measures accelerated these selected regions' economic growth, they also exacerbated the historical legacy of regional differences and disparities.

With successful pilot projects in the coastal areas, the CCP leadership was encouraged to carry out this reform across the whole country, and decentralization of regulatory power became a major theme. This process also included the division of authority and distribution of resources in socioeconomic matters between the central and regional governments. In the process of marketization, the central government transferred most state-owned enterprises (SOEs) to the regional governments, firmly retaining only a few key SOEs in vital areas such as energy, banking, and heavy industry. With the collapse of the traditional Communist social welfare system, the central government also transferred social welfare matters to regional governments.

Further, the CCP delegated some major powers in legislative and judicial areas. With the 1982 Constitution, regional People's Congresses were granted regional legislative power. Regions were empowered to formulate laws within their jurisdiction, so long as they are not in violation of the Constitution and national laws. In fact, regional legislation has now become the largest source of laws in China. In general, regional legislations are area specific, fill the vacuum of a missing national law, or specify national laws that only set guidelines and principles. Regional judicial interpretation is another *de facto* practice not delegated by the Constitution and other relative laws. It refers to those documents on interpretations of specific legal issues consensually reached by regional judicial entities, including the courts, prosecutors, and police. In reality, regional legislative power and judicial interpretation have created problems such as variations in the implementation of laws and in legal judgment across different regions.

With the decentralization of regulatory power to regional governments, the phenomenon of individual regions (largely at but not limited to the provincial level) being transformed into quasi-autonomous economic entities and competing against one another emerged. Since the end of the 1980s, a number of Chinese economic analysts have started to adopt the newly coined term 'vassal economies' to describe this situation (Shen and Dai 1990, 12). The phrase accurately reflects the current situation of central-provincial economic relations and interprovincial economic competition in China. Various "vassals" spare no effort in pursuing their respective

economic interests, giving rise to geographical segregations of the national market along regional boundaries.

Geographical segregation implies that in relation to the central government, regional (and local) governments have considerable governing autonomy across various areas; hence, policies in these areas are not unified across the country. Some scholars on China describe the situation as *de facto* federalism (Montinola, Qian, and Weingast 1995; Zheng 2007). However, federalism may not be a precise term because contemporary China exhibits some features that are very segregated and even missing in a conventional federal state.

The first such feature is the segregation of the national market, which leads to vicious competition between different regions—not what might be characterized as healthy entrepreneurial competition, but more in the line of a multilayered rent-seeking competition at the government level. Since the introduction of the reform policy, regional governments have played a strange role in economic regulation—that of regulators and players. Regional governments are responsible for regulating economic activities in the market, while simultaneously being the owners of SOEs. Individual regional governments, for example, strongly pursue any means to attract investment in their regions, which has a direct bearing on the assessment of government officials' performances. Thus, there is vicious competition between regional and local governments. They offer potential investors unreasonably preferential treatment, such as tax exemption and virtually free land leases.

The fierce competition between regions results in problems of regional protectionism. Similar to economic national protectionism in the international arena, Chinese regional governments use various nonmarket economy measures to protect their respective industries and economic interests. For example, they impose barriers and prevent other regions' products and services from entering their own regional markets. Government procurement is open only to regional industries.

In addition, the competition between regional "vassals" has led to industrial isomorphism, where various regions imitate their competition. The success of one industry in a region inspires others to follow suit. As a consequence, different regions develop their economies on the basis of similar industrial patterns and economic structures. For instance, approximately twenty of the thirty-one provinces in China have selected the automobile industry as their pillar industry. Due to this vicious competition, some acute problems arise, most particularly, duplicate construction of infrastructure and manufacturing facilities, and ultimately, inefficient use of valuable resources.

Another segregated feature concerns the right of residence and freedom of migration. In most modern federal or unitary states, citizens have the right to choose where to live within a state's boundaries. In the European Union, citizens of the member states even have the right to live and work legally in other union states. However, Chinese people by and large do not have the freedom to change legal residence within their own country.

The Hukou system, a strict household registration system, was adopted beginning in the late 1950s and for its first twenty years bound ordinary Chinese to their place of residence (Cheng and Selden 1994). Only under special circumstances were people allowed to change their official place of residence. However, since the launching of Gaige Kaifang in the late 1970s, ordinary people have been able to migrate as temporary residents to cities and coastal areas for jobs. Most migrant workers are nevertheless unable to register their new location as their official place of residence, particularly when moving from the countryside to cities and from small cities in remote areas to big coastal cities.

