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Evolution not Revolution: How the Guangdong Experiment Changed  
China's Newspaper Industry

By

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A thesis submitted to

the Faculty of Graduate Studies and Research

in partial fulfillment of the requirements for the degree of

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## **Abstract**

Since the early 1990s, driven by the vigorous market economy, newspapers in China have been redefined from government institutions to a commercialized industry. The prevalence of free market logic in the newspaper sector has eroded the influences of many high-ranking central Communist Party newspapers and given rise to the successful local newspapers. Nowhere is this more apparent than in Guangdong, China's southernmost province and a pioneer of change within the country. Guangzhou's market orientation, characterized by an interaction between media and southern China's robust economy and its policy-driven openness to the outside world, makes Guangzhou the country's newspaper industry leader in terms of advertising revenue, domination of local newspaper markets, and circulation to the major cities and inland provinces. An analysis of three newspaper groups in Guangzhou will show the role of market orientation in the growth of a quasi-independent Chinese newspaper industry. The thesis concludes that Guangzhou newspaper groups are not independent operations but socialist conglomerates that remain in the hands of the ruling power. It will be a long journey for these semi-controlled, semi-commercial media to achieve both financial and editorial independence.

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## Introduction

Guangdong, a southern province located in the southeast coast of China, has been the vanguard of Chinese reform and openness to the outside world since China began its economic reform and open-door policies in the late 1970s. The province was not only among the first to undergo major economic reforms in the drive for modernization initiated under Deng Xiaoping, but also spearheaded the media's evolution from the traditionally rigid party press system. Just as Guangdong's economic reforms "take one step ahead"<sup>1</sup> of the rest of the nation, the advances in the newspaper industry also set an example for the country's other regions and foreshadowed the future development of China's media structure.

Guangdong has taken the lead in press reform by setting up a number of large newspaper conglomerates. The Guangzhou Daily Press Group, the Yangcheng Evening News Press Group and the Southern Daily Press Group, all headquartered in the capital city of Guangzhou, have become the nation's top media conglomerates in terms of advertising revenue, domination of their respective newspaper markets and diversity of journalism. An analysis of these three news groups will show the role of commercialization in the growth of a quasi-independent Chinese newspaper industry. Publishing 169 newspapers in 2002, Guangdong produces more papers than any other province in China.<sup>2</sup> Guangdong also gained the lion's share of the newspaper advertising market in the same year with 4.4 billion yuan in advertising revenue, accounting for one

fifth of the national total.<sup>3</sup> Regarded as a liberal province, Guangdong was also selected to be the site of a pilot scheme for foreign broadcasters to enter China's media market.<sup>4</sup>

In a country long accustomed to attaching great political significance to the press, how could Guangdong become the most open area for media development? The connection between the sociopolitical structure and practices of mass media in China has been well documented.<sup>5</sup> The press is bestowed with an unambiguous, political mission - serving as the party's voice to promote its interests, politics and ideology. Early studies on China's mass media have all noted the extent to which the Chinese media system was an integral part of the communist political system. Thus, central party newspapers such as the *People's Daily* has been of great importance since they represent the party's voice. Under what Lee called the top down centralized "commandist"<sup>6</sup> political system, how could three news groups in a city which is far away from the political centre grow to be the top media players in an authoritarian country? And why are the influential central party organs losing ground to other more market-oriented local newspapers?

While the expansion of Guangdong's newspaper industry is closely tied to the overall evolution of China's media system, Guangdong's unique political economy has played a crucial role in facilitating the rapid development of its newspapers. As the southern gate of China, Guangdong, one of China's 32 provincial governments, became an experimental region more than two decades ago when the central government decided to reform the economic system and open its door to foreign investors.<sup>7</sup> The province

embraced those reforms, posting the fastest economic growth rate in China with a gross domestic product (GDP) which doubled from 1980 to 1990.<sup>8</sup>

The province is located in southeast China; it occupies an area of 178,000 square kilometers, almost double the size of England. Its many islands add a further 1,600 square kilometers. To the south it meets the warm waters of the South China Sea along a coastline of 3,368 kilometres.<sup>9</sup> Guangzhou, the provincial capital, is 1,887 kilometers from the national capital Beijing.<sup>10</sup> In 2001, the total population of the province was almost 78 million, ranking third in China.<sup>11</sup> The majority of the Guangdong's population speaks Cantonese, which differs greatly from the Mandarin (*Putonghua*) Chinese spoken in most of China. A different language and a unique cuisine have led to Guangdong and the Cantonese having a distinctive and separate Chinese identity. Since one - half of Chinese emigrants are from Guangdong province,<sup>12</sup> the people of the province are known around the world.

Guangdong's proximity to Hong Kong and its strong overseas connections led the Chinese leadership to identify it and Fujian as the two provinces which would take the lead in opening up the country to the outside world.<sup>13</sup> Guangdong enjoyed preferential policies for coastal economic develop in the 1980s. The special latitude granted to the local authorities in these regions perhaps reflected a recognition of the region's special role in attracting capital and technology from Hong Kong, Taiwan and overseas. This resulted in rapid economic growth and prosperity in the region. Between 1978 and 1998,

Guangdong's gross GDP rose from 18.585 billion yuan to 791.912 billion yuan, an average annual real growth rate of 14 per cent.<sup>14</sup>

The newspaper industry in Guangdong has expanded enormously during the past several years. Demand for news and information in Guangdong is stimulated by growing prosperity, a policy-driven openness to the outside world and its new market economy. The newspaper industry in Guangzhou, the capital, has given rise to the most competitive media market in China. The city has three top newspaper groups in China - the Guangzhou Daily Group, the Southern Daily Group and the Yangcheng Evening News Group, all competing against each other for market share. In January 1996, the Chinese government approved the *Guangzhou Daily* to launch China's first "socialist press group".<sup>15</sup> The Southern Daily Press Group and Yangcheng Evening News Group followed suit in 1998 to become the first three of the six press conglomerates which eventually emerged in China.<sup>16</sup>

As Lee explains, press conglomeration in China revolves around a group of "core" party organs, which act as umbrella organizations overseeing a multitude of auxiliary newspapers that cater to various areas of specialized interest.<sup>17</sup> The real reason why the central party supported the formation of news groups was to shift the state's financial responsibility to the press by creating some profitable outlets which would then subsidize those considered socially important but financially unprofitable. Guangzhou's three press groups are represented by an eponymous flagship paper - the *Guangzhou Daily*, *Southern Daily* and *Yangcheng Evening News* - which adhere closely to the

official line. The three newspapers were all China Communist Party (CCP) propaganda vehicles typical of China's early newspaper structure. The party organs are fully integrated into party and government processes. *Southern Daily* serves as the Guangdong provincial Communist Party organ while the *Guangzhou Daily* serves the same function for Guangzhou municipal Communist Party; *Yangcheng Evening News*, a party-led evening newspaper, focuses on soft news and entertainment, despite its status as a party press organ. Since the late 1980s, the media in China has undergone a commercialization process, which intensified in 1992 when economic reforms, familiar in the manufacturing and services industries, began to be applied in the mass media.<sup>18</sup> The most important of these changes was the media's reduced reliance on state subsidies and increasing dependence on advertising revenue. Driven by market forces, much of the Chinese media has been transformed from state-owned enterprises or government institutions to highly commercialized, consumer-oriented industries. Previously defined as non-profit units, the media has been allowed to operate as a profitable business.<sup>19</sup>

The post-1992 CCP decisions to disentangle the media from state subsidies and to introduce profitability as a requirement for survival made commercialization an economic necessity for most newspapers. Until the beginning of economic reform in 1978, the media in China was completely subsidized by the state.<sup>20</sup> In the 1980s, the adoption of economic reform and an open-door policy shifted the China Communist Party's (CCP) focus from class struggle to economic construction and relaxed ideological and social controls.<sup>21</sup> Economic reform also introduced the concept of market logic into Chinese media. Some scholars contend that China's media system, whose basic principles and

operating mechanism are largely the product of a planned economy, must also be changed to make it compatible with an economic prerogative.<sup>22</sup> As Zhao noted, reform and openness since the 1980s had created a growing demand by foreign and domestic enterprises for effective advertising channels.<sup>23</sup> Eventually, the government adopted a policy of gradually cutting subsidies and encouraging commercialized financing.<sup>24</sup> Media commercialization intensified after Deng Xiaoping's southern inspection tour in 1992. Deng called for greater political reform and faster economic development.<sup>25</sup> Riding on this wave of reform, the Chinese media adopted a series of institutional innovations. This was reflected in many ways, such as the rapid development of evening papers in the 1980s, larger newspapers, more weekend editions, the rise of metropolitan newspapers, media conglomeration, and an influx of capital to make it all happen.<sup>26</sup>

During the transition, the newspaper industry in Guangzhou took the lead in the country and gained some autonomy to engage in institutional changes. The three large newspapers established branch papers and other subsidiaries. This allowed more freedom to appeal to readers, sell advertisements, and become financially independent. Of the eight newspapers in China with advertising revenue over 100 million yuan in 1993, three were in Guangdong; of the 10 papers with revenue over 200 million yuan in 1997, four were in Guangdong; of the four with revenue over 500 million yuan in 1999, three were in Guangdong. Guangdong's newspaper industry also created a number of national "firsts": the first eight - page newspaper; the first colour newspaper; the first to lead China in advertising revenue; the first to set up a newspaper chain; the first to build a

newspaper group;<sup>27</sup> and the generation of more advertising revenue than any other region in China.

Economically, the transformation of Guangdong newspapers has proved to be one of China's commercial successes. It has become a rising enterprise that pulls in tremendous advertising revenues. *Guangzhou Daily* ranked first among all domestic newspapers, amassing 4 billion yuan in fixed assets and annual advertising revenue of 1.5 billion yuan in 2002.<sup>28</sup> Its advertisement revenue is eight times that of the *People's Daily*.<sup>29</sup> The newspaper, a former recipient of government subsidies, has become one of the biggest taxpayers in the province.

Politically, the transformation in Guangzhou has created a market for a greater range of information and multiple points of view. For example, *Southern Weekend*, an affiliate with Southern Daily Press Group, is commonly regarded as the finest investigative paper and one of the most critical newspapers in China.<sup>30</sup> It has frequently criticized party cadres and has reported on a myriad of previously untouched social subjects. Many of its front-page exposes — on subjects as diverse as legal reform, lottery fraud and village AIDS epidemics — have focused on the central provinces. Its daring reports on news of great social importance have been much appreciated by Chinese readers. Meanwhile, it has been criticized by the CCP Central Committee Propaganda Department for negative reporting and several editors-in-chief have been removed for their handling of sensitive stories.<sup>31</sup> One media observer in China commented: “The existence of *Southern Weekend* is a miracle in China.”<sup>32</sup>

Guangdong has also welcomed foreign television programming. Phoenix, Xing Kong/ News Corp., CETV/Time Warner are the three TV outlets allowed to broadcast into Chinese homes in the national language, Mandarin. Guangdong is the only province that has been granted the landing rights for such foreign programming.<sup>33</sup> A plan to open Guangdong as a “Special Media Zone” to selected overseas media is under consideration. It has allowed more than 30 overseas television operators to air their programming to Guangdong, but not to any other areas in China.<sup>34</sup>

I have chosen my subject for three reasons: First, the three newspaper groups evolved from the typical model of traditional Communist Party organs and they are also ranked among the most profitable newspaper groups and together this makes them of tremendous importance in Chinese media. Second, perhaps nowhere in China is the interplay of politics and economics more evident than at these newspapers, which are located in China’s earliest and most developed site of a “capitalist experiment action”. Third, many of the questions and answers related to Chinese media trends are found in Guangzhou. I will attempt to link the big picture of Guangdong’s political economy with the daily practice of journalism and explain how Guangzhou’s press and journalists manage the inevitable tension between economic reform and political control and analyze how the communist party both encourages and suppresses the influence of the open market.

The reform of China's newspaper industry has gone through three phases. The first phase was the shift in institutional management toward financial autonomy. Advertising became the new lifeblood for many newspapers replacing government subsidies.<sup>35</sup> The second phase was the media's shift from its non-profit status to, in some cases, profitable businesses.<sup>36</sup> The press used various means to increase revenue, including engaging in some sideline businesses.<sup>37</sup> The third phase is media conglomeration with capital injection from other industries and abroad.<sup>38</sup> The evolution of China's media system has made Chinese news outlets become increasingly diversified in both structure and function<sup>39</sup> and has brought about significant changes in the authorities' control over financial and economic operations.<sup>40</sup> The intensified market competition also subjected media outlets and journalists to the power of money. "Red packets", covert money paid to reporters for favourable stories,<sup>41</sup> were a common practice among journalists in the 1990s. Some journalists earned large sums of money by engaging in this so-called "paid journalism"<sup>42</sup> or by soliciting advertisements. Recently, the desire for larger media enterprises has also raised the question about whether this conglomeration is essential for the future development of China's newspaper industry.<sup>43</sup> The plausibility of inviting large sums of capital for investment in newspapers is also in doubt due to the tight editorial control of the authorities.<sup>44</sup>

Since 1998, China's media industry has been growing at the rate of 25 per cent annually, a growth rate significantly higher than GDP growth. It has seen its tax turnover exceed that of the tobacco industry to become the fourth-largest industry in the country.<sup>45</sup> Before 1978, China only had 69 newspapers.<sup>46</sup> Now the industry includes nearly 2,000

newspapers, 4,000 radio and television stations, 8,000 magazines, and two news agencies.<sup>47</sup> The new arrivals included papers produced by existing publishers, target newspapers launched by various organizations, and industry newspapers run by enterprises.<sup>48</sup> These non-party papers are normally less tightly controlled than the party press.<sup>49</sup> Profits for the media industry are also on the rise. *The Financial Times* reported that the advertising revenue for the industry is expected to surpass 100 billion yuan by 2010.<sup>50</sup>

The fast expansion and huge market potential of China's newspaper industry have attracted the attention of scholars from within China and beyond. A rich body of literature published in the late 1990s was devoted to the study of rapid commercialization of the news media in China, a process which began to accelerate after the state's severance of press subsidies and the growing demand of urban readers for information.<sup>51</sup> Although some observers noted the rapid growth of the media in coastal regions such as Guangdong, Shanghai, and Beijing, the literature simply mentioned this as the result of ongoing evolution within the industry.<sup>52</sup> No studies examine the phenomenon from the perspective of one region as an example of the transformation of China's media system. This thesis sets out to fill the existing gap by focusing on how the regional press in Guangdong developed in a society that is moving from totalitarianism to market-based authoritarianism and how economic imperatives have brought about significant changes in the party's control over the press's financial and editorial operations.

This thesis aims to add a new chapter to China's media scholarship. I want to investigate the salient changes such as financial policy, revenue resources, press restructuring, management strategies, journalists income, and the day-to-day operations of newspapers in the city of Guangzhou.

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## Chapter 1

### The Political and Economic Environment in Guangdong

This chapter describes the political and economic environment of Guangdong's media sector. Its location, at the southern end of mainland China and adjacent to Hong Kong, underlines Guangdong's role in historical and contemporary China. Many reasons contribute to the "liberalization" of Guangdong's newspaper industry. First, in the 1980s and 1990s, Guangdong was chosen by the central government as the "laboratory" of economic reform policies and the region was primed for an influx of foreign investment. Economic reform created a strong demand for the free flow of information. Second, the economic-political decentralization along with increasing localism led to calls for a more diversified system to reflect Guangdong's interests. Third, located at the southern end of China and far away from the political centre, the media in Guangdong were less affected by central political control.

This chapter sets out to develop an analytical framework for this thesis: at the macro and micro levels, Guangdong's newspapers have been pushed by the fundamental changes of Guangdong's political-economic environment. Demand for news and information in Guangdong is stimulated by growing prosperity, a policy-driven openness to the outside world, and its new market economy. The spirit of "taking one step ahead among others"<sup>1</sup> symbolizes the status of Guangdong as "China's economic powerhouse".<sup>2</sup>

## **1.1 Guangdong: An Overview**

Guangdong's role in China's history has been primarily defined by its geopolitical position. At the southern end of mainland China, Guangdong province was established in 1370 A.D. with Guangzhou as its capital.<sup>3</sup> The Pearl River at the centre of the province has dominated the history and economy of the region. Hong Kong lies on the eastern estuary of the Pearl River. Macau is on the western side of the Pearl River. Outside China many people still know Guangdong and its capital city Guangzhou as Canton, which is a European derivation of the provincial name. A range of mountains in northern Guangdong separates it from other provinces. Guangdong is also called "Lingnan" (literally "south of mountains"). For hundreds of years, Guangdong has been far from the political and economic centre in northern China, nurturing a unique Lingnan culture represented by its language, cuisine, and values.

### **Modern History: China's Gate to the Outside World**

Despite its isolation from other parts of China, the Cantonese in Guangdong have a history of association with the outside world. When the Middle Kingdom was closed, the Pearl River port of Guangzhou brought trade and riches to Guangdong for centuries. Throughout the 19<sup>th</sup> century, Guangdong in general and Guangzhou in particular, remained a centre of trade with the outside world, much of that channeled through Hong Kong.<sup>4</sup> By the late 19<sup>th</sup> century, other cities and the colony of Hong Kong took a greater share of foreign trade. Guangdong's wealth declined and its population, with a tradition

of migration, left the province in the millions to make their fortunes worldwide. The people of the province are known around the world; one half of Chinese emigrants are from Guangdong province.<sup>5</sup>

In modern Chinese history, the ideas for reform were often championed by the Cantonese who had traveled abroad. In particular, Kang Youwei (1858-1927) and Liang Qichao (1873-1929), well-known leaders of the reformists, were from Guangdong and were heavily influenced by Western ideas. They led the demands for major reform in the political system within the Qing Dynasty. The movement is known in history as the “Hundred Day Reform” in 1898.<sup>6</sup> Sun Yat-sen (1866-1925), the founder of the Chinese Republic, was also Cantonese. Regarded as “the Father of the Revolution”, Sun Yat-sen based his idea of revolution on three principles: nationalism, democracy, and equalization. In the West he is considered the most important figure of Chinese history in the 20<sup>th</sup> century.<sup>7</sup> The revolution which was to topple the Qing dynasty was largely funded and originally centered in the province of Guangdong. The drive by the Nationalists to unify China under their leadership also began in Guangdong.<sup>8</sup>

Although Guangdong was still called the “Southern Gateway” in the Maoist era, the historical Guangzhou International Trade Fair was kept as the only exchange with the outside world. As Cheung points out, Guangdong was at best a mediocre province in terms of economic development.<sup>9</sup> A long tradition of trade with Asia and the West, a robust entrepreneurial spirit, and a willingness to embrace new opportunities was briefly stifled by the establishment of the People’s Republic of China in 1949. Guangdong was

largely cut off from its traditional contact with the West.<sup>10</sup> External trade with China collapsed with the establishment of the American embargo shortly after the outbreak of the Korean War. Cantonese was not as prominent as its counterparts from other provinces in national politics. The central government's neglect of Guangdong in economic development was largely due to security and strategic considerations. As Nathan and Ross explain, the coastal provinces were regarded as the front against the capitalist camp. The central government deliberately concentrated investment in the inland areas that were less vulnerable to military assault.<sup>11</sup> Mao's strategy of national economic development was self-reliance not active absorption of foreign investment.

### **Deng's Era: from Gate to Window**

Only after the economic reform and the promulgation of special policies in 1979 did Guangdong's economy begin to take off. Since 1979, Guangdong has been looked upon as a laboratory to test a variety of economic reforms and their political limits. Guangdong's proximity to Hong Kong and its strong foreign connections led the Chinese leadership to identify it and Fujian, another coastal province with strong ties to Chinese émigrés, as the two provinces which would take the lead in opening up to the outside world.<sup>12</sup> Deng Xiaoping made it clear that special policies should apply to Guangdong. Thus, one of the important central policy goals was to let the coastal region "take one step ahead"<sup>13</sup> of the rest of the nation in economic reform. From 1981 to 1990, an array of preferential policies was directed towards the coastal regions, most notably Guangdong.<sup>14</sup> It was allowed to set up Special Economic Zones that could offer other

incentives to foreign and domestic investors. Guangdong has since attracted the bulk of domestic and foreign investment and fuelled China's strong economic growth for almost two decades. Since then Guangdong has been known as the "Window of China", amenable to both foreign capital and internal change.

Beginning in 1980, the door of Guangdong was officially opened. Three of China's four Special Economic Zones (SEZ) were established this year in the province: Shenzhen adjacent to Hong Kong; Zhuhai bordering Macau; and Shantou 300 kilometers east of Hong Kong. As Wall explains, what distinguished the SEZ as "special" is its role as a home for economic "laboratories".<sup>15</sup> The basic concept was that foreign business, joint ventures, and large amount of foreign capital and technology could be introduced in these designated regions. The SEZ offered all kinds of benefits to prospective investors, benefits that other areas could not offer. Foreign capitalists built their own factories and enterprises, enjoying a 15 per cent tax rate on profits instead of the regular 30 per cent imposed elsewhere in China.<sup>16</sup> During the first decade of China's economic reform, SEZ absorbed almost all foreign direct investment (FDI) into China---- most of it coming from neighbouring Hong Kong.<sup>17</sup> That investment brought fundamental changes in business attitudes and practices in Guangdong and acted as a catalyst to initiate structural changes in the economic system.<sup>18</sup> Deng Xiaoping held them up as models for the rest of China to emulate. In his well-known 1992 spring speech, Deng reiterated that the function of the SEZ was to carry out such experiments with market mechanisms and to be the windows and bridges for the hinterland to the outside world, and for the outside world into China.<sup>19</sup>

In addition to the SEZ, in 1984 the provincial capital, Guangzhou, along with Zhanjiang were declared two of the nation's 14 open coastal cities.<sup>20</sup> The selection of these cities as open cities was based upon their historical foundation of overseas contacts and, therefore, their ability to stimulate foreign trade and to bring in foreign investment. In 1985, the Pearl River Delta, including four small cities and 12 counties, was designated an open economic zone and given a similar degree of autonomy and flexibility in soliciting foreign investment and trade.<sup>21</sup> Such a huge influx of investment was thus a key source of Guangdong's rapid economic growth.<sup>22</sup>

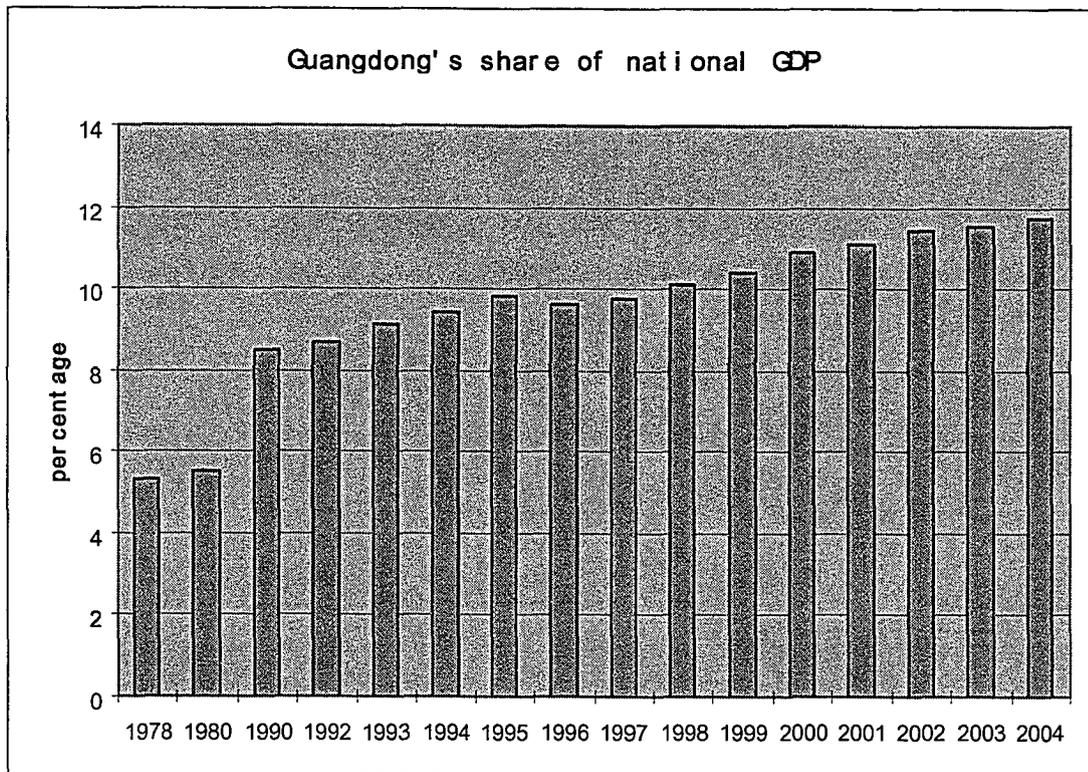
This economic vigor attracted many young Chinese to seek their fortune in this dream land. Since 1978, Guangdong has experienced labour migration on a massive scale. It was estimated that the migrant population clustered in the Pearl River Delta alone reached 5 million by 1991.<sup>23</sup> In Shengzhen, the most distinctive 'migrant city', the migrants make up more than two-thirds of the local population.<sup>24</sup> A well-known ancient Chinese poem titled "Peacocks fly southeast" was borrowed to illustrate the phenomenal migration of Chinese workers. The move to the southeast intensified after Deng's southern tour in spring 1992. Two types of migrants, intellectuals and labour workers, joined the wave of migration. The first discovered jobs with lucrative salaries, jumping into a variety of businesses and investing in the Shenzhen stock market. The latter, from the rural countryside, worked at thousands of joint venture businesses and managed to send money back to their poor families. Every year before the Chinese Spring Festival, tens of thousands of labourers flooded into the Guangzhou railway station to go home, causing headaches for local authorities to disperse the huge gathering.

## **China's Leading Economy**

The economic development in Guangdong has been outstanding by both national and international standards. Guangdong leads China in GDP, total retail sales, export, and acquisition of foreign investment.<sup>25</sup> Guangdong has already consolidated its position as a prime manufacturer of industrial goods, especially light industries and textile products. Among mainland China's 32 provinces, municipalities directly under the central government, and autonomous regions, the province accounts for 40 per cent of China's foreign trade, one-seventh of total government tax revenue, and one - tenth of national GDP.<sup>26</sup> In addition, Guangdong has the country's highest household income, with Shenzhen and Guangzhou ranked first and second amongst cities. In 2003, per capita income was 25,000 yuan, while the national average was 8,300 yuan.<sup>27</sup> Consequently, Guangdong leads the country in retail sales and pays the most taxes to the central government.<sup>28</sup>

As the Figure 1.1.1 shows, Guangdong's GDP share of the national GDP has steadily increased. Since 1998, Guangdong's GDP has accounted for more than 10 per cent of the national total.

Figure 1.1.1



Source: China Statistical Yearbooks.

## 1.2 Decentralization and Localism

Aside from the preferential treatment accorded by the central government since 1980, Guangdong was also the forerunner of government reform leading to more efficient government administration and increased local autonomy. More contentiously, many see Guangdong in the leading pack pushing for a greater degree of autonomy from the centre.<sup>29</sup> In order for the reform to succeed, as Guangdong's former leader Lin Ruo pointed out, leaders had to experiment, explore and develop a pioneering spirit.<sup>30</sup> Guangdong's leaders in the post-Mao era were mostly successful pioneers who fully exploited central policies and propelled the province onto the fast track of reform and

development.<sup>31</sup> This was best demonstrated by the following statement: “Go quickly when the green light is on; proceed immediately when the (red) light turns yellow; and find a bypass route to proceed when the red light is on”.<sup>32</sup> It is hard to trace who first made the statement, but local residents are all familiar with this illustration.

Economic reforms since 1978 have significantly enlarged the economic powers of local governments. As Cheung explains, administrative decentralization in post-Mao China was compelled mainly by the imperative of reform and open policies, because local governments were considered indispensable agents in reducing the inflexibility of the rigid socialist bureaucracy and weakening the ideological structures of the Maoist era.<sup>33</sup> Under the state planning system, the concentration of economic decision-making power in the central party-state political machinery meant that Beijing was both the political and economic centre of China. As Bresline argues, Beijing’s control over the allocation of key economic resources, particularly capital, energy supplies, and transport and communication facilities, was one of its most powerful tools for exerting influence within the provinces.<sup>34</sup> It was also the area where the centre’s strength was most greatly diminished by the reforms in the 1980s. By reforming this economic system, the central political machinery in Beijing abandoned a significant degree of its power.

From 1978 to the mid-1990s, as Wu indicates, the decentralization first took place in financial policy.<sup>35</sup> In order to give local areas an incentive to develop their economies, the central government downloaded power to local governments. The provincial authorities were allowed to keep more revenue. Next was the decentralization of

enterprise ownership and management. Before reform, most of the big and medium-sized state owned enterprises (SOE) were owned and managed by the corresponding departments and commissions at the central level. Reform empowered the local government to control and manage many SOE. The “horizontal structure” (*Kuaikuai* management) replaced the “vertical structure” (*Tiaotiao* management). The third initiative was the decentralization of decision-making power. Economic decisions were decentralized to local governments, enabling them to establish development strategies, approve major projects, and other initiatives.<sup>36</sup>

For Guangdong this meant much greater financial independence, as it was permitted to retain a larger proportion of locally - generated income for local use. By the end of the 1980s, as Bresline writes, Guangdong had sufficient financial autonomy to pursue economic initiatives that were frequently at odds with central policy.<sup>37</sup>

### **The Rise of Localism**

Guangdong has a marked sense of what the Chinese would call *defang zhuyi* (localism).<sup>38</sup> From the perspective of the central government, Leung observes, not only was Guangdong far away from Beijing, but its southern culture, different dialects and lifestyles also aroused suspicion and concerns about compliance.<sup>39</sup> Cheung explains the sensitive relationship between Guangdong and central power:

Guangdong’s geographical distance from Beijing made it more difficult for the centre to exercise tight supervision. Given the political sensitivity toward the special policies granted to the province, especially in the early days of reform, Guangdong’s leaders would never oppose the centre overtly, yet they were ready to stretch the limits of central policies and exploit whatever loopholes to the fullest in

order to serve local interests. For instance, Guangdong officials would rather spend energy on practical work and avoided ideological or policy debates by simply keeping quiet on reform initiatives.<sup>40</sup>

With this attitude, Guangdong has gained a great deal of economic power from the central government. Meanwhile, this attitude has placed many of the local newspapers beyond the scope of direct control by the central propaganda department. As Wu observes, local authorities, as compared to the central regime, are mainly concerned with economic development, not ideological correctness.<sup>41</sup> This allowed the media in Guangzhou to gain more room to manoeuvre. Indeed, there is some truth in the Chinese proverb “the higher the mountain, the farther the emperor”. Overall, the more removed a newspaper is from the political and ideological centre, the more active and appealing it is to readers.

### **Media Decentralization**

Guangdong’s economic independence has not only strengthened the allocation of resources, it has also facilitated its local newspaper boom. China’s 1986 *General Provision of Civil Law* encouraged autonomy in many sectors of the economy, including the media.<sup>42</sup> As Zhao indicates, the economic decentralization led to redistribution of wealth from the central government to local governments.<sup>43</sup> Media decentralization was part of this process. As a rich coastal province, Guangdong was able to use its own media to reflect regional interests due to higher levels of economic development. As Goodman noted, in contrast to central dominance in the past, local governments had a greater

opportunity to speak out in their own voice, and political homogeneity seems to have broken at the seams of the policy-making process.<sup>44</sup>

Huang and Yu have also confirmed the inter-relationship of media evolution and economic decentralization:

The evolutionary changes in China's mass media have gradually shaped structural decentralization of the media. And the ongoing decentralization has further resulted in increasing local autonomy, thus allowing different social groups (such as local industry, local authorities, media corporations, private enterprises and the public) to pursue their own interests and to produce something approaching a pluralistic media policy.<sup>45</sup>

Saich writes that coastal China is not only moving away from Beijing in terms of its economic policy but also in terms of cultural identity. In Guangdong, this is reinforced by the use of the Cantonese and its interaction with Hong Kong.<sup>46</sup> The nature of Cantonese, nurtured by the tolerant Lingnan culture, is open, flexible, and practical. The rise of local power has added a new dimension to the old dynamic of media control. For example, the unorthodox *Southern Weekend*, a weekly published under the auspices of the Guangdong Communist Party Committee's Southern Daily Press Group, has been protected from punishment by the Department of Propaganda of the Central Committee of CCP. As Mitchell points out, the committee turned a blind eye not because it appreciated good journalism, but because the *Southern Weekend's* revolutionary brand of reportage attracted readers, advertisers, profits and - crucially - tax revenues.<sup>47</sup> It is true that several editors-in-chief have been removed from their positions because of the pressure from central propaganda department. However, the local media governing body was more relaxed and even protective of Guangdong's newspapers.

As economic and social lives grow more regionalized and as the regional authorities seek to express their own views, the media industry has been substantially decentralized. In 1979, when the reform started, there were 69 newspapers published in China, 17 of them in Beijing. The remainder were published and dispersed in 29 provincial capitals.<sup>48</sup> In 1997, Guangdong province had 62 newspapers.<sup>49</sup> By 2002, it had 169 newspapers, more titles than any other Chinese province.<sup>50</sup>

Some scholars have attributed the newspaper boom in China's rich coastal provinces to the forces of localism.<sup>51</sup> But the proliferation of newspapers and local autonomy are reciprocal forces. Guangdong's economic autonomy and its political regionalism have created a market for a much greater range of information and more points of view. The flourishing newspaper industry facilitates the overall growth of the local economy. As Yu noted, publications that are run on an economic basis, especially those owned by local authorities, may be more willing to challenge directives from Beijing, particularly when the bulk of their revenues come from advertisers or business sponsors who depend on a thriving local economy.<sup>52</sup>

Guangdong's reformist leadership publicly voiced its differences over policies with the centre during the retrenchment of 1989-1991. For example, in an article published in *Qiushi*, Lin Ruo, then-governor of Guangdong, confidently defended the special policies and reminded the centre that most of Guangdong's investment came from

foreign or local investment funds, not central funds. By 1989, one-quarter of Guangdong's GDP and one-third of its new capital were a result of foreign investment.<sup>53</sup>

### **1.3 Hong Kong – Guangdong Nexus**

With its openness to overseas markets and influences, Guangdong embraces international values, especially those at play in Hong Kong. The adoption and imitation of Hong Kong business practices and foreign technologies became the norm, replacing more traditional Chinese values. As most residents in Hong Kong are originally from Guangdong province, ties have always been strong between the two territories and they have shared the same geographical and cultural heritage.<sup>54</sup> Commercial ties between Hong Kong and Guangdong also have a history dating back to the 19<sup>th</sup> century. Trade between the two economies even survived China's periods of international isolation. As Lee observes, if people flowed mainly from China to Hong Kong, the financial benefits flowed in the opposite direction. Hong Kong's industrialization in the 1950s was blessed with a highly elastic supply of food and raw materials from the vast hinterland of China, particularly neighbouring Guangdong.<sup>55</sup>

#### **The Shop Window and the Factory Floor**

The two partners discovered this complementary relationship when China's door was officially opened in the 1980s. The 1990s have witnessed a new round of interdependent development. The evolving pattern sees Hong Kong as the "shop

window” for industrial orders, marketing, and finance, with the Guangdong as the “factory floor” for labour-intensive production.<sup>56</sup> The geographical proximity and close economic ties have brought about a symbiotic relationship between Hong Kong and Guangdong. Guangdong received huge investment from Hong Kong in the 1980s and the 1990s. High wage costs in Hong Kong led to a relocation of Hong Kong’s manufacturing base to Guangdong.<sup>57</sup> In these projects, the Chinese partner, usually a company formed by local villages and townspeople, provided the plant, labour, water, electricity, and other basic facilities, while the foreign investor supplied the machinery, equipment, materials, product design, and marketing. The foreign investor paid the Chinese partner a “processing fee”. By 1991, one-third of China’s total exports came from Guangdong. *China Daily*, China’s official English-language newspaper, estimates that up to 70,000 foreign invested enterprises (FIE) have set up operations in the province, and many of them have established headquarters there.<sup>58</sup> As Lee describes, since the mid-1980s, China has become the world’s new “global factory”, with the southern province of Guangdong as its powerhouse.<sup>59</sup> Millions of workers in Guangdong have churned out Mickey Mouse toys, Barbie dolls, Nike sports shoes, jeans, watches, televisions, and Apple computers for worldwide consumption. The aggressive introduction of Chinese capital from Hong Kong, combined with large capital investment from Taiwan and around the world, has transformed southern Guangdong into a major economy, and has accelerated the rapid growth of the province.