This registration system creates a strange situation wherein each province serves as an almost autonomous system of residence in a unitary state. Cross-provincial migrant workers must apply for temporary residence permits as guest residents in their province of destination. This system has its externalities. Because of the differences in the provinces' socioeconomic development, residents of different provinces may be treated differently by foreign immigration authorities. For example, Japan permits only residents of Beijing, Shanghai, and Guangdong to visit the country as individual tourists. Hence, China comprises various "separate" entities.

### **The CCP's Governance of Its "Vassals"**

Lucian Pye, the renowned China scholar, argued around twenty years ago that "China is not just another nation-state in the family of nations" but rather "a civilization pretending to be a state" (1990, 58). On the one hand, the center controls the regions in order to extract financial contributions and resources from more prosperous regions. On the other hand, regional leaders try to be more independent while simultaneously seeking benefit from the center in the form of financial aid or, in the case of more prosperous regions, reduced contributions.

If the Chinese culture or civilization serves as the glue holding the different parts of the country together, the unity of China today greatly depends on the CCP's ability to bind the wide variety of regional and sectoral "vassals." In many ways, today's China remains a typical party state ruled by the Communist regime.

As mentioned in the previous section, the Chinese Constitution does not clearly define the division of authority between the central and regional governments. It only states the principle of "giving full play to the initiative and enthusiasm of the local authorities under the unified leadership of the central authorities" (Constitution of China, Art. 3, chap. 1). Because of this vagueness, the relationship between the center and regions has been a cyclic process: decentralization, then centralization, then decentralization, and so on.

When the CCP finds too much power slipping through its hands, it usually tries to assert its authority through recentralization, using both institutional and individual mechanisms. At the institutional level, the CCP undertakes policy adjustment or, if necessary, an overhaul restructuring. During the mid-1990s recentralization

campaign, the central government strengthened its vertical control by directly taking over key areas from taxation, finance, and market supervision to land resources, environmental protection, statistics, and auditing.

A typical example is the adoption of the 1994 tax-sharing system, which, under the principle of fiscal federalism, replaced the fiscal responsibility system that existed much prior to Gaige Kaifang.

In the 1980s, the Chinese economy registered a high growth record, with an annual growth rate of 10 percent. However, the central government's revenues did not correspondingly increase. Statistics indicate that the central government's income as a percentage of total public revenues declined from 46.8 percent to 31.6 percent during this period. On several occasions, the central government received financial aid from the regional governments to solve its fiscal problems. On the basis of these events, the tax-sharing system was introduced in 1994, dividing taxation schemes into central, regional, and shared categories. By and large, the central government takes advantage of collecting the value-added tax, and the regional governments receive their revenues from income and business taxes.

With this reform, the central government has become a dominant beneficiary, gaining 68 percent of public revenues, whereas all the regional governments share the remaining 32 percent; ironically, the regional governments are responsible for about 60 percent of public expenditure, whereas the central government must cover only about 30 percent. In order to compensate for extensive public spending, regional governments have to seek financial resources from other sources. Land tenders for property development have become the primary source of regional government incomes, but this practice has escalated housing prices across the country.

At the individual level, the CCP exercises personnel control over regional and sectoral leaders using the Soviet-style *nomenklatura* system. Basically, two mechanisms are adopted: party discipline and regular removal. All provincial leaders are made members of the CCP Central Committee, and leaders of important provinces are usually members of the even higher CCP Politburo. Although this system assigns political power and status to regional leaders, it is also a means to exert control over them. The CCP's disciplinary committee is a specialized unit spreading across the party's central, regional, and local levels and is responsible for the disciplinary inspection of its members, in particular cadres and leaders. In practice, the committee focuses on detecting any misconduct by cadres and leaders such as corruption, power misuse, and disobedience. Nonetheless, this method of party discipline serves a political purpose as well, such that defiant cadres and leaders can be charged with violation of party discipline if they offend the party leadership. The party center adheres to this method to effectively control its "vassals."

Another method used at the individual level is the regular removal or transfer of regional leaders across provinces and sectors; regional leaders usually serve one or two fixed five-year terms in one region. In addition, the Chinese leadership also implements a policy of one-to-one cooperation between the more advanced and more

backward regions. This practice is regulated by the Chinese central government to administer inter regional cooperation in four major fields, including disaster relief, developmental assistance, medical assistance, and educational assistance. For example, Shanghai has been assigned to run comprehensive one-to-one cooperation with Xigazê, a prefecture of the Tibet Autonomous Region for years. In this regard, leaders of more prosperous regions may be sent to more backward ones as a personal contribution toward alleviating regional disparity and to create assets for their political careers.