With hundreds of these joint ventures in small towns throughout Guangdong, Hong Kong businessmen needed permission from local cadres and were forced to pay a

“processing fee” to local governments. As these fees accumulated, Guangdong’s local officials acquired financial clout and a new-found ability to make major decisions. Following the call for decentralization and flexibility to attract foreign investment in Guangdong, many local cadres enjoyed great leeway in defining the limit of state intervention for taxation, imports and exports, and internal labour management.<sup>60</sup> This further strengthened the local authorities, a phenomenon not found elsewhere in China as Guangdong enjoyed the status and financial power that other Chinese provinces could not hope to emulate.

### **The Hong Kong Factor**

If the Hong Kong influence in Guangdong has brought new values, beliefs, and practices which are more in tune with western commercial and financial norms,<sup>61</sup> the influence of Hong Kong’s television on Guangdong has been even greater. Hong Kong television reception was quite common not only in the counties adjoining the Hong Kong-Shenzhen border, but in Guangzhou as well. A survey conducted in the early 1990s showed 79 per cent of viewers in Guangzhou regularly watched Hong Kong television.<sup>62</sup> Cantonese, the shared language of both Hong Kong and Guangdong, is a major factor in Hong Kong television’s wide popularity in Guangdong. As Ma points out, the most desirable market for Hong Kong programming is the one that shares the same language and culture.<sup>63</sup> The growing economic integration and technological advancements have made access to Hong Kong television much easier for Guangdong audiences.

It was illegal for Guangdong residents to receive Hong Kong television until the early 1980s. However, for years people defied the ban and set up antennae and cable networks to carry Hong Kong programs. As Chan describes, all this happened as Chinese media went through a commercialization process that resulted in a tug-of-war between ideological control and profit motive.<sup>64</sup> By the end of the 1980s, Hong Kong television viewing was widespread in the region. With the proliferation of cable television in the mid-1990s, Hong Kong television has become officially available to Guangzhou and other cities in the region, though with regular and clumsy censorship, particularly of news broadcasts.<sup>65</sup>

Hong Kong television has had an important effect on how Guangdong sees the world. It is recognized first for its entertainment values. Hong Kong has continued to be distinguished from socialist China as a capitalist city by virtue of China's policy of "one country, two systems". The key function of commercial television is to entertain, whereas that of socialist television is to "educate".<sup>66</sup> Thus, Hong Kong TV has no trouble luring audiences away from Chinese television, resulting in reduced satisfaction with domestic media as news sources. Rarely do people in the wealthy area of the Pearl River Delta watch China's Central Television (CCTV), the dominant national television with 1 billion Chinese viewers.<sup>67</sup> Some people even think that Hong Kong is virtually the cultural capital city for Guangdong residents. Hong Kong television was also recognized for its quality, social reflectiveness, diversity of opinion, and reliable information.<sup>68</sup> As perceived by local journalists, Hong Kong enjoys an autonomous media with ample editorial freedom. Thus news from Hong Kong is more credible in the eyes of viewers

than the news produced by Chinese television. A study of the impact of Hong Kong television on Guangzhou residents also found that frequent exposure to Hong Kong television plays an important role in shaping their values, attitude, and morals.

Guangzhou residents have become more receptive to premarital sex, more individualistic, and more tolerant of the gap between rich and poor.<sup>69</sup>

### **1.4 Media Reform in Guangdong**

Until the late 1990s, Guangdong's success had been perhaps best demonstrated by the following statement: "Shenzhen learns from Hong Kong, Guangdong learns from Shenzhen, and the whole country learns from Guangdong".<sup>70</sup> Today, although Shanghai and Beijing turn to the United States for models to emulate, and they no longer consider the Guangdong experiences relevant, Guangdong is still regarded as the closest thing to a free market economy in China.

A free market and relatively liberal society calls for free exchange of information; the increasingly autonomous political and financial institutions need their own voice; and the emerging middle class demands a free media. Just as Guangdong led the way in economic reform in the early 1980s, it now "takes one step ahead" to forge China's biggest and the most advanced media market, especially the newspaper market.

Newsstands in Guangdong typically offer dozens of daily and weekly newspapers in addition to a plethora of magazines and books. Urban residents receive 40 or more

channels in their homes. Internet service providers have sprung up throughout the city. Guangzhou residents commonly invest and speculate on the stock market and have come to demand more news and information to facilitate this. As Latham observes, the realities of everyday life for many people in Guangzhou and the surrounding area are increasingly intertwined with forms of media representation.<sup>71</sup> The media changes in post-Mao China have acted as a catalyst in bringing about cultural diversity, which has in turn forced the media to become increasingly depoliticized. Domestic and imported media products emphasizing cultural pluralism and diversified entertainment have gained increasing popularity in many ordinary Chinese households and have become to an indispensable part of their lives.

Chen and Huang first raised the issue of “uneven development”, the growing inequity in the distribution of media resources between the coastal and interior provinces.<sup>72</sup> They believe media expansion and China’s market economy are interdependent. In China, the regions with higher levels of economic development, and more tolerant cultural policies moved ahead in terms of media expansion and vice versa. From 1990 to 1994, advertising income in China recorded annual growth of 70 per cent. But the increase was mainly in Beijing, Shanghai, and Guangdong. These areas accounted for half of China’s 20 billion yuan advertising market in all media. In 1994, the three regions accounted for 55 per cent of China’s newspaper advertising market.<sup>73</sup>

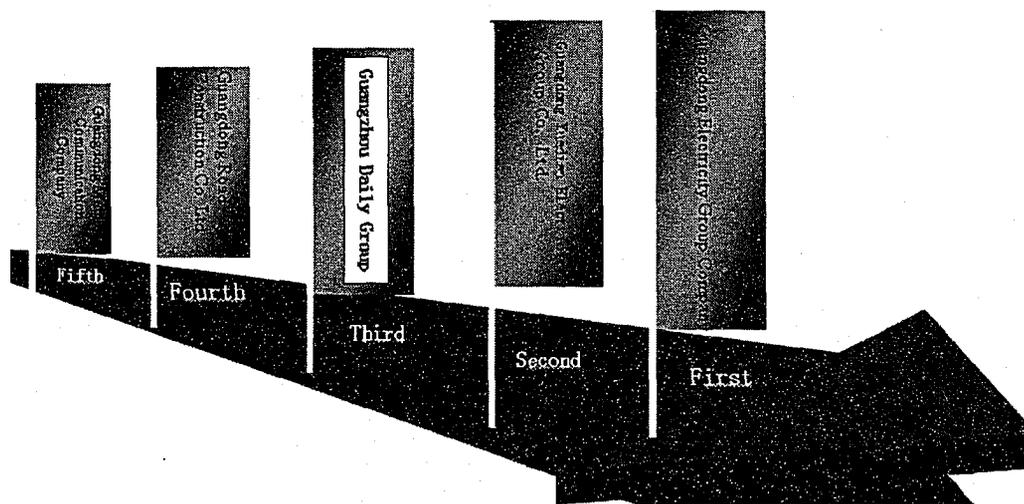
The expansion of the newspaper industry owes much to the rapid growth of advertising revenues and disposable income. The advertising revenue was concentrated towards the big newspapers in big cities. Because of its frenetic industrial development

and the capacity of its labour force, Guangdong newspapers have led China in exploiting the niche advertising areas of real estate, classified, employment, and special advertising sections.<sup>74</sup>

The commercial press has also contributed to the rapid growth of Guangdong's economy. Defined as a non-profit institution wholly subsidized by the party in the past, the press in Guangdong has not only become profitable, but it's also developed into one of the largest taxpayers in the province. For example, *Guangzhou Daily*, amassing 4 billion yuan in fixed assets, and annual advertisement revenue of 1.5 billion yuan in 2002, has been converted into one of the biggest taxpayers in the province.<sup>75</sup> As Figure 1.4.1 shows, Guangzhou Daily Group was the third largest taxpayer in Guangzhou.

Figure 1.4.1

In 2003, with tax payment of 254 million yuan, Guangzhou Daily Group was the third largest taxpayer in Guangzhou.



Source: *Guangzhou Daily* Data Centre

Envisaging the media sector as a new pillar of industry, Guangdong's provincial government had an ambitious goal to build "cultural power" in China. In October 2003, the Guangdong Communist Party Committee and the Guangdong provincial government jointly published "The Principles of Planning a Cultural Power in Guangdong (2003-2010)".<sup>76</sup> The strategy focuses on building seven media groups: Southern Broadcast Media Group, Guangdong Publishing Group, Guangdong Family Magazine Group, Zhujiang Film Group, Guangdong Xinhua Books Distribution Group, and Guangzhou Daily Press Group, Yangcheng Evening News Group, and Southern Daily Press Group. Guangdong is banking on an expanded consumption of cultural products, especially newspapers. Much like their Hong Kong neighbours, Guangdong residents are avid consumers. Guangdong ranks first in the country in household consumption, spending nearly 3.2 billion yuan in 1998.<sup>77</sup> It is estimated that the demand for cultural products by urban and rural residents is approximately 80 billion to 120 billion yuan per year.<sup>78</sup> This huge market potential provides a sustainable incentive for the expansion of local newspapers.

### **Guangdong: "Special Media Zone"**

In the past few years, Guangdong has become the most inviting area for foreign programming. In 2001 the world's largest media company, AOL Time Warner Inc., signed a landmark deal with the Chinese government to broadcast a Mandarin-language cable channel, CETV into Guangdong. The deal marked the first time that an American media corporation was able to participate in China's cable television sector.<sup>79</sup> Meanwhile,

Star TV, owned by media tycoon Rupert Murdoch's News Corp, was granted a similar licence in December 2001. Phoenix TV, the Hong Kong broadcaster which is 37.6 per cent owned by News Corp, was allowed to reach initial cable-TV audiences in southern China.<sup>80</sup> The three TV outlets, headquartered in Hong Kong, broadcast into Guangdong homes in the national language, Mandarin. Guangdong is the only province which has been granted the broadcast rights by State Administration of Radio, Film, and Television (SARFT). Besides these three Chinese channels, it has allowed more than 30 foreign television operators to air their programming in Guangdong, but not to any other areas in China. A plan to open Guangdong province as a "Special Media Zone" to selected overseas media is under consideration.<sup>81</sup>

Two reasons may be used to explain why the central authorities have made Guangdong the pilot project for foreign television. First, Guangdong's frontier location and its historical ties with overseas Chinese communities and Hong Kong, have led Guangdong to be the most accessible region. Second, Guangdong's distance from Beijing also reduced the risk that the entry of foreign program would cause political unrest.<sup>82</sup> Just like the "Special Economic Zone", the open zone for media is experimental and serves to shelter the rest of China from alien influences. Overall, foreign elements are allowed only in the clearly demarcated areas so that their influence can be controlled and kept at a distance. Some even argue that the Hong-Kong – Guangdong nexus will become the most powerful peripheral influence in reshaping the rest of mainland China.<sup>83</sup>

In sum, a free market and relatively liberal society calls for free exchange of information. If Guangdong's economic success and its historical openness have facilitated the rapid growth of the newspaper industry, the transformation of China's media system has further made the rise of local newspapers possible. The next chapter will examine China's major media reforms in the 1990s.

## Endnotes

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## Chapter 2

### Fundamental Change in China's Media System

Conventionally, the state's leverage over the press has been realized through ownership, finance, regulations, appointment of key personnel, and centralized distribution of resources.<sup>1</sup> State control over ownership of the press has remained unchanged, but economic reform has substantially eroded the significance of administrative rank as a factor in how newspapers are resourced. This chapter explores how these cornerstones of a hierarchical press system collapsed and how the lowly local newspaper came to the forefront. Before economic reform and openness, like every province in China, Guangdong's newspaper sector was nothing more than a part of the party organ system. Pushed by new economic conditions, the commercialization of newspapers undermined the base of the old system. As a result, China's newspapers are evolving from hierarchical and fully-subsidized public institutions to profitable enterprises. During the transformation, the power structure has been redefined and the resources of press have been reallocated.

#### 2.1 Mao's Ideology and the Party Organ System

The engine that propelled the Chinese Communist Party (CCP) into power was Mao Zedong's political ideology. Schurmann says the ideology of the CCP is one of the great organizational ideologies of the modern world. Chinese Communists described their

ideology as: “The Chinese Communist party takes the theories of Marxism-Leninism and the unified thought of the practice of the Chinese Revolution, the thought of Mao Zedong, as the guideline from all of its actions.” The central value of Chinese Communist ideology is the notion of class struggle.<sup>2</sup> Ideologically, the news media becomes part of the superstructure. Pye concludes, “The essence of Mao’s China was clearly the sovereignty of ideology.”<sup>3</sup> For Mao, the control of “gun” and “pen” were equally vital for reinforcing his regime. With politics in supreme command, economic development was sidetracked to make way for the state’s political agenda. The media were thus deeply embedded in the broader political system and became an integral part of the ideological state apparatus designed to serve the state’s structural and functional needs in terms of political and social control.<sup>4</sup>

### **The Hierarchical Political and Media Structure**

From 1949 to 1978, in a centrally planned economy modelled after the former Soviet Union, the newspaper system was a closed bureaucratic hierarchy operating according to party lines and state dictates, not market demands. Under the authoritarian one party rule, newspapers were an extension of the political system and established as a government tool for propaganda. Chen and Lee have established a clear connection between the bureaucratic system and a newspaper’s rank:

In Mao’s China, media organizations, like any institution, were absorbed into the national administrative rank system which consisted of the central level, the provincial or ministerial level, the district or bureau level, the county (equivalent of *chu*) level, as well as the township (equivalent of *gu*) level. Each newspaper, at the time of inauguration, is assigned a rank, usually one level below its sponsoring or supervising body. Thus a central-level organ (such as *People’s*

*Daily*) commands the ministerial rank, whereas the provincial-level papers (such as *Southern Daily*) are accorded the district/bureau rank.<sup>5</sup>

Along the way newspapers became an important part of the Communist Party's infrastructure for ideological indoctrination and national integration. In line with the Leninist tradition, newspapers were considered a tool for political mobilization and the dissemination of the prevailing ideology.<sup>6</sup> It was an organ of the CCP and functioned to transmit party policies under the command of the party masters.<sup>7</sup>

With this media system, "the centre" conspicuously dominated the regions and "talked" much more to regions than vice versa. The hierarchical structure of the newspapers and broadcasting network was "a vital instrument of policy implementation by the Communist government".<sup>8</sup> *People's Daily* sat atop the hierarchy. A group of 29 newspapers of provinces, municipalities directly under the central government, and autonomous regions came next. Newspapers run by municipal governments were at the bottom. In this way, the system became a bureaucratic extension of the party hierarchy.

The central newspapers such as *People's Daily*, *Guangming Daily*, and *China Military Daily*, enjoyed not only a high political ranking, but also extensive funding, human resources, and editorial privileges. Local newspapers at the provincial and municipal levels were under the control of the Propaganda Department of the Central Committee of CCP and obliged to use articles from the Xinhua News Agency and the *People's Daily* or reprint the editorials and other important articles of the official organs.<sup>9</sup> The low ranking newspapers were hampered by a lack of resources and their inability to

cover certain stories. In general, Pan points out, the higher the rank of a news organization the closer the surveillance to which it is subjected by party officials and the wider its access to news sources.<sup>10</sup>

### **Media Financing**

In contrast to the Western media where the principal source of revenue comes from advertising, the communist press in China had, for many years, been government-financed as well as state-controlled. The operations of Chinese newspapers were part of the highly centralized planned economy. Their funding relied strictly on state allocation based on proposed budgets. No fees were collected from the audience. Advertising was not permitted until 1979. Specifically, *People's Daily* was funded by the state council through the Propaganda Department. Provincial, municipal and county papers received funding from their respective provincial and local governments. All media were owned and operated only by the state, and they were supervised by their equivalent territorial administrations.<sup>11</sup> Therefore, the press was wholly subsidized by the state and all the operating expenses were covered by the government.

China divides the nature of state-owned units into three types: state administrative units, non-profit business units (*Shiye*), and profitable enterprises (*qiye*).<sup>12</sup> Each has different political and economic relationships with the state in terms of privileges and obligations. Newspapers used to be treated as non-profit units (*shiye*) whose legal and financial status was similar to various cultural, educational, sports, and science and health

institutions. It was not seen as a profitable (*qiye*) organization free to pursue its own interests in the market. <sup>13</sup>As part of the planned economy, Chen and Lee report:

The government had annually formulated a detailed budget plan regarding how the newspaper should expend the money it received. The newspaper could use the state money to pay for wages and fringe benefits (such as housing and medical care), to defray any deficit in operating costs (including newsprint, ink and energy), or to acquire and maintain fixed assets (such as office building and print facilities). If the state approved the newspaper's request for hiring additional people, the associated cost would be incorporated into the budget. <sup>14</sup>

### **The “Iron Rice Bowl”**

Under the Maoist planned economy, China's Communist Party built the work unit welfare system for urban residents. The work unit (*danwei*) functioned as a self-sufficient “welfare society” within which an individual received life-long employment and basic income protection, and enjoyed generous benefits such as housing, education, health care and recreational activities. Most of these services were free or inexpensive. The work unit was committed to “high welfare” and “low wage and high employment”<sup>15</sup> (*di gonzi, gaojiuye*). In other words, an urban resident could hardly survive without belonging to a work unit. The basic policy within each work unit was largely egalitarian, and attempts were made to minimize differences in wages, welfare and employment.

Media organizations were one kind of a work unit. Like other workers working for the state, media workers enjoyed being taken care of by their organizations, especially housing and medical care. For years, Chinese workers were entitled to apartments, with size and amenities depending on seniority. This embodied the CCP's policy of pursuing

the so-called “privilege of Socialism”.<sup>16</sup> As long as they worked, all their medical expenses were covered even after they retired. The cost of fringe benefits was borne by the local government where the newspaper was located.<sup>17</sup> For example, Guangdong’s provincial government paid for the fringe benefits of the *Southern Daily* staff and Guangzhou municipal government was obligated to look after *Guangzhou Daily* employees.

Holding an “iron rice bowl” and eating in the “big pot”, journalists were virtually in an atmosphere without competition. In the tradition of party journalism, the only standard of discipline was political correctness. Journalists were evaluated on political standards alone; they are criticized or fired only for political mistakes.<sup>18</sup> They had to be very careful in covering political issues. Journalists who went beyond the political boundaries faced life-long criticism and would never have their articles published. The invisible political burden was often too stressful to bear for either editors or reporters.

In addition to the guaranteed subsidies, the media relied mainly on compulsory subscription from government departments, paid for by tax revenue. All levels of government were obligated to subscribe to the main central newspapers and their local party organs.<sup>19</sup> No wonder the *People’s Daily* enjoyed a circulation of 5.2 million in 1982.<sup>20</sup> Private subscription was minimal and there were virtually no newsstands selling newspapers. As Chen has described, China’s various government units reserve special funds exclusively for the purpose of subscribing to a host of party newspapers.<sup>21</sup> The

common picture of a worker with “a newspaper and a cup of tea” sitting in the office illustrated the uncompetitive routine of the state worker and his prescribed media.

The typical office subscription did not mean that Chinese citizens could not access newspapers. Reading the newspapers was a mandatory political task for all Chinese, including rural peasants. During Mao’s era, particularly during the Cultural Revolution, newspapers were treated like party documents, to be studied widely in mass meetings across the country. Newspapers, especially the central party organ, such as *People’s Daily*, had a towering influence on people’s ideology and beliefs. During the Cultural Revolution, everything written in the official papers became the bible for people’s thoughts and actions.<sup>22</sup>

Newspapers depended on state money to publish, and they relied on state units to subscribe to the papers. Under what Lee calls a top-down ‘commandist’ planned media system, the first and foremost mission of the newspaper is to espouse socialist ideals, promote government policy and help create moral standards based on Marxism, Leninism and Maoism.<sup>23</sup>

## **2.2 The Failure of Press Reform in the 1980s**

In the post-Mao era, the first step of reform advocated by the Deng Xiaoping was to downplay the supremacy of ideology. Saich writes, “Ideology and class struggle were downplayed and policy making became more pragmatic summed up in the slogan

‘practice is the sole criterion for testing truth.’”<sup>24</sup> However, the political changes have been rigidly limited within the sphere of the “Four Cardinal Principles”, the core of which is to uphold the leadership of the Communist Party. The party was to define the limits of what was acceptable and it was anticipated that continued party control over the process would ensure stability and stop the possibility of chaos. As Baum has noted, Deng Xiaoping and his associates faced a complex and difficult dilemma: how far the control could be relaxed while ensuring the party’s legitimacy.<sup>25</sup> Accordingly, the same principles were applied to media control. This dilemma has given rise to continual struggles between advocates of accelerated change and openness, and defenders of a more centrally planned economy. The media, therefore, was constantly pulled in opposite directions.<sup>26</sup> This tug of war has been the recurring theme in China’s media evolution.

Before 1989, many intellectuals and political reformers used the media to advocate for reform plans. The so-called “journalism reform” in the 1980s referred to a process towards independent media voices on political issues. But it turned out to be a difficult process. Many have noted that post-Mao Chinese media reform in the late 1970s and early 1980s failed to produce Chinese press freedom based on western, democratic values. What Zhao called the “trajectory of media reform” in this period, resulted in the correction of specific theories and practices of the Cultural Revolution and a return to the earlier ideals of the party press.<sup>27</sup>

The constant struggle between reformers pushing for bold reform and hardliners maintaining tight party control reached its peak between 1980 and 1984. The “Four

Cardinal Principles” were used by ideological conservatives to launch campaigns against reforming ideas.<sup>28</sup> A vehement anti-bourgeois liberalism campaign started in the mid-1980s. Intellectuals seen as a political threat were purged from the party. Facing pressure from hard-line conservatives, even Hu Yaobang, General Secretary of CCP and widely considered the most enlightened post-Mao leader, emphasized in a much-publicized 1985 speech that “the party’s journalism is the party’s mouthpiece” and warned against excessive controversy and critical reporting. These policies resulted in banning the work of some of China’s critical intellectuals.<sup>29</sup>

Under the leadership of Zhao Ziyang, the 13<sup>th</sup> National Party Congress in October 1987 put political reform and journalism reform on the national agenda. “Political transparency” was used to advocate greater openness in government and more reporting of the political processes. Zhao implicitly rejected the conventional notion of “unified public opinion” under socialism, arguing that the government should be concerned with listening to and reflecting the divergent opinions and interests of its citizens.<sup>30</sup> As Zhao Yuezhi pointed out, although these notions did not challenge the party’s fundamental assumptions, they did suggest significant moves toward less paternalistic and more democratic communication and decision-making.<sup>31</sup>

The media reform movement reached a new stage after the mid-1980s. Editors of national newspapers openly expressed their desire for greater editorial independence and autonomy. Turned loose, the media began demanding political reforms. Despite the short-lived “Beijing Spring” in 1989, China experienced a free press for the first time in its

modern history. For several weeks, orthodox party organs, including the *People's Daily*, freely reported the democratic movement. Berlin described this as “a fleeting and heady moment in spring 1989”.<sup>32</sup> Large groups of editors and reporters from official news organizations joined in the general wave of protest and called for press freedom. However, the heavy-handed suppression of the Tiananmen Square student movement represented the government's determination to thwart any attempt to undermine its legitimacy and authority. As the result, many journalists and writers who were visibly active were subjected to intense investigations. Some of them were silenced, imprisoned or forced into exile or hiding. The purge of the pro-democracy proponents within the media after 1989 almost destroyed any continued hope for a freer press.<sup>33</sup>

Media reform, after a decade of intense debate and struggle, seemed to have returned to its starting point. The influential *World Economic Herald*, sanctioned by Jiang Zemin before the Tiananmen incident, contributed largely to Jiang's ascendance to Beijing. The paper became well-known for its political essays and theoretical articles. As Huang pointed out, it was more like a political organ serving Chinese reformist intellectual and political elites than a market-orientated newspaper serving ordinary news consumers.<sup>34</sup>

### **2.3 The 1990s: The State and Commercialization**

In the 1990s, after the interlude of the bloody Tiananmen crackdown in 1989, the media recoiled from political activism and plunged instead into commercialization.<sup>35</sup>

Nevertheless, this transformation took place within a context of continuing political and ideological control of the media by the Chinese Communist Party.

### **Deng's Southern Tour in 1992**

In spring 1992, three years after the Tiananmen massacre, Barne described China's situation as, "the economic reforms in the doldrums and political life cauterized by the 1989 purge".<sup>36</sup> It was in 1992 that Deng Xiaoping traveled to Guangdong where he made speeches encouraging increased political reform and faster economic development.

After the events of June 1989 critics of SEZ had become more vocal, describing the zones as "bastions of capitalism".<sup>37</sup> Deng's intervention was a direct response to this criticism. He wanted to increase the pace of "opening up and economic reform" in China by drawing attention to what he saw as the remarkable success story of the country's SEZ. In his famous "spring speech", Deng reiterated that the function of the SEZ was to continue to experiment with open market reform. Baume says, "Deng's tour of the south is a 'second liberation of thought' that freed people from reliance on the planned economy of socialism."

Deng berated the "obstructionists" who wished to cling to the old system, and issued a call for yet another wave of sweeping market-oriented change. Deng overcame ideological barriers to commercialization by arguing that the market is only a mechanism for economic development and that it does not determine whether a system is capitalist or

socialist.<sup>38</sup> His famous rationale was simply “no matter a white cat or a black cat as long as it can catch the mouse.” The 14<sup>th</sup> Party Congress held in October 1992 saw both a fresh pledge of economic reform and a renewed affirmation of political repression. The message was clear: there is no need to distinguish between a “capitalist” or “socialist” market economy as long as the party holds on to power.<sup>39</sup> With this claim, as Zhao points out, China completed its 15 year journey from a planned economy to a market economy.<sup>40</sup>

Deng’s “southern speech” in the spring of 1992 signaled a major relaxation of central control. Reform came back in vogue, and officials at all levels and in all regions began actively pushing for reform, including media reform. On 16 June 1992, the Central Party Committee and the State Council issued a document entitled: “Decision of Developing the Service Industries.” This document put into place a legal framework in which the media could operate within a market environment as opposed to the traditional state-funded regime.<sup>41</sup>

### **Severance of State Subsidies**

China’s journalism reforms in the 1990s have been characterized as a wave of commercialization and marketization,<sup>42</sup> which originated in the late 1980s. When the market forces started to determine the price of the raw materials needed for the production of newspapers, a new logic appeared. By the mid-1980s, blanket subsidies to newspapers were no longer feasible for the various levels of government. Since the late 1980s, hikes in the price of newsprint and distribution costs resulted in a continuous

increase in the operational losses of newspapers.<sup>43</sup> The price of newsprint was 730 yuan per ton in the early 1980s. The price rose to 1100 yuan in 1985, to 2800 yuan in 1988, to 4500 yuan in 1995.<sup>44</sup> In the early 1990s, a provincial-level newspaper was losing at least 20 million yuan per year. The cost of distribution soared as well. In the past, the post office integrated the distribution of newspapers into its regular postal services, almost free of charge. After economic reform, the postal services were run as a business and started to charge 20 per cent of retail prices. In 1987, the price rose to as much as 40 per cent of the retail price.<sup>45</sup>

From the mid - 1990s, the press, including party and government organs, was gradually required to operate on a financially self-sufficient basis. Along with the CCP's formal embrace of the concept of 'socialist market economy', both the central and local governments adopted a new media funding policy during 1992 and 1993, called by some the 'weaning plan'.<sup>46</sup> It aimed to sharply reduce and finally end press subsidies. Except for a handful of top-ranking party newspapers, the press could no longer use state money to pay for wages and fringe benefits, to defray any deficit in operating costs, or to acquire and maintain fixed assets. This decision was followed by relaxed restrictions on the size of newspapers and the allowable amount of advertising.<sup>47</sup> This gave the press more flexibility to print soft, human interest, and to some extent, critical articles.

Turning to commercialization came to be the only way for press to survive. Chan said, "Commercialization refers to the process by which media come to respond to the profit motive as a driving force and to depend on advertising and other business activities for revenue."<sup>48</sup> The party continued to attach great political and ideological importance to the

media, yet it became increasingly clear that the state could no longer bear the entire burden even if it wanted to. The government's desire to reduce subsidies had put newspapers under pressure to find new sources of income. As Zhao noted, although the media are still owned by the state, their economic basis has been shifted from complete reliance on state subsidies to increasing dependence on commercial revenue from advertising, sponsorships, and business operations in other areas.<sup>49</sup> Fortunately, the burgeoning market economy throughout China provided new opportunities to make money, especially through advertising.

### **The Relaxation of Party Control**

Advertising in China was banned under Mao's planned economy. However, advertisements re-emerged in Shanghai in 1979 and rapidly spread to other cities.<sup>50</sup> As official subsidies became inadequate to cover the soaring costs of media operations, advertising thus became an indispensable source of revenue. In 1987, the State Science and Technology Commission listed newspaper publishing and broadcasting as "information commodification industries".<sup>51</sup> By the end of 1992, the Chinese state, in its decision to accelerate the development of tertiary industries, had designated the media sector a new area of economic growth.<sup>52</sup> As mentioned above, the media were not classified as profitable enterprises in the past, thus, they were not allowed to pursue commercial interests. Responding to Deng's call for accelerated capitalist development in China, the State Press and Publications Administration announced the policy in late 1992

that required all major newspapers, apart from a few central party organs such as the *People's Daily*, to achieve financial independence.<sup>53</sup>

This rapid development in media commercialization brought about significant changes regarding how China controlled its media systems.

**Newspaper Flexibility:** The state acknowledged the economic significance of non-political coverage by no longer requiring afternoon and evening publications, news digests, culture and lifestyle papers, and trade journals to carry ideological propaganda.<sup>54</sup> As Chen indicates, although state control over ownership, editorial policy, and key personnel appointment of the press has remained unwavering, the government has relaxed its rigid control on media by granting greater space and free competition.<sup>55</sup> In the 1980s, the newspaper's size, number of pages published and frequency of publication were rigidly fixed by the Department of Propaganda. Starting in 1990, newspapers could apply to the state for a change of status in the size and frequency of publication. This resulted in larger newspapers across the country to satisfy the reader's increasing desire for information and accommodate more advertisements.<sup>56</sup>

**Licensing System:** In the 1990s, the power to run the press was dispersed. In contrast to only dozens of party organ newspapers, an increasing number of newspapers were run by various ministries, bureaus and other organizations.<sup>57</sup> As Lieberthal and Lampton observe, due to the substantial political fragmentation among different departments within the central state structure, power was informally redistributed from

the highest decision-making bodies to the administrative departments.<sup>58</sup> Still, no newspaper can be set up as an independent business. The party relies on a licensing system to ensure the control of the fundamental press structure. Newspapers must be licensed by the government in the name of organizational units such as government departments or industrial entities.<sup>59</sup> In addition to party committees, government bureaucracies, mass organizations, and other institutions above the county level, were allowed to publish or sponsor newspapers. The presses are officially registered in the name of and supervised by government departments or organizations. In reality they are contracted out to individuals or groups who enjoy editorial, personnel and financial independence. The contractor pays the licence-holder a fixed sum regularly for authorization to publish a newspaper under its name but, as Chan noted, “is held responsible for the editing, printing, distribution, taxation and all other expenses”.<sup>60</sup>

**Emerging Regulatory System:** Chinese authorities have started to use market mechanisms to regulate the media industry. For instance, the *Newspaper Quality Management Criteria* contains stipulations on the minimum circulation for different kinds of newspapers. Newspapers which fail to reach the required circulation would either be given a period for improvement or be closed. The intention is to constrain the number of “low quality, high cost” newspapers which rely on government subsidies.<sup>61</sup> In 1994, 17 newspapers were closed because of low circulation. This was the first time that newspapers were closed for non-political reasons in China since 1949.<sup>62</sup>

**Public Institutional Units Managed for the Purpose of Enterprise:** To relieve the financial burden and maintain control, the government implemented a reform policy called “public institutional units, enterprise management”.<sup>63</sup> Before the reform, along with the cultural and educational units, the media units were designated as institutional units, namely, non-profit organizations subsidized by the government. In 1978, the central government approved eight central-level news media, including *People’s Daily* to start the pilot projects of enterprise management.<sup>64</sup> The government allowed them to keep some portion of business revenue to improve employees’ income and benefits, as well as the operating conditions.<sup>65</sup> Until the mid-1980s, the enterprise management had been limited to just provincial news media units. By 1993, more than half of the newspapers at the municipal and regional level were being managed like enterprises. The new startups were directly commercialized. The principles of “self-financing, self-management, self-responsible for bottom lines, paying tax, and self-development” applied to the new media units.<sup>66</sup> Newspapers were pushed to generate revenue from advertising, circulation, or other business to meet bottom lines.

### **The Dark Side of 1990s Commercialization**

As Chen and Chan pointed out, media commercialization can be likened to a double-edged sword.<sup>67</sup> Widely criticized “paid journalism” was rampant in the 1990s. News media openly charge fees from various enterprises to produce a corresponding volume of favourable reportage. Enterprise sponsorship in journalism takes various forms. An enterprise could sponsor the publication of a story, a section or page, or

column; it could also sponsor a reporter's newsgathering trips by covering travel expenses and providing free meals and accommodations or by offering some cash compensation, called "red packets".<sup>68</sup> Although these practices have been condemned by the authorities and by the semi - official journalism association, they remained common in the 1990s. Even government officials have allegedly paid reporters for feature stories that boost their images and promote official policies.<sup>69</sup>

## 2.4 The Collapse of Hierarchical Press Structure

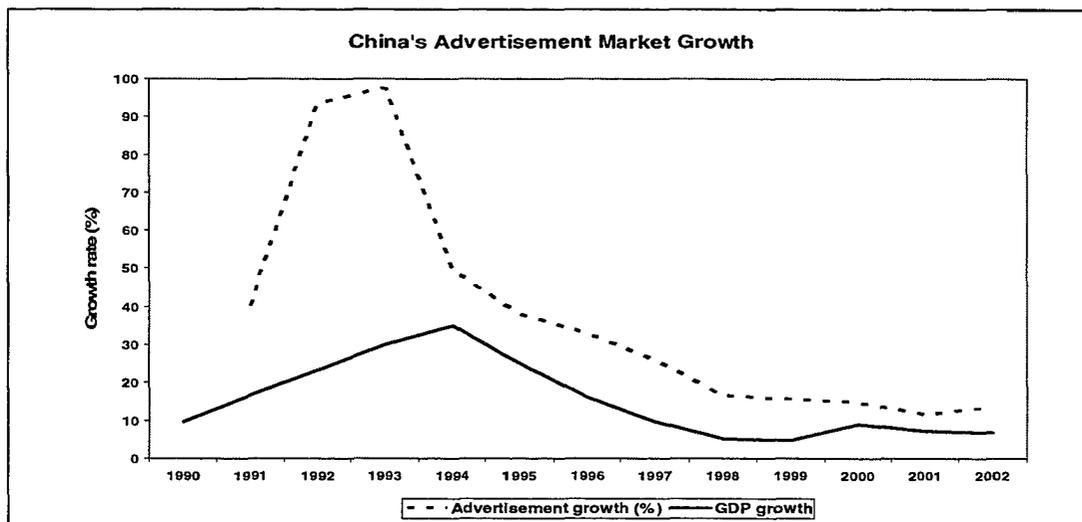
With the number of newspapers in China surging to a record high in the 1990s, newspapers were functionally and organizationally classified into five types to form a web of targeted and overlapping readership, with profound implications for their financial control, social influence and editorial content. First, the party organ press represents the orthodox party-line voice at all governmental levels. The central committee of the CCP controls the *People's Daily*, while each of the provincial party committees controls an organ usually named after the province. Second, the target press, published by a special target group or organization (women, youth, workers, and so forth), mainly caters to specialized readers; third, the enterprise press is published and circulated by government departments or large state-owned enterprises to an area of specialization (business, sports, health, and so forth);<sup>70</sup> fourth, mass-appeal papers are characterized by their parochial content and are found in large- or medium-sized metropolitan areas; fifth, tabloid papers, whose content relies entirely on recycled stories through translation or selection from

other media.<sup>71</sup> As a result, readers were increasingly drained from the party organs. A competitive media market was emerging.