Overall, in the context of economic reforms, the CCP leadership has found it increasingly difficult to control regional governments since its adoption of marketization and decentralization, and policies cannot be implemented faithfully and uniformly across the country. Popular expressions such as “When the center has a policy, the local always has a countermeasure” and “Decrees and orders of the center can hardly go beyond Zhongnanhai” (CCP and central government headquarters, but usually referring to the top brass) reflect the challenges to the central government brought on by the revived regionalism in China. Friction and conflicts occur between the center and regions in important areas such as socioeconomic regulation, public finance, legislative power, and SOE ownership as well as among the organizations and public bureaucracy personnel.

### **Dissonances in a “Harmonious Society”**

The CCP’s decision to decentralize power has largely been a choice of expediency and is qualitatively different from the genuine process of federalization. At a collective level, the division of authority and resources has been more arbitrary, without legitimate constitutional basis. At an individual level, economic liberalization has been carried out minus political freedom. Thus, the emergence of “vassals” in China has not only created governing difficulties for the CCP but also caused a plethora of negative consequences. The Chinese government therefore implemented the “harmonious society” movement after Hu Jintao became CCP leader in 2005 (“Building Harmonious Society” 2005).

An important aspect of this movement is social welfare, which is largely in the remit of regional governments, which individually formulate and implement relevant measures and policies owing to the lack of a nationally unified system. Hence, each region has established a social security system of its own, with its standards and composition of contribution, payment, and management style. More prosperous provinces typically have higher standards than backward ones. Because of a regionally based social security system, it is not easy to transfer social welfare contributions across different provinces. This problem has become increasingly serious in recent years, with the number and degree of intrastate migrations escalating.

The social welfare system discussed so far covers only the urban population, not the people in rural areas, who account for the majority of the Chinese population.

Although Chinese leaders recently announced the launching of a grand-scale project to establish a comprehensive system covering the entire rural population, observers have enough reason to doubt the feasibility of this ambitious plan.

The crisis of social injustice arises from regional segregation and disparity problems. Much of the social injustice in China is related to the rights of migrant workers and their families. The children of migrant workers, for example, have difficulty gaining admission into schools in their residential regions, particularly in big cities. The nine-year compulsory education system is completely financed by regional governments, which lack the incentives to provide seats for migrant children. As a solution, many specialized schools have been established; however, they usually rank below average standards in terms of teaching quality and adequate facilities. Therefore, even though the central government requires host regions to find ways to accept as many migrant children as possible in their schools, this policy causes public resentment among the local people.

Another social problem with respect to migrant children, who left their hometowns when they were very young or who were perhaps born in the places where they now reside, is that they become second-generation migrant workers. On the one hand, these workers are not legally accepted in the place of their residence because they do not possess permanent-residence permits, which bars them from most of the entitlements granted to the locals and makes them *de facto* second-class citizens. On the other hand, they have been raised in their current place of residence and know little about their hometowns or places of origin and have no farming skills. If they return to their place of origin, they encounter problems in assimilation and survival, including adapting to the local dialects, customs, and even lifestyle.

Another controversial issue relating to regional differences in China is the Gaokao, the national higher-education entrance examination held annually in early June, in particular the fairness of the existing university admission policy, which is based strictly on a regional quota system. Each provincial region has been designated as an independent unit of college entrance regulations, with its own number of applicants, passing scores, admission quotas, and so on. This residency-based quota system creates another problem of regional disparity because it is much easier for applicants in cities such as Beijing and Shanghai to get into universities there, which are generally considered the best in China. The statistics are evidence enough; for example, a student from Anhui Province has a 1 in 7,826 chance of getting into the prestigious Peking University in Beijing, whereas a student from Beijing has about a 1 in 190 chance (Wong 2012b).

Although migrant children attend schools in their residential cities, they are currently required to take the entrance exam in their hometowns or places of origin. Therefore, in recent years migrant parents and their sympathizers have made petitions asking the government to grant migrant children the right to take the Gaokao in their place of residence. This requested change has met with opposition from local parents in the cities of more prosperous regions, which have a large migrant population. It is

clear that the central government is currently unable to find a solution to this issue because it is too controversial and complicated.

The problem of regional disparity in social and economic development has inevitably affected other aspects of Chinese society, including culture and identity. The regional dialects controversy is a reflection of this issue. Chinese people in different regions, in particular people in southern China, traditionally spoke local dialects. After coming to power, the CCP pushed for adopting Putonghua (standard Chinese), which is based on the Beijing dialect and is quite different from the southern dialects. Through forced measures, Putonghua has been used almost solely in schools, in public administration, during official public occasions, and by the mass media. Because of more effective implementation, the younger generations, particularly those living in big cities, have been well trained in Putonghua. This shift has certainly helped eliminate the communication barrier between people from different parts of the country.