### Advertising: The New Life Blood

Taking advantage of relaxed policy control, various media organizations have become involved in a pronounced competition for advertising. In the early 1980s, newspaper advertising was insignificant as state subscriptions were of the utmost importance. As the Figure 2.4.1 shows, the growth rate of China's advertisement market has been consistently higher than GDP growth. Especially in 1991-1993, when the government started loosening the control on advertising space, page size, and number of pages, the growth was explosive. The growth of the advertising market was closely linked with macro economic growth. Profiting from vigorous market reform, the Chinese press has been shifting its revenue base.

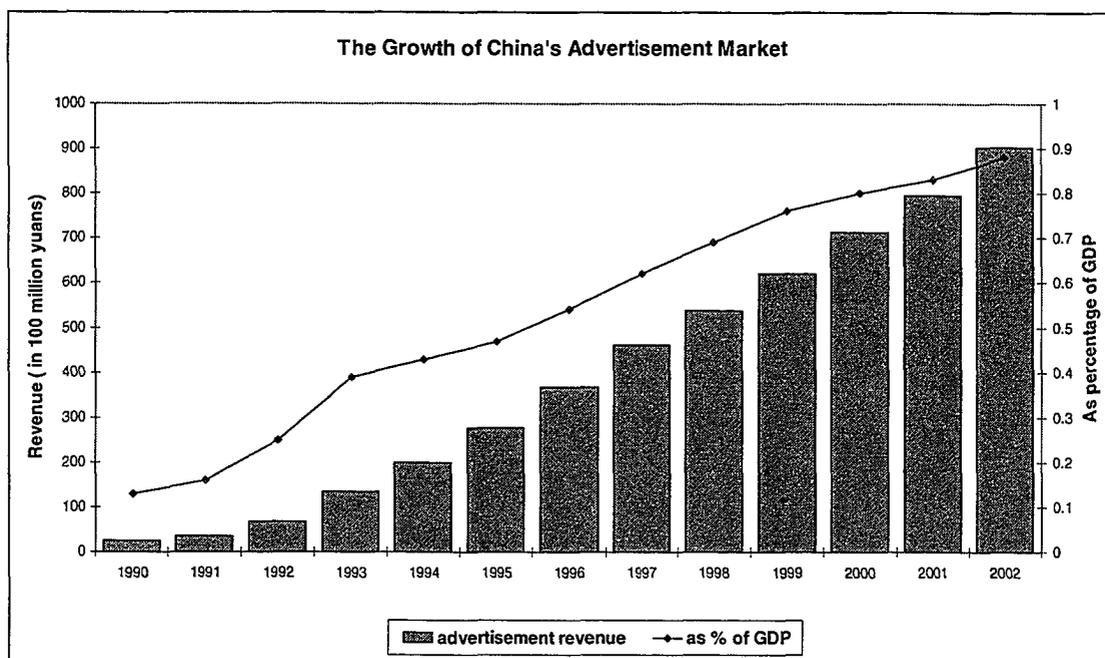
Figure 2.4.1



Source: China Statistical Year Book, State Administration for Industry & Commerce, Advertisement Division.

Figure 2.4.2 shows that China's advertising market experienced substantial leap in the past decade, jumping from barely more than 10 billion yuan in 1990 to more than 90 billion yuan in 2002. Meanwhile, the advertising market as a share of GDP has consistently increased.

**Figure 2.4.2**



Notes:

1. Sources: China Statistical Yearbook, State Administration for Industry & Commerce
2. Numbers are based on current prices

State-endorsed commercialization triggered two related consequences: the decline of the central newspapers and the rise of mass-appeal newspapers. As Lee indicates, the full-swing commercialization in the 1990s disrupted the structural power among newspapers in several radical ways. A “press boom” was rapidly swelling the rank of daily newspapers.<sup>72</sup>

## The Collapse of the Central-Local Hierarchy

One of the most notable consequences of commercialization has been a steady erosion of the central party press and the corresponding rise in popularity of the local and mass-appeal press. Market mechanisms undermined the hierarchical order between national and local media. The fate of the party's flagship mouthpiece, *People's Daily*, is a case in point. With the highest circulation among all daily newspapers, it had always dominated the advertising market until 1990, when its advertising revenue started to plummet. By 1995, the paper had dropped out of the nation's top 10 revenue list.<sup>73</sup> Its daily circulation also plunged sharply from about 8 million in 1980<sup>74</sup> to about 2 million in 1996.<sup>75</sup>

The commercialization of newspapers chipped away at the once overwhelming dominance of the national media outlets. In 1995, more than 10 Chinese newspapers had annual revenue from advertising and other business exceeding 50 million yuan. Only *People's Daily* was a central party paper, the others included Shanghai-based *Liberation Daily* and *Xinmin Evening News*, the Guangzhou-based *Southern Daily*, *Guangzhou Daily*, the *Yangcheng Evening News* and the *Shenzhen Daily*.<sup>76</sup> It is worth noting that three of the Guangzhou-based newspapers were all in the top 10 list. However, central newspapers that had previously enjoyed both revenues and political influence such as *Guangming Daily*, *Economic Daily*, and *Workers Daily* took a sharp dive and have not appeared in the top 10 list since 1990.

In the second half of 1990s, the central newspaper, along with the party organs, continued to decline as the result of the rapid rise of metropolitan newspapers. Specifically, a metropolitan newspaper is defined as a mass-appeal paper created by the provincial party organs to compete for urban readers and ad revenue with local evening newspapers and city newspapers.<sup>77</sup> In general, metropolitan newspapers also include evening newspapers and city newspapers as all are highly commercialized, market oriented and focused on urban readers.

### **The Decline of Central Newspapers and Party Organs**

The political significance attached to the central party newspapers, as well as provincial party organs, put them at a disadvantage in market competition. As Ma noted, the general pattern is that the media at the national level are closely censored, whereas local and provincial media enjoy a higher degree of autonomy.<sup>78</sup> The Chinese authorities have focused their control on party newspapers, particularly their political coverage.<sup>79</sup> They are still required to function as the mouthpiece of the party and carry the “staid official news” from the top down. With the increasing diversity of newspapers, the unpopularity of party newspapers became obvious.

As Chen and Lee noted, economic reform has substantially eroded the significance of administrative rank as a determinant of a newspaper’s resources.<sup>80</sup> Before economic reform, government subsidies were the major source of revenue. A paper’s bottom line depended largely on the rank of the media organization within the media

hierarchy. But the reforms nullified the hierarchical press structure. In the 1980s, the media units embarked on a path of commercialization and institutional innovation. The market, not administrative order or party ideology, ruled their operation.<sup>81</sup> The pyramid party press system (central-provincial-city newspaper hierarchy) collapsed.<sup>82</sup> The metropolitan newspapers won the market competition against the central and provincial party newspapers. The following chapter will discuss the reasons attributed to the rise of these popular newspapers, including their successful introduction of market mechanisms to their daily operation.

Central party newspapers lost their competitiveness because of the increased production and distribution costs and shrinking office subscriptions.<sup>83</sup> Although they have to reach party functionaries at the village administrative level, these papers rarely reached the urban consumer through private sales. Due to the soaring cost of newspaper production, most of the central and provincial party organs had to increase the retail price of newspapers to offset the loss from circulation. But those price hikes took a toll on circulation. In contrast, city newspapers could use advertising revenue to subsidize the circulation loss from the low retail price. As a result, the central and provincial party organs fell into a vicious circle of declining circulation, declining readership, and only minimal increases in advertising revenue.<sup>84</sup>

As well, the attention of local newspapers in local markets enticed advertisers. Central party newspapers, as well as provincial party organs, which are read by party members, government officials, and intellectuals, emphasize policy guidance and

ideological propaganda in their content. By definition, mass-appeal newspapers cater to the tastes of ordinary urban residents and are, therefore, more committed to coverage of local news and human interest stories.<sup>85</sup> It thus comes as no surprise that the latter holds more attraction to readers and advertisers. In contrast to the central party newspapers, the mass-appeal newspapers have largely relied on street sales.<sup>86</sup> Chen and Guo have argued that when choosing media carriers, advertisers tend to pay close attention to a particular newspaper's readership group and differences in mode of subscription. The highest priority is placed on private subscriptions, followed by newsstand purchases.<sup>87</sup>

Against this backdrop, the next chapter will analyze how three Guangzhou-based newspaper groups - Guangzhou Daily Press Group, Yangcheng Evening News Group, and Southern Daily Group - and their subsidiary papers grew to be national bestsellers and top advertising generators.

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## Chapters 3

### Guangzhou Newspapers: The Call of the Market

This chapter delves into the micro level of Guangdong's newspaper industry. Since newspaper commercialization was the response to the transition from a planned economy to a market economy, Guangdong, as the pioneer of China's economic reform, pushed the commercialization of its media faster than other provinces. To show the structural development of media industries under the conditions of market economy in an authoritarian political system, this chapter examines the institutional changes in Guangdong's three major newspapers.

#### 3.1 The Building of Newspaper Conglomerates

In January 1996, *Guangzhou Daily*, the country's most successful commercial party organ, was selected by Central Committee's Propaganda Department and the State Press and Publications Administration as a pilot socialist press group, the first single-medium business conglomerate.<sup>1</sup> In May, 1998, both *Yangcheng Evening News* and *Southern Daily* were also approved to form similar newspaper groups.<sup>2</sup> Two newspapers in Beijing and one in Shanghai followed suit. In other words, half of the first round of consolidation in China's newspaper industry was located in the city of Guangzhou. Since then, Guangzhou has evolved into the most competitive media market in mainland China. Even the *People's Daily* reports, "Guangdong province, a reform pioneer in south China,

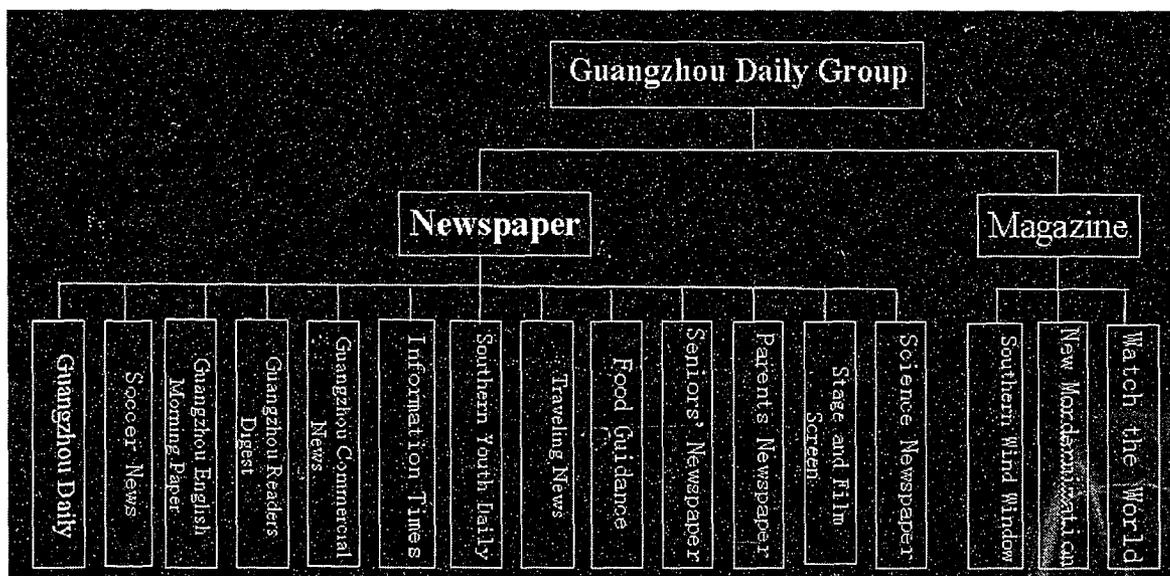
has once again taken the lead in press reform, one of the most sensitive fields in the country, by setting up a number of large newspaper conglomerates.”<sup>3</sup>

As Zhao observes, a collusion of political and commercial interests between party authorities and newspaper managers led to the official endorsement of conglomeration. On the one hand, the party saw the formation of press groups as a way to enhance press control, strengthen party organs, and induce profitable papers to subsidize unprofitable, but culturally important papers. On the other hand, the party’s press managers fashion themselves after today’s global media moguls.<sup>4</sup> They view conglomeration as a way to realize their political and business ambitions. Li Yuanjiang, the former chairman of the board of the Guangzhou Daily Press Group says, establishing a group is the best way to increase the newspaper’s social and economic benefits.<sup>5</sup> In an interview with the *South China Morning Post* in 2000, he said that by merging 10 newspapers, three magazines, and a publishing house, the Guangzhou Daily Press Group increased its overall readership to 1.2 million, which means two billion yuan in annual revenue.<sup>6</sup> In addition, international competition and the pressures of globalization have provided further justification for conglomeration. The party wanted newspapers to be more competitive in the face of possible international competition after China’s entry into the WTO.<sup>7</sup>

Guangzhou’s three press groups are represented respectively by an eponymous flagship paper - the *Southern Daily*, *Guangzhou Daily*, and *Yangcheng Evening News* – which are respectively the Guangdong provincial and Guangzhou municipal party organs. *Yangcheng Evening News*, a party-led evening newspaper founded in 1957, was typically published by Guangdong provincial party committees as a second paper intended for the

urban family.<sup>8</sup> These three newspapers were typical publications in Mao's China. Nowadays, the Southern Daily Group publishes seven newspapers and three magazines. The Guangzhou Daily Group has 13 newspapers, three magazines and its own distribution network. Yangcheng Evening News Group owns seven newspapers and one periodical. As Figure 3.1.1 shows the Guangzhou Daily Group is an example of how all three groups are trying to broaden their scope to cater to the different interests and ages of readers. The sole news product has been replaced with a cluster of products. An article published in the *China Newspaper* indicates the competitive advantage of Guangdong's newspaper groups. The Guangzhou Daily Press Group is ranked first in advertising revenue, employing colour in its newspapers, and setting up its own distribution system. The Southern Daily Group has been successful in incubating new newspapers and branding its products. The Yangcheng Evening News Group created a more business-like management structure.

**Figure 3.1.1**



Source: Guangzhou Daily Group Data Centre

Basically, the press group is the investor and the owner of its subsidiary newspapers. It is in charge of the operation and management of the assets. The group has a combined supervisory system for finances. Each subsidiary newspaper needs to report the performance of its operation on a monthly basis. Big expenditures need to be approved by the group. The finance departments of subsidiary newspapers are answerable to both the group finance department and the subsidiary management. The arms-length principle applies to the transactions among its subsidiaries.<sup>9</sup> Newspapers have adopted business principles to operations. For instance, cost-benefit analysis, distribution systems, and post-sale services are handled by the management side of the operation. Furthermore, newspaper groups awash in cash have expanded into other industries. The three groups now run publishing houses, advertising agencies, newsprint operations, chain stores, real estate development, multimedia, and restaurants. These expanded business interests mean competition on all fronts is intense.

### **3.2 *Guangzhou Daily*: The Most Profitable Newspaper in China**

The selection of *Guangzhou Daily* as the pilot conglomerate was due largely to its commercial success. As early as 1996, *Guangzhou Daily* had reached a private subscription rate of 61 per cent and average daily street sales of more than 180,000 copies, a rare achievement for a party organ.<sup>10</sup> While most newspapers were not aware of the huge market potential, *Guangzhou Daily* conducted a series of renovations to meet the market needs. Among its strategies, striving for expanding pages and building its own distribution system were the most remarkable.

As early as in 1987, *Guangzhou Daily* shocked China's newspaper industry by doubling its number of pages from four to eight.<sup>11</sup> For years, most Chinese daily newspapers published only four pages, with the exception of *People's Daily*, which ran eight pages prior to economic reform in 1978. From then, *Guangzhou Daily* ushered in the era of China's larger newspapers.

The first sign of policy relaxation followed *Guangzhou Daily's* courageous action. The state announced in 1987 that newspapers themselves would be held responsible for the extra cost if they decided to publish extra pages.<sup>12</sup> In the 1990s, the newspaper size, number of pages published, and frequency of publication were rigidly regulated by the Central Propaganda Department of CCP. Any decisions to enlarge newspaper size, to increase pages, or to publish more frequently added to the financial burden of the state, which had to channel special funds to cover the increased newsprint cost.<sup>13</sup> In 1989, the government ordered "party organs of provinces, autonomous regions, municipalities directly under central government, provincial capital cities, and cities with independent plans can keep the current division (of standard newsprint paper) and pages, .....other newspapers can not publish more than four divisions and four pages."<sup>14</sup> The limitation led to the serious shortage of advertising space and bottlenecked the growth of mass newspapers. Starting in 1990, newspapers could apply to the state for a change of status in the size and frequency of publication.<sup>15</sup> A story widely spread in Guangdong media circles was that *Guangzhou Daily* sent a deputy-chief editor to lobby through the bureaucracy in Beijing for the specific purpose of securing government authorization to expand the number of pages it could publish.<sup>16</sup>

Since 1987, *Guangzhou Daily* has fast – tracked its page expansion, growing from eight to 20 to 40 pages.<sup>17</sup> Now it normally publishes papers ranging from 48 to 80 pages. Beginning in 1992, it no longer counted on the red logo circular of the Guangzhou Communist Party Committee to estimate its subscription. It started to rely mainly on private subscriptions. Circulation surged from 230,000 in 1991 to 430,000 in 1992. Its advertising income rose from 39 million yuan in 1991 to over 90 million yuan in 1999.

The expanded *Guangzhou Daily* was immediately followed by similar page expansion national wide, a phenomenon called “page expansion fever” and “the avalanche of the weekend edition”.<sup>18</sup> During the 1990s, *Guangzhou Daily* managed to increase pages without huge price hikes. From 1987 to 1998, the retail price rose from 0.25 yuan to 0.6 yuan, with the pages increasing from eight black and white pages to 24 colour pages.<sup>19</sup> While some readers complained about the increase in the subscription rate and newsstand price due to page expansion,<sup>20</sup> the retail price of the 32-page *Guangzhou Daily* was 0.6 yuan in 1998, actually far lower than the cost. The cost of increasing pages was offset by advertising income.

Although increasing pages ran the risk of higher costs and a slump in circulation, in reality it expanded readership, increased content, and raised advertising revenue. *Guangzhou Daily* had the foresight to see that a four-page newspaper no longer satisfied the need for a wider variety of information demanded by the local residents, who increasingly lived in “a media world.”<sup>21</sup> Thus, the expansion of pages enriched its content and provided readers with more information. More importantly, the increased space

allowed the paper to accommodate advertisements. *Guangzhou Daily* was the first to realize that it could make money by offering extra pages to carry more advertisements.

### **Building a Distribution System**

If *Guangzhou Daily* took the first step of expanding pages, the revamping of its distribution system pushed it further in front of its rivals. *Guangzhou Daily* started to build its own distribution system in 1991, six years and nine years respectively ahead of its cross-town rivals, *Yangcheng Evening News* and *Southern Daily*. Before that, all newspapers in China depended on postal services for distribution. As a monopoly, the post office system was inefficient and expensive. Like most newspapers and magazines in China, *Guangzhou Daily* used to rely entirely on the post office for distribution. Individuals and groups would subscribe to their newspapers at the nearest post office, which would then deliver the newspapers. The disadvantages were obvious.

First, the bigger the paper, the more the post office charged, swallowing the profits from page expansion. In the late 1980s, the cost of post office distribution soared. As Wu explains, in the past, the post office integrated the distribution of newspapers into the post services at virtually no cost. After the market economy reform, the post office started to charge 20 per cent of the retail prices. In 1987, the price rose between 35 per cent and 40 per cent of the retail price.<sup>22</sup> The fee charged by the post office was far higher than the actual cost of delivery. Second, the proceeds from newspaper sales went first to the post office. It was only transferred to the newspaper publishers every six months.<sup>23</sup> Thus large amounts of capital were locked away and inaccessible to the *Guangzhou Daily*,

making further expansion very difficult. Third, under this monopolized distribution system, *Guangzhou Daily* was not able to control one of its most valuable assets - its subscriber list, from which it could determine the demographics of its readership and obtain feedback from those readers. One executive from *Guangzhou Daily* told the *South China Morning Post*, “We split from the post office because we thought they were not efficient and we could not control them.”<sup>24</sup>

Another important reason driving *Guangzhou Daily* to run its own distribution system is the unique Cantonese “morning tea” culture. Like people living in Hong Kong, Guangzhou residents have the habit of sipping morning tea while reading the newspapers in restaurants. *Guangzhou Daily* wanted to ensure it was delivered to restaurants every morning before 7:30 a.m. for readers to enjoy with their breakfast. But the post office routinely delayed delivery by three to four hours.

Furthermore, *Guangzhou Daily* was determined to build its own distribution networks because it was shifting from a “propaganda instrument” to a semi-commercialized industry and its mandate was evolving from “leading the masses” to “serving the consumers”.<sup>25</sup> After a two-year debate, there was an official reorganization of the newspaper industry as a “commodity” and a policy to commercialize newspapers.<sup>26</sup> In 1992, at the national meeting on newspaper business management, Liang Heng, the chief of the national press authority, acknowledged that besides news, politics, and culture, the objectives of the newspaper industry should include its commercial mandate.<sup>27</sup> With the recognition of newspaper as a commodity, *Guangzhou Daily* was

the first to realize that its main revenue would be derived from commercial advertising, and that circulation largely determines advertising rates. An effective distribution system would help attract readers and advertisers would follow. Despite the push to change, breaking up with the post office was a big risk. Internally, *Guangzhou Daily* experienced a long period of debate. Yet for *Guangzhou Daily*, circulation became an issue of life or death that had to be addressed. It turned out to be a remarkable success.

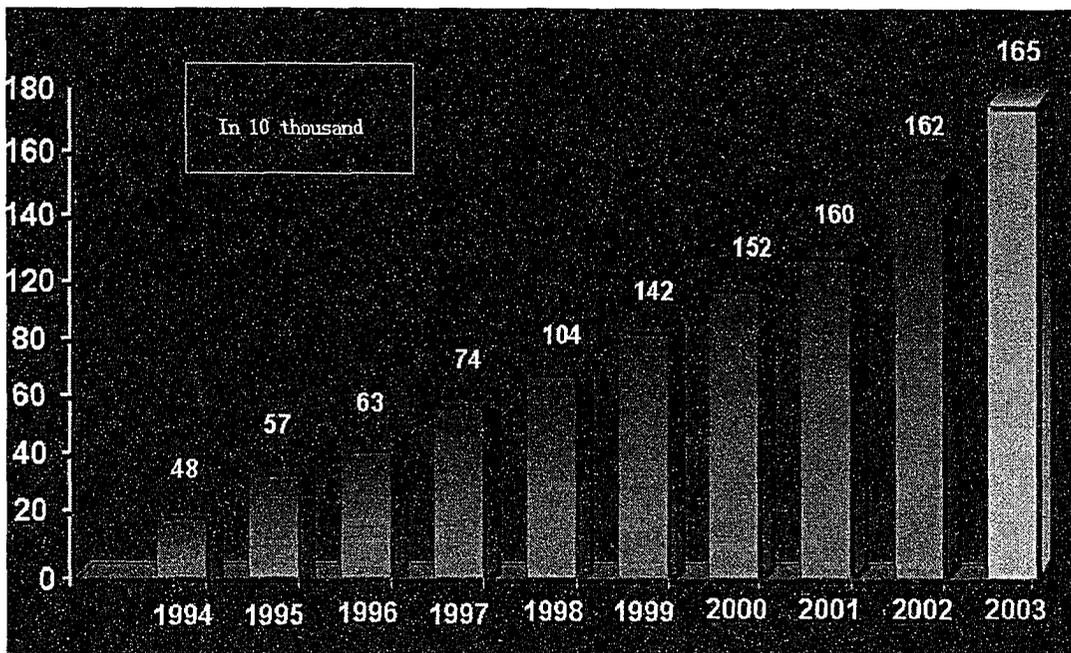
One of the main strategies in setting up its own distribution system was to open chain stores, which imitated the franchising model in Japan. The newspaper set up 105 small chain stores through out Guangzhou and about 50 elsewhere in the Pearl River Delta in 2001.<sup>28</sup> The chain stores, staffed by two or three people, offer a range of other services. Besides booking and soliciting subscribers and classified buyers, they sell stationery and books, groceries, as well as tickets to movies, concerts and other public events. For delivery of newspaper to homes every morning, the *Guangzhou Daily* relies on an army of nearly 3000 people.

After *Guangzhou Daily* shifted from the post service to its own distribution networks, the circulation dropped from 249,000 to 230,000 the first year, rebounded to 430,000 the second year, then increased by 30 per cent annually until it broke through 1,000,000.<sup>29</sup> *Guangzhou Daily* manages to deliver its newspapers to the doorsteps of more than one million people in one of China's most affluent regions before 7:30 a. m. and it does so seven days a week, 365 days a year. As Figure 3.2.1 shows, the circulation grew exponentially from 630,000 in 1996 to 1,650,000 in 2003. In the past, to expand pages, *Guangzhou Daily* had to obtain approvals from the supervisory department and the

post office one month in advance. Sometimes the newspaper had to refuse its advertising clients because it could not get the approval. With its own distribution system, *Guangzhou Daily* can increase or decrease pages according to market demands, meeting the needs for advertising space. The building of its own distribution systems also improved its cash flow, making it easier to manage the company finances.

**Figure 3.2.1**

**The Daily Circulation of *Guangzhou Daily***



Source: Guangzhou Daily Group Data Centre

**The Battle of the Big Three**

While serving the Guangzhou Communist Party Committee, *Guangzhou Daily* has been able to reform the rigid model of the party organ. Combining authoritativeness with readability, it has transformed a party organ into a metropolitan newspaper.<sup>30</sup>

Because *Guangzhou Daily* was the first major newspaper to embrace a market based

approach in China, the market soon rewarded it. However, *Southern Daily*, the mouthpiece of Guangdong provincial party, was not able to adjust to the new market conditions as swiftly as *Guangzhou Daily*. Some scholars have noted that in many provincial capitals the provincial party press faced a direct challenge from market-oriented evening papers.<sup>31</sup> Despite the fact that *Southern Daily*'s circulation had been ranked first amongst provincial party newspapers since 1986, it faced new and direct competition from its powerful cross-town rivals: *Guangzhou Daily* and *Yangcheng Evening News*.

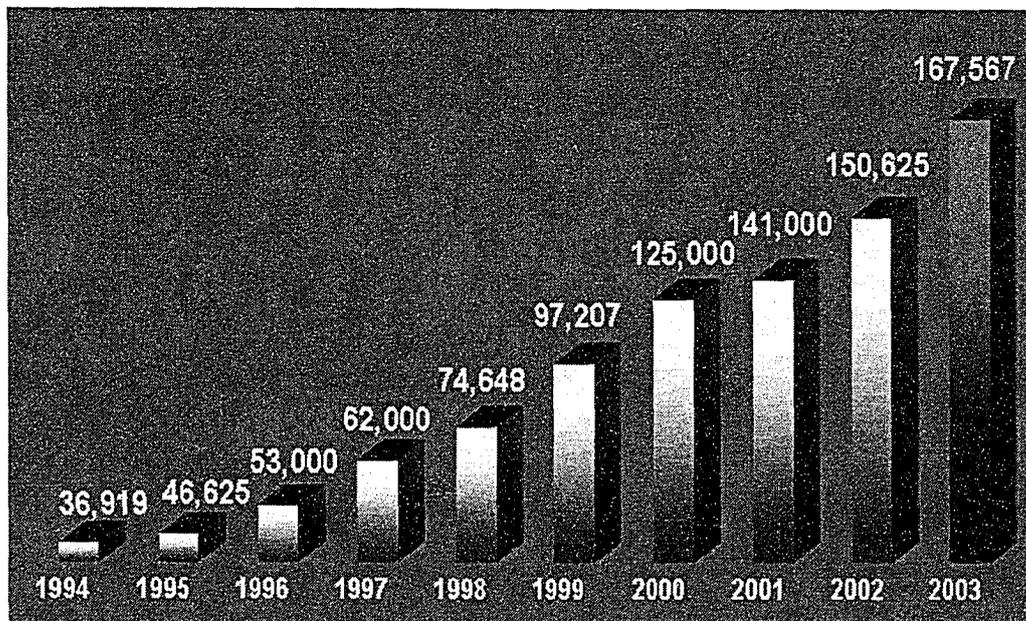
Before the economic reform, the state's allocation of material resources was carried out in favour of the party press. Thus party papers at various levels exceeded their mass-appeal counterparts by a large margin in terms of the natural resources at their disposal.<sup>32</sup> However, the move to commercialization in the 1990s disrupted the power structure among newspapers. Like the central party press, provincial party papers were put in an "unfair" situation in market competition. They were more strictly regulated than the mass-appeal evening papers. It was Deng Xiaoping's market economy itself that brought the provincial party paper to such a paradoxical situation: on the one hand, it was forced to be financially self-sufficient; on the other hand, as the backbone of the party's whole propaganda network, it was not allowed to simply transform itself into a fully commercialized paper.<sup>33</sup>

*Guangzhou Daily*'s dual strategies of expanding pages and building a distribution system significantly increased its advertising revenue. As Figure 3.2.2 shows, it has been the nation's largest advertising generator among newspapers since 1993. In 2001,

*Guangzhou Daily* generated advertising revenues worth 1.4 billion yuan, accounting for 18 per cent of national advertising income in the newspaper sector.<sup>34</sup> In 2002, total newspaper advertising revenue in Guangdong was 4.4 billion yuan. *Guangzhou Daily's* share was 1.5 billion yuan.<sup>35</sup>

**Figure 3.2.2**

**The Growth of Advertising Revenue of *Guangzhou Daily***



Source: Guangzhou Daily Data Centre

The main battlefield for advertising competition among the “Big Three”, is the real estate advertisements, which account for one-third of the Guangzhou newspaper advertising market.<sup>36</sup> From 1994 to 2001, *Guangzhou Daily* recorded the most revenue from real estate ads in China’s newspapers.<sup>37</sup> Real estate ads accounted for 50 per cent of its total advertising income.<sup>38</sup> The second largest real estate advertising carrier was *Yangcheng Evening News*. In 1999, the circulation of *Yangcheng Evening News* was 1.3 million, with one-third in Guangzhou, one-third in the rest of Guangdong province, and

one-third elsewhere in China.<sup>39</sup> Its circulation in Guangzhou was close to 400,000. Meanwhile, about 50 per cent of *Guangzhou Daily*'s one million readers in 1999 were concentrated in Guangzhou with the other 45 per cent elsewhere in the Pearl River Delta. Although *Yangcheng Evening News*'s national circulation is almost 300,000 more than *Guangzhou Daily*, in the city of Guangzhou, *Guangzhou Daily* has a daily circulation of 500,000 compared to 400,000 for *Yangcheng Evening News*.<sup>40</sup> Real estate advertisers, preoccupied with affluent urban residents in Guangzhou, were concerned more with the central urban market share than with the total circulation of a newspaper. Although *Yangcheng Evening News* devoted eight pages to real estate advertisements every week and tried to pull advertisers back, its real estate advertising was the second to that of *Guangzhou Daily*. Another cross-town rival, *Southern Daily*, had to publish government policies and address the needs of massive rural populations. It was not in an advantageous position to win the battle for increasingly wealthy urban audiences. With a rural readership and a distribution system that evolved slowly, *Southern Daily* was too late to gain its share from real estate advertising.

To avoid being overly dependent on real estate ads, *Guangzhou Daily* has tried to decrease its reliance on this revenue source by seeking new forms of advertising. In recent years, its real estate advertisements have decreased from 50 per cent, to 40 per cent, to 30 per cent of its total advertising revenue. It has done so by increasing its advertising income from telecommunication companies, automobile manufacturers, and classified advertising.<sup>41</sup>

### 3.3 *Yangcheng Evening News*: The Party Organ Supplement

*Yangcheng Evening News*, an evening newspaper, specializing in soft news and entertainment, was positioned as “the supplement of the provincial party organ.”<sup>42</sup> It was initiated in 1957, then closed down during the Cultural Revolution before resuming publication in 1980.<sup>43</sup> In the late 1950s and early 1960s, as Zhao explains, the party needed newspapers as a form of popular culture for the urban population, so it created 11 evening newspapers, most notably *Yangcheng Evening News* in Guangzhou, *Xinmin Evening News* in Shanghai, and *Beijing Evening News*.<sup>44</sup> *Yangcheng Evening News* was one of two evening newspapers which gained national audiences. It maintained a circulation of over one million from 1986 to 2001 with great influence in the country, especially in the 1980s.<sup>45</sup>

*Yangcheng Evening News*, under the mandate of “reflecting, intervening, guiding, and enriching lives”, pursues “reflecting the evolution of customs and social norms and enriching people’s life styles.”<sup>46</sup> It aspires to be “popular,” “extensively circulated,” and “close to life.”<sup>47</sup> With a national reputation, *Yangcheng Evening News* is renowned for its literary articles, entertaining content, sports news, and coverage of Hong Kong and Macau. Over the years, it has nurtured many of China’s best writers.

*Yangcheng Evening News* had been designed to be more reader-friendly due to the policy shift mentioned in Chapter 2 with the introduction of a market economy.

*Yangcheng Evening News* was not required to fill its pages with straightforward party and government propaganda. Zhao Chaogou, a leading Chinese journalist and the former editor-in-chief of *Xinmin Evening News*, described the evening papers as something consumed by readers “after their meal and tea”.<sup>48</sup> The popularity of the *Yangcheng Evening News* attracted numerous advertisers. However *Southern Daily* was still functioning as a propaganda mouthpiece of the provincial party committee and was required to air official information such as the central and local leader’s activities, government meetings, and official policies. While it was common in the 1990s for advertisers to wait days or even weeks to publish their advertisements in *Yangcheng Evening News*, the *Southern Daily* had to hunt desperately for advertisers.

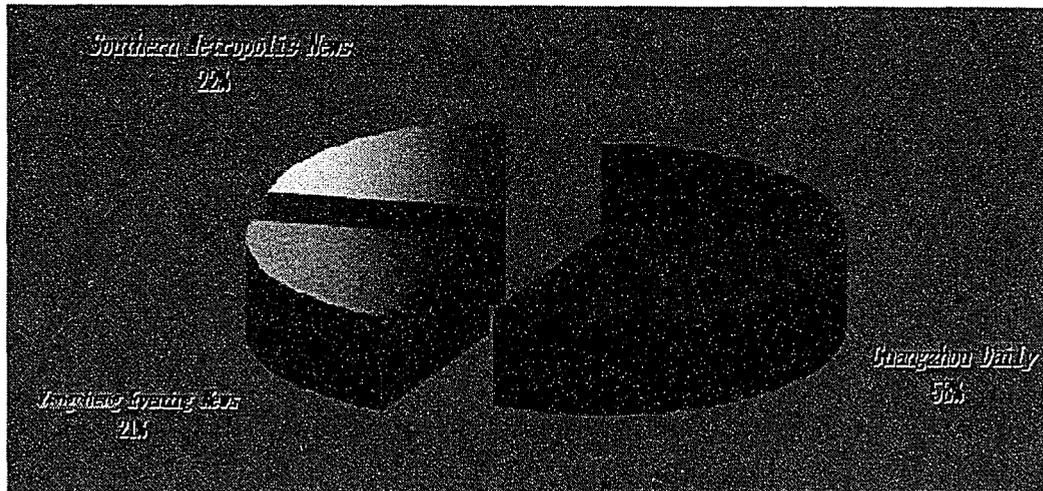
In addition, the dual distribution system created by the government put *Yangcheng Evening News* in an advantageous position. In October 1992, in the spirit of “market competition, survival of the fittest”,<sup>49</sup> the annual meeting of the national newspaper management proposed the concept of “two markets”: one paid by the state and the other paid by individuals. The scheme created a “state-paid market” and an “individual-paid market” in the newspaper industry.<sup>50</sup> While the circulation of national and provincial party newspapers remained steady through compulsory subscription by government agencies, evening papers distributed through open market methods saw their circulation rising steadily in the mid-1990s. *Yangcheng Evening News*, for instance, depended primarily on private subscriptions and street sales and has maintained a circulation of more than one million readers since 1988. While it followed *Guangzhou Daily* to set up its own distribution channels in Guangzhou and Pearl River Delta, it still

relies on the post office to serve readers in the rest of the country. Its dominant market position lasted until the mid-1990s when it was taken over by *Guangzhou Daily*.