However, this forceful promotion of Putonghua has also given rise to the risk of cultural extinction. For example, quite a number of traditional local dramas and other forms of local verbal arts are on the decline or even disappearing. More seriously, many children, especially those in southern cities, are unable to speak their local dialects because they have little exposure to their mother tongues, both at and outside school.

In recent years, civil rights activists and their followers have spawned a grass-roots movement to protect regional dialects, particularly in the southern parts of China. In Guangdong Province, Cantonese is widely spoken even though the central government enforced the promotion of Putonghua, primarily because of the dominant cultural influences of the Cantonese-speaking populations in neighboring Hong Kong and Macao. The central and provincial governments have assumed a flexible approach to this issue because their main concern has been how to attract direct investment—the case particularly in the early years of Gaige Kaifang, when most of such investment came from overseas Chinese living in Hong Kong. Thus, the people in Guangdong enjoyed more freedom with regard to the use of their own dialect. However, this situation was gradually altered with the increasing number of migrants from other parts of the country. Putonghua became the medium of communication not only between the migrants and local people, but also in government institutions, schools, and public services as well as in the mass media. This change aroused public anxiety among the local Cantonese-speaking people, and so the local people in Guangdong, inspired by the more politically active people in Hong Kong, launched various campaigns calling for the protection of the Cantonese dialect. In June 2010, several thousand people took to the streets to publicly protest and articulate their concerns regarding this issue in Guangzhou, the provincial capital (Wong 2012a).

The situation is similar in Shanghai, the country's commercial capital. The Shanghai dialect has suffered a more serious challenge than Cantonese because it has

a much smaller number of speakers, and the migrant population now accounts for almost half of the city's total population. Moreover, the Shanghai municipal government is well known for its obedience to the central government. The CCP's Putonghua policy has been strictly implemented in the city. Students are not allowed to speak the Shanghai dialect at schools, and many children cannot speak the local dialect properly. Putonghua is the only language to be used by the mass media and for public services. The local education authority, however, under public pressure recently decided to introduce a special course on the Shanghai dialect in local primary schools. The language issue reveals one representative aspect of the revival of regional cultural identities after decades of uniformed imposition of Communist ideology across the nation.

### **Conclusion: The Challenges of Governing China**

It is clear that regional diversity and independence in China are largely unintended consequences of government policies. Apart from historical legacies, they are more attributable to a compromised reform that partially relaxed the institutional bondages of traditional Communist rule with the incorporation of market-style economic measures and more individual freedom and socioeconomic rights.

More fundamentally, several inherent problems exist in the contemporary Chinese system. At the state level, there is conflation of the party and the state, which is more complicated than a typical feature of a party state ruled by a Communist regime because the CCP formalized the process of nation-state building in the modern sense after it established its regime in 1949. As a consequence, this coincidence explains why the Chinese populace tends to equate the party with the state. Thus, the distinction between the state and the ruling party is largely blurred.

If a conventional Communist state is politically based on totalitarian rule, its economy should be run according to the principles of state ownership of the means of production, government command, and central planning, with no role played by market mechanism or private enterprises. However, China has deviated from this Marxist orthodoxy since its adoption of the reform project about thirty years ago. As a result, there is a strange coexistence between state ownership and the market economy in this political economy model, which is an amalgam of Communist and capitalist ideals. Hence, a puzzling Janus feature has appeared. Chinese policymakers have nevertheless enough wisdom to apply the label “socialism with Chinese characteristics” to themselves. Irrespective of what the system is called, few can deny the contradiction of the contemporary Chinese model of political economy.

At the policy level, there is confusion between effectiveness and legitimacy. These two values are not necessarily incompatible. However, confrontation may occur if government policies emphasize one and neglect the other. In China, regional leaders are responsible for the development of their respective regions. On the one hand, their performance is assessed on an economic basis, revealed in their regions'

GDP growth. As a result, priority is given to economic growth, and this objective is pursued at any cost. On the other hand, the CCP's legitimacy crisis is becoming increasingly acute because it is difficult to rely on traditional Communist doctrines for people's obedience.

With conflictual interactions between the center and regions as well as between the various regional "vassals" themselves, the CCP leaders have an increasingly difficult task. The growing tendency of regional independence at the government level and of the general public's regional awareness has posed tremendous challenges to the country's coherence. To a certain extent, the CCP's quest for a solution to the social and political problems depends on the better management of its "vassals."

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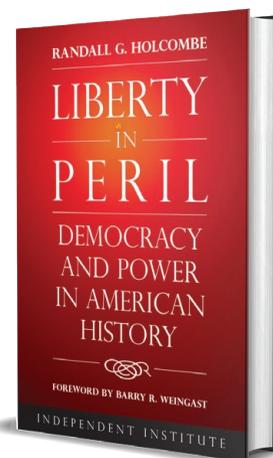
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