On July 1<sup>st</sup>, 1997, *Guangzhou Daily* published a special edition of 97 pages for the British handover of Hong Kong to China. The issue triggered such a frenzy that readers in Guangzhou lined up to buy the special issue. Neglecting the historical opportunity, *Yangcheng Evening News* did nothing special for the event. The incident exemplified the *Guangzhou Daily*'s ascendance as the most important paper in Guangzhou in terms of circulation and advertising income.

In recent years, with the rise of *Southern Metropolis News*, three comprehensive dailies, *Guangzhou Daily*, *Southern Metropolis News*, and *Yangcheng Evening News* have accounted for more than 80 per cent of Guangzhou's newspaper market, especially the share of street sales as shown in Figure 3.3.1. From 2002 to 2003, *Guangzhou Daily* accounted for more than 40 per cent of the advertising market.<sup>51</sup> It is the undisputed "market leader" whereas *Yangcheng Evening News* and *Southern Metropolis News* are "market challengers". It has to be noted that most of *Southern Daily*'s circulation is largely from office subscriptions that use government money. However, over 85 per cent of *Guangzhou Daily*'s circulation was from private subscriptions.<sup>52</sup> This reflected *Guangzhou Daily*'s transition from a party press to a market oriented metropolitan newspaper.

**Figure 3.3.1 Percentage of Street Sale Circulation**



Source: Guangzhou Newspaper Distribution Centre

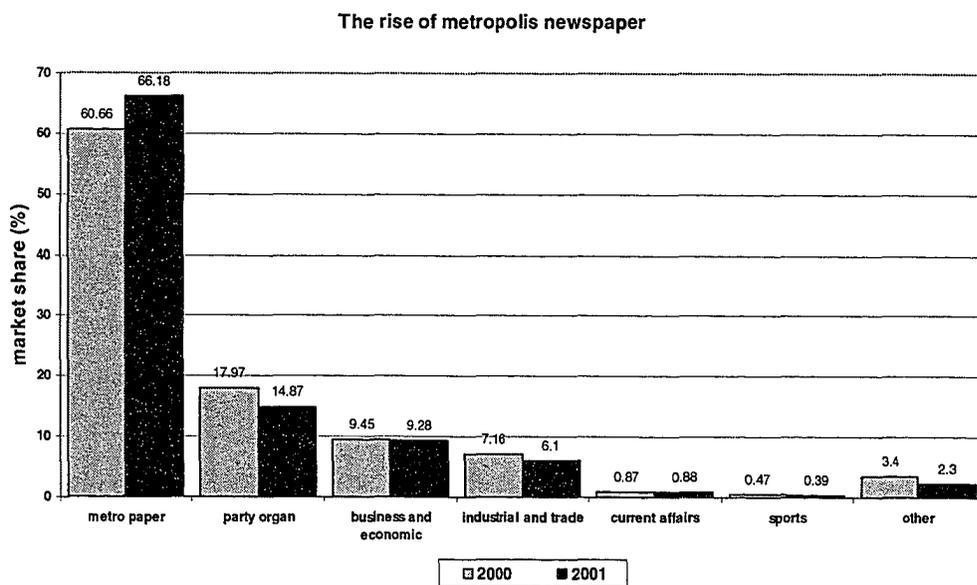
### 3.4 The Rise of Metropolitan Newspapers

Although *Southern Daily* adopted a series of reforms to win its market share, it could not fundamentally alter its status as the party organ. In the mid-1990s, 15 years after China's media reforms, to bail out the declining provincial party organs, China's top media policy-making bodies --- the Central Propaganda Department of the CCP and the Press and Publication Bureau of the State Council --- were forced to give way to the market and allow the CCP's orthodox provincial party papers to publish their own highly commercial daily newspapers, the metropolitan papers.<sup>53</sup> These market-oriented papers are more profitable than the party organs. Thus, a "peculiar trend"<sup>54</sup> of small papers subsidizing major papers emerged in China. In the city of Guangzhou, the situation was

even more complicated. It was *Guangzhou Daily* that first ignited the “newspaper war” by expanding pages, building its distribution system, and aggressively pursuing ad revenue. In an effort to draw advertisers back from *Guangzhou Daily*, both *Southern Daily* and *Yangcheng Evening News* launched their own metropolitan newspapers, *Southern Metropolis News* and *New Express News* respectively. Later, *Guangzhou Daily* fought back by buying and re-launching the *Information Daily* to counter the challenge from both *Southern Metropolis News* and *New Express News*.

The late 1990s witnessed the rise of metropolitan newspapers across the country. As the Figure 3.4.1 shows, metropolitan newspapers have grown at a faster rate than any other format. By late 1998, two-thirds of provincial party papers had established their own commercial daily newspapers.<sup>55</sup> With aggressive marketing, packaging, distribution and self-promotion, these newspapers quickly turned out to be big money makers. Rather than driving the traditional party organs out of the market, they act as cash cows that subsidize the parent party organ.<sup>56</sup> These metropolitan newspapers have been defined by some as tabloids, yet the definition of Chinese tabloid journalism is not as sensational or sexy as Western tabloids. According to Tom Mitchell, “The rise of the tabloid is recognition by the communist authority that the public is not very interested in the dull, gray, and party-line journalism of the past. Readers want more information about fashion, about celebrities, about human interest stories.”

Figure 3.4.1



1. Source: State Administration of Industry & Commerce, Advertisement Division
2. Note: Metro paper includes metropolitan newspapers and evening newspapers

In analyzing the rise of metropolitan newspapers in China's media landscape, four major reasons contribute to the metropolitan dailies becoming the dominant players in the urban areas.

First, the content of the metropolitan newspapers emphasizes breaking news, the consumer angle, accessible story formats, urban life, entertainment, sports, and other soft content.<sup>57</sup> These non-party papers were less tightly controlled than the party papers, creating considerable room for these papers to test the ideological limits. In contrast, the central/provincial party papers had to publish government policies and address the needs of massive rural populations. The relative autonomy granted by the state to the

metropolitan papers and the more liberal content made these newspapers better advertising vehicles.

The best example of this is the *Southern Metropolis News*. Its goal was to “build the best newspaper in China”.<sup>58</sup> It reflects urban life styles, covers the economic news closely, and addresses public concerns. It emphasizes “truthfulness”, “brevity,” “timeliness”, “liveliness” and “readability” through human interest stories covering issues such as accidents, murder, drugs, and police brutality. It also touches on sensitive issues, such as political reforms, sometimes in a radical fashion.

Chen, Yizhong, the former editor-in-chief of *Southern Metropolis News*, stressed that *Southern Metropolis News* used an alternative strategy to spur its growth:

From conceiving the paper, we decided to launch an entirely alternative paper from the existing Guangzhou papers. Only if we stand in front of a new starting line, could we catch up with and transcend them.<sup>59</sup>

The paper also adopts some internationally popular practices, such as multi-section folding, horizontal layout, a reading guide on the front page, big pictures, huge headlines, and sensational language. All this has created a “new mainstream” that shocked the status quo of Guangzhou’s newspaper market. It has attracted readers from different classes, ages and educational backgrounds.

Second, the metropolitan newspapers thrive in the cities that have the most developed economy and culture. During the late 1990s, the per capita income of Guangzhou residents ranked first among Chinese cities. The average urban annual

income per capita of Guangdong was US\$1,191 (approximately 10,000 yuan) in 2000<sup>60</sup> and US \$3,000 in 2003 (approximately 25,000 yuan).<sup>61</sup> Guangdong ranks first in the country in household consumption, spending a total of nearly 3.2 billion yuan in 1998.<sup>62</sup> The high income and flourishing spending habits in Guangdong provides Guangzhou's metropolitan papers with huge market potential. October 1 is China's National Day, marking the beginning of a seven-day holiday for Chinese citizens. On Oct. 1, 2002, the *New Express News*, a metropolitan paper launched by *Yangcheng Evening News*, published an 80-page edition, including a special four-section supplement packed with advertising targeting holiday shoppers.<sup>63</sup> As Guo noted, with the gradual separation of political and economic imperatives, the equation between power and resources was rewritten as mass consumption and mass communication were connected in a commercial setting for the first time in China.<sup>64</sup>

Third, changing client behavior has revised advertiser-newspaper relations. The advertisements in China are divided into four types ---- production material advertising (industrial equipment, raw materials, etc), consumer goods advertising (electronic appliances, food, cosmetics, etc), classified ads, and real estate.<sup>65</sup> The share of production material ads fell from 32.1 per cent in 1986 to 12.8 per cent in 1996.<sup>66</sup> Meanwhile, the share of advertising for consumer goods steadily increased. The trend was most conspicuous in Guangdong. As a theory a smaller share of production material ads suggests a more sophisticated retail market. In the past, the production advertising capital flowed indiscriminately to the party press because its readership consisted of many decision makers. Party papers carry considerable influence in the eyes of production materials advertisers.<sup>67</sup> With the increased advertising of consumer goods, the advertising

clients shift their interest from the readers of party press to affluent urban consumers who privately subscribe to metropolitan newspapers. For instance, *Southern Metropolis News* set up its own distribution network with a complementary system from the state-run postal services.

Finally, these metropolitan newspapers have introduced highly competitive operational procedures in their newsrooms. Organizationally, they differ from both provincial party papers and the traditional evening newspapers in many ways: personnel policy, administrative structure, salary system, journalistic philosophy, distribution strategy and so on. Regarding its personnel policy, for example, at the *Southern Metropolis News*, except for a few senior personnel appointed by their parent papers, all other staff members in metropolitan newspapers are appointed on a contractual basis. In terms of advertising strategy, *Southern Metropolis News* attracted advertising clients by discounting rates, competing for market share with *Guangzhou Daily* and *Yangcheng Evening News*.

In a nutshell, *Southern Metropolis News*' alternative strategy helped it become a new mainstream paper with influence and credibility. Born in 1997, the paper has grown to be the best-selling newspaper in the country with daily circulation of 1.56 million in 2003. Its advertising revenue also surged to 1.2 billion yuan in 2003.<sup>68</sup> The metropolitan newspapers, equipped with their "new" theory and "new" operational methods, have added a new element to China's newspaper landscape.

As Table 3.4.1 shows, as of August 2004, *Southern Metropolis News* was ranked the country's fifth top advertising generator with revenue of more than 700 million yuan between January 2004 and August 2004.

**Table 3.4.1 China's Top Ten Newspapers by Ad Revenue in 2004**

January 2004 – August 2004		(In 10,000 yuan)
List	Newspapers	Ad Revenue
1	<i>Guangzhou Daily</i>	107624.28
2	<i>Beijing Youth Daily</i>	100642.24
3	<i>Beijing Evening News</i>	95112.29
4	<i>Half Land Metro News</i>	93564.00
5	<i>Southern Metropolis News</i>	75371.10
6	<i>Shengzhen Special Economic News</i>	58528.24
7	<i>Morning News Daily</i>	56663.62
8	<i>Xinmin Evening News</i>	53559.63
9	<i>Modern Express</i>	52752.96
10	<i>Every Day News</i>	50417.10

Source: Huicong International Information

### 3.5 The Rise of the Southern Daily Group

The policy allowing provincial party organs to publish commercialized subsidiary newspapers provided an equal opportunity for competition in the market. Following nationwide trends of launching metropolitan newspapers, *Southern Daily* first launched the *Southern Metropolis News* on Jan. 1, 1997,<sup>69</sup> hoping to steal advertising clients back from the aggressive *Guangzhou Daily*. Although *Southern Metropolitan News'* advertising revenue was merely three million yuan in its first year, its advertising income increased to 18 million yuan in 1998 and 594 million yuan in 2002.<sup>70</sup> Responding to the *Guangzhou Daily's* transformation from a party paper to a metropolitan newspaper and

the rise of *Southern Metropolis News*, *Yangcheng Evening News* launched its own metropolitan newspaper, the *New Express News*, in May 1998.<sup>71</sup> The Guangzhou Daily Group hit back by expanding *the Information Times*, a 16-page business newspaper, to a 40-page metropolitan newspaper aimed at drawing readers back from the *Southern Metropolis News* and *New Express News*. Just as the Southern Daily Press Group uses the *Southern Metropolis News* and the Guangzhou Daily Group uses the *Information Times* to give readers what they really want, the Yangcheng Evening News Groups saves its more daring reporting for its *New Express News*. For example, on Feb.1, 2005, the front-page headline of *Southern Daily* was “Members of the CCP Should Go Ahead of Our Times”. This story was about the lecture that Zhang Dejiang, Secretary of Guangdong Communist Party Committee, gave to a training session of the members of CCP. Another headline on the front page was the story of Feng Shangyi, who was honoured by the party for sacrificing his life in fighting crime.<sup>72</sup> On the same day, the headline for *Southern Metropolis News* was “China Discovered 16 Cases of Meningitis.” Another front-page story told the story of Feng Mingchang, director of Fushan Bank, who was accused of accepting eight million yuan in bribes.<sup>73</sup> The journalistic philosophy between the two papers is apparently different.

Since 1999, the city of Guangzhou alone has had six general interest daily newspapers. Three big newspapers with their three little sisters have waged a fierce battle for market share in the city. This competition has fostered the most advanced media market in mainland China. Yang Bin, the deputy editor-in-chief of *Southern Metropolis News* says:

Guangzhou is a battlefield for a cut-throat war among three giant newspapers and their respective offspring. In the face of such a powerful news-making machines, we can't have one peaceful day without thinking about the fresh news style and promotion fray, without throwing out the most eye-opening stories. You simply can't survive without producing so many pages full of stories. It is a struggle to win or lose, a story to be or not to be.<sup>74</sup>

Since the inception of *Southern Metropolis News* and the formation of its press group in 1998, Southern Daily Press Group has gradually developed to be the most influential newspaper group in terms of circulation, market share, and the impact on Chinese society. In 2001, Southern Daily Press Group, was ranked as one of the 50 most promising enterprises in China, the only newspaper group to do so. In 2002, the total revenue of the group was 1.6 billion yuan. Four newspapers boasted circulation in excess of one million per issue, two of them from the group.<sup>75</sup> As Table 3.5.1 shows, *Southern Weekend* and *Southern Metropolis News*, two of its affiliates, are competing vigorously with *Guangzhou Daily* and *Yangcheng Evening News*. The circulation of the group's flagship newspaper, *Southern Daily*, was also impressive, with a daily circulation of 750,000. Since 1986, *Southern Daily*'s circulation has been ranked first amongst the provincial party organ newspapers.

**Table 3.5.1 Circulations of Five Biggest Newspapers in Guangzhou in 2002**  
(In million)

<i>Guangzhou Daily</i>	<i>Yangcheng Evening Daily</i>	<i>Southern Weekend</i>	<i>Southern Metropolis News</i>	<i>Southern Daily</i>

Source: China Press Statistical Year Book

Two successful strategies led the group from lagging behind to leading the way. First, incubating new newspapers and multi-branding; second, fostering talented journalists. Southern Daily Press Group was able to distinguish its products and explore different markets. The flagship and affiliate newspapers are supplementary. Fan Yijin, the executive of Southern Daily Group, observed: “Given the fierce competition in media market, newspapers need to set up brand identity in order to keep the loyalty of media consumers.”<sup>76</sup>

Southern Daily Press Group possesses several prominent brand name newspapers. Launched in 1984 by *Southern Daily*, *Southern Weekend* has grown to be the undisputed “First Weekly” in China.<sup>77</sup> The *Southern Metropolis News*, second only to *Guangzhou Daily*, has shaken up Guangzhou's competitive media market in terms of overall profits. It claimed a circulation of 1.4 million in 2003 with advertising revenue of 1.2 billion.<sup>78</sup> The *21<sup>st</sup> Century Business Herald*, launched less than five years ago, is regarded as one of the nation's best business newspapers.

The group makes full use of its resources to incubate popular newspapers. According to the publisher of Southern Daily Press Group, the formation of the group has enabled it to share resources, thus fulfilling the prophecy that “dragons give birth to dragons, phoenixes give birth to phoenixes.”<sup>79</sup> *The 21<sup>st</sup> Century Business Herald* is an example of the success of the “incubating” model. The newspaper was actually planned, launched, and managed by three young journalists from *Southern Weekend*. Shen Hao, Liu Zhouwei, and Li Rong used to be the managing editors of the news desk, business desk, and entertainment desk respectively. Now they are the editor-in-chief and deputy

editors-in-chief of the *21<sup>st</sup> Century Business Herald*. The success and national influence of the *Southern Weekend* provided elite journalists, a distribution system, advertising clients, and a dozen printing presses throughout mainland China for *21<sup>st</sup> Century Business Herald*. One month of free subscriptions led to 200,000 paid subscriptions. In 2000-2001, the two main investors of *21<sup>st</sup> Century Business Herald*, Fuxing Industrial, a pharmaceuticals firm, and Southern Daily Press Group invested a total of 20 million yuan to start the weekly newspaper. It has quickly become profitable. In 2001 the total earnings of *21<sup>st</sup> Century Business Herald* was about 10 million yuan; in 2002 35 million yuan. In 2003, its advertising revenue reached 90 million.<sup>80</sup> Now the group expects it to become the third newspaper with advertising revenue surpassing 100 million yuan. Shen Hao, the ambitious young editor-in-chief claims, "We aim to become the China's *Wall Street Journal*." <sup>81</sup>

The brand power of Southern Daily Press Group attracts editorial talent. The best journalists from other provinces poured into Guangdong because of a flexible personnel management system that was based on merit. Fan Yijin says that the publisher's mission should focus mainly on two issues: the orientation of public opinion, as well as the talent and intellectual capital.<sup>82</sup> In other words, he wants to give the group's subsidiary newspapers enough autonomy to allow the young executives to use their skills. In the Southern Daily Group, he is widely regarded as an open-minded and supportive boss. The Southern Daily Group has drawn a great number of young people, many of whom see the group as their dream company to work for. In 2002, 6000 college graduates applied for 60 positions at Southern Daily Press Group. Last year, more than 10,000 people competed for 100 openings.<sup>83</sup> The group is especially popular with graduates from

prestigious universities such as Beijing University, People's University, and Fudan University. It also attracts the very best senior journalists. It has obtained a reputation as the "Huangpu Military Academy" of the newspaper industry. The Huangpu Military Academy is famous in modern China for producing most of the leaders in both the Communist Party and the National Party. While the group draws talents from other provinces, many journalists have been invited by newspapers in other provinces to assume key positions.

Unlike the uncompetitive working units mentioned in Chapter 2, Southern Daily Press Group provides a cut-throat but flexible environment. Staff can choose to work in its affiliate newspaper or beats of their interests. In this way, the group avoids losing experienced journalists. Jiang Hua, a well-known journalist in the group, says he is lucky and happy to work in the group.<sup>84</sup> Formerly a senior reporter at *Southern Weekend*, he is now working as an editor at *Southern People*, a newly launched magazine of the Southern Daily Group. In a department, staff can elect their chief, who has the mandate to choose staff. Excellent journalists are courted by many departments, while the mediocre ones have to wait to be appointed. And the new bosses are getting younger. From 1995 to 1999, the average age of management declined from 48 to 39. Many senior executives are very young, with most editors-in-chief in their 20s or 30s.<sup>85</sup> For example, in 2000, *Southern Weekend* shocked the media community in Guangdong by appointing Xiang Xi, a 28-year-old to be the editor-in-chief. Another star in the group is Shen Hao who became deputy editor-in-chief for *Southern Weekend* in his 20s. Now the creator and publisher of *21<sup>st</sup> Century Business Herald*, with two subsidiary newspapers and two magazines under his control, he is still in his early 30s.

### 3.6 Managing the New Reality of Guangdong Newspapers

Profiting from vigorous market reform, *Guangzhou Daily*, *Southern Daily*, and *Yangcheng Evening News* and their subsidiary newspapers are now completely self-sufficient. Advertising income is their main source of revenue. Among the most profitable Guangzhou newspapers, *Guangzhou Daily* has stayed as the number one advertising generator nationally for 11 years. Asked about its marketing strategy, Wu Shusheng, director of advertising, says that *Guangzhou Daily* has its own way of promotion.<sup>86</sup> As the organ of Guangzhou Communist Party, *Guangzhou Daily* strives for going along with the party line while catering to a wide audience. One creative and effective strategy is to have hundreds of advertising staff carefully study each page of the paper and then go out and promote the paper. Nevertheless, these people are not responsible for soliciting advertising and collecting revenue. Rather they are well-trained professional advocates of *Guangzhou Daily*. About 95 per cent of *Guangzhou Daily's* advertising is conceived by external advertising agencies. Meanwhile, the advertising workers serve as a bridge between the newspaper and its audience. *Guangzhou Daily* often publishes information pages free of charge to satisfy its readers. With some experience in Japan and North America, Wu believes his paper is more flexible than some western media organizations despite the fact that the Chinese news media still lag behind the professionalism of Western journalism.<sup>87</sup>

All three groups have adopted international techniques to assess their newspapers. They have invited well-known media research agencies such as Gallop and Nielsen to conduct surveys for them. *Guangzhou Daily* has successfully demonstrated its overall

competence to its clients by using the statistics provided by these agencies. Other newspapers have followed suit. The three groups have also built world-class printing plants. *Guangzhou Daily* invested nearly one billion yuan to build a printing centre with capacity of printing five million pages per hour. Southern Daily Group developed a system that integrates editorial, printing, electronic publishing, satellite communication, and online information services. It uses its facilities to print more than 170 other newspapers, including the southern edition of *People's Daily*. Yangcheng Evening News Group opened its new printing centre in 2002, the first fully digital printing facility in China. <sup>88</sup>

### **Newspaper Management**

The management structure of Chinese newspapers was formulated in the planned economy era. Generally, a newspaper consisted of two major divisions: the editorial division and the administrative/management division. But the relationship between the two divisions had long been awkward. The division of responsibility between the publisher and the editor-in-chief was especially confused. Another problem was the absolute superiority of the editorial department over the business department. He has noted, prior to 1990, when newspapers counted on unfailing state subsidies, editorial “correctness” was the primary concern. The manager had only a marginal role to play in the organization’s decision-making process. <sup>89</sup>

Economic imperatives and market vibrancy have resulted in a fundamental restructuring of the division of labour ---- and relative power ---- between different units

and departments within media organizations.<sup>90</sup> Some signs show that economic interests are gaining momentum. The international ratio of editorial staff to business staff is about 7 to 3; but in China the ratio was reversed. To enhance economic efficiency, *Yancheng Evening News* first restructured its overall management in 1994.<sup>91</sup> Called the “Three Horse Cart”, the management structure means a director supported by an editor-in-chief and a general manager, each responsible, respectively, for the editorial side and the management side of the paper. The change was described as “now the newspapers are run by bosses.”<sup>92</sup> The business staffs at the newspaper were now positioned at the same level as the editorial sector. The editor-in-chief had to shift and share part of the power with the business manager in formulating and implementing newspaper policies. The planning and finance departments are now frequently involved in decision making and are consulted on all business matters.

Although there is an emphasis on business management, most of the news outlets are short of professional managers. Many business managers are promoted from editorial departments. Xiao Peng, the secretary of the executive of Yangcheng Evening News Group, says that people with MBA degrees often earn less than the journalists. In his view, Guangzhou newspapers should hire a number of professional managers majoring in MBA, finance, and market management to improve the overall operation of the newspaper.<sup>93</sup>

## Personnel System

In contrast to the old personnel system which the personnel ministry or bureau set quotas for permanent employees, the three newspaper groups hire reporters and editors on a contractual basis. New employees have to pass a three-month probation period before they are given a one-year contract. The key personnel of subsidiary newspapers are appointed by their “core” newspapers. All other staff are appointed through external advertisements. Senior executives of subsidiary newspaper have the full responsibility and freedom for the recruitment and dismissing of other employees. In addition, all newspaper outlets in these three newspaper groups have their own incentive systems. News organizations evaluate their employees’ performance by marking. For example, at *Southern Weekend*, the stories are scored on the basis of importance, timelines, and writing style. A reporter who scores under the C level for three months in a row has to leave. If an editor has four pages scored under two out of five in one year, he/she has to leave.

In this personnel system, employees are held strictly responsible for their work. As mentioned in Chapter 2, the life-long “iron rice bowl” was completely broken. High-quality work could lead journalists to higher income and even fame, whereas substandard work and mistakes could mean dismissal. For instance, *Southern Metropolis News* implemented a strict rule to avoid the errors in its editorial content. Any error in the title of a headline will incur a 500 yuan fine for the editor and proofreader. Every month the editor with the most errors is suspended from his/her position and retrained. Any editor trained twice in six months is dismissed.<sup>94</sup>

## Journalists' Income

Market competition has significantly altered the salary structure of Chinese journalists. In the 1980s, they were paid according to a professional grade (senior editor/reporter, head editor/reporter, editor/reporter, and assistant editor/reporter), regardless of the size or status of their media units.<sup>95</sup> Operating within the administrative structure of the state, journalists were paid uniformly according to the four professional ranks, irrespective of whether they worked for a national or local media organization. For journalists now working in Guangzhou, the professional grade, largely decided by seniority, is not as important as before. For instance, *Southern Metropolis News* regards the professional grade as irrelevant. It hires staff based on job performance regardless of rank. Everyone has a monthly basic wage of 500 yuan. The “flexible wage”, distributed on the basis of the quality and quantity of individual’s work, could be as high as over 20,000 yuan per month or could be as low as 3,000 yuan monthly. *Southern Metropolis News* has the total of ten different levels of income for its employees without reference to professional grades.<sup>96</sup> Previously, media workers received salaries and fringe benefits, especially housing and medical care, solely from the government.<sup>97</sup> With China’s housing reform, news outlets are no longer responsible to provide staff with housing. Like all Chinese working people, media workers have to buy their own apartments, most of them through a mortgage. The Guangzhou Daily Group has a flexible, but somewhat secretive

policy of helping star journalists to buy property by paying a large sum of their down payment as an incentive. In some of the profitable Guangzhou newspapers, the compensation for the editors-in-chief and star journalists is about 300,000 yuan per year in 2001. By 2002 incomes had reached 500,000 yuan.<sup>98</sup> The average journalists' income is two times that of university professors. Journalists in Guangdong with high salaries and bonuses are now leading upper middle-class lifestyles. Many of them own property in the city's best areas.

Moreover, the flexible wages are tied to both the newspaper's revenue-generating ability and the individual worker's performance. In the past, when incomes were much more uniform, national media organizations were judged by their prestige. At present, however, the organization's ability to garner advertising revenues is a more important determinant of the reporter's income than either the media unit's administrative status (central, provincial, municipal, or county) or the reporter's professional grade. For example, Du, Jiang, a senior photographer in the southern edition of *People's Daily*, earns over 4000 yuan per month. But he says a junior photographer at *Southern Metropolis News* could earn three times that much if he works hard.<sup>99</sup> Previously, working for national news outlets such as *Peoples' Daily* or Xinhua News Agency was seen as an honour among journalists, many of whom enjoyed the privilege of following the central leaders when they traveled around the world. Journalists in national news outlets found it easier to land an interview with critical sources than those in local news outlets and therefore, they were always the first group of journalists to cover breaking stories and become well-known amongst their peers. But working for the prestigious

national news outlets has lost much of its allure as other opportunities open up. A number of journalists have moved from their previous jobs at central newspapers to news outlets in Guangzhou. For example, dozens of journalists in *21<sup>st</sup> Century Business Herald* are from the national news outlets. In an interview in Guangzhou, Shen Hao stressed that high wages are not the main reason that his paper attracts talented journalists. The ideal of making a great Chinese newspaper, the freedom his paper allows, and the responsibility of making the world a better place make *21<sup>st</sup> Century Business Herald* the model place for these young intellectuals.<sup>100</sup>

### **Reducing Journalistic Corruption**

Many observers have noted widespread corruption among Chinese journalists.<sup>101</sup> In the 1990s, Chinese journalists were notorious for receiving money or gifts from their interviewees or event organizers. Paid news, advertisements in the form of news stories, and sponsored columns and pages were rampant in the Chinese press. The most radical advertising practice saw newspapers selling their entire front page to an advertiser for a day. A debate on the use of the front page for advertising space was waged in Guangzhou press circles in the early 1990s. Some people believed the front page must be reserved for the most essential news of the day. Nevertheless, others thought the prestigious first page could be used to publish advertisements as well. Some pioneering newspapers realized that the front page had higher market value and could be sold to the advertisers at higher prices. As a result, the news was placed to the second page. *Guangdong-Hong Kong Information News*, one of the earliest business newspapers in mainland China and now an affiliate newspaper of Yangcheng Evening Press Group, was the first to publish

advertisements on the whole front page.<sup>102</sup> The news was relegated to the second page. The front-page colour advertisement cost more than 140,000 yuan in the mid-1990s. Today, the cost of front page advertisements has reached more than 280,000 yuan.<sup>103</sup>

Commercialization was so aggressive that managers at some papers offered commissions to journalists who successfully solicited advertisements. Although the advertising and editorial departments are formally separated, journalists sometimes solicit advertising while gathering news. Some journalists were corrupted as various enterprises and interest groups wanted them to advocate their products or causes. The commission was once up to 20 per cent of the total advertisement price. If a journalist successfully sold a front page advertisement, he/she could earn 70,000 yuan immediately. This practice seriously eroded the profession and was widely criticized by a number of journalists' associations.

To maintain professionalism and ensure the quality of reporting, Guangdong newspapers take pains to promote honesty and eliminate "envelope journalism", which saw journalists receive cash bribes in exchange for publishing promotional material. The so-called "red packet" no longer prevailed. The Southern Daily Press Group is the most determined to wipe out paid journalism. It adopted strict rules aimed at eliminating institutional corruption. Journalists are prohibited from receiving "red packets". Anyone who crosses the line is punished. For example, when a reporter with *Southern Metropolis News* was found to have written a story favouring one product over another, he was denounced of violating the professional code and forced to pay a 3000 yuan penalty.<sup>104</sup>

Another reporter lost his job for participating in “paid news”. In November, 2002, the automotive page of *Southern Metropolis News* ran a story about an anti-theft device produced by Yonghua SmartSystem Co. Ltd. based in Dongguan, an industrial city east of Guangzhou. On the same day, the newspaper received a letter from the company revealing that the reporter of the story pocketed 6000 yuan from the interviewee, the vice-general manager of the company. The management of the newspaper deemed this action as the violation of the professional code of *Southern Metropolis News*. As a result, the reporter was dismissed after returning the pocketed money and being fined 6000 yuan.<sup>105</sup>

By and large, Guangzhou’s three newspaper groups have been the first to enter the open market. By following the laws of the market, they have adopted a series of reforms and have become financially successful. This chapter tracked the historical developments of Guangzhou’s three newspaper groups, including major events, strategies, and renovations. As Zhao Yuezhi noted, the interaction between these different press sectors and their complicated institutional and financial relationships, however, defy any simplistic market versus state dichotomy.<sup>106</sup> Media managers initiated innovations in the interest of instant benefits, but party and administrative departments protected their own self-interest while leaving limited spaces for media innovation. The next chapter will examine the struggle between market forces and state commands that created this evolution.

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## Chapter 4

### Politics versus Profits: The Enduring Dilemma

The development of media industries typically involves the interplay between two major forces, politics and the economy. Although financial controls over the media have eased due to the growth of the advertising market, there have been no fundamental changes in the relationship between the press and the government. Caught between rapid economic growth and political discipline, the press in China seems to be undergoing a quiet quasi-revolution. As Lee noted, China's market is structurally embedded in and intertwined with ---- rather than separate from --- state policy, while the commercialized media do not oppose the ideological premises of the party-state. Yet economic vibrancy has generated partial momentum of its own, yielding considerable media expansion in non-political discourses.<sup>1</sup>The fate of Guangdong's three newspaper groups and their subsidiary publications provides compelling case studies illustrating the struggle to serve the party vis-à-vis the market. Those able to balance the party lines and market principles succeed, while those failing to keep balance, died.

#### 4.1 Party Commands and Market Instincts

One of the central problems facing political communication in China in the 1990s involves what Lee called the "ambiguities and contradiction" arising from the relationship between continued state control and economic reform.<sup>2</sup> By nature, the party press is bestowed with an unambiguous political mission ---- serving as the party's voice to promote its interests, policies, and ideology. However, for a variety of reasons, the

most obvious of which is the budget burden, even the party organs have been thrown out of the party-state budget and forced to survive in the market. On the one hand, the media are subject to ideological control and acquire political status. On the other hand, they can only sustain themselves under market conditions. Zhou He uses the metaphor “tug-of-war” to conceptualize the dual dynamics that drive the Chinese party press today. It assumes a game in which each contestant tries to pull the other to its own domain.<sup>3</sup>

In such a game, the CCP served both as a catalyst and constrainer. To help major newspapers achieve financial independence, the party allowed them to publish market-oriented tabloids and turn their non-editorial supporting departments into profit-making businesses. This paved the way for press conglomeration in the late 1990s. As Lee noted, the Communist Party had a history of hostility towards press conglomeration in the Western countries, denouncing it as a manifestation of how the oppressive capitalist class seeks to control public opinion.<sup>4</sup> Therefore, it seemed to signal a peculiar reversal of policy when the State Press and Publication Administration approved the *Guangzhou Daily* as China’s first press group in 1996. After two years as a conglomerate, *Guangzhou Daily*’s circulation increased about one-third, to more than 815,000. Thus, encouraged, the central government approved the establishment of two more newspaper groups in Guangzhou, followed by two in Beijing, one in Shanghai and one in Shenzhen.<sup>5</sup> Today, China has established 39 newspaper groups, 13 radio and television groups, nine publication groups, five distribution groups, and one periodical group.<sup>6</sup> The principal purpose, agreed upon by the State Press & Publication Administration and the China Newspaper Association, was to “enable party organs to consolidate a powerful economic base through the market mechanism and ensure the better fulfillment of the party’s

propaganda objectives”.<sup>7</sup> Official rhetoric vaguely justifies conglomeration as a measure to upgrade the quality of the Chinese press and its economy of scale. The real reason is for the state to absolve itself of financial obligations and for the core media to profit from takeovers and mergers.<sup>8</sup>

Meanwhile, press conglomeration is strictly engineered by the state. It has tried to organize newspaper conglomerates around core and affluent party organs, which serve to absorb unprofitable, chaotic, and disobedient small publications.<sup>9</sup> These conglomerates, however, are not permitted to own any broadcasting interests or cross provincial borders.<sup>10</sup> Only centrally approved party papers that meet a series of operational conditions are allowed to take over other papers. According to Zhao, these press groups are part and parcel of “socialism with Chinese characteristics.” They are financially independent but they are affiliated with the party’s propaganda department, and their publishers and editors-in-chief are appointed by and accountable to their affiliated party committees.<sup>11</sup> At Guangzhou Daily Group, Li Yuanjing, the politically ambitious former editor-in-chief, was also the director of Guangzhou city’s party propaganda department. There was another reason behind the selection of *Guangzhou Daily* to be the first press group. Since *Guangzhou Daily* was only a low - ranking municipal party paper located in relatively liberal Guangdong, any negative consequences of press conglomeration would not be seen as a significant setback, says Qin Suo, the former editor-in-chief of *Southern Wind Window*, a subsidiary magazine of Guangzhou Daily Group.<sup>12</sup> *Guangzhou Daily*’s experience was carefully studied by the top party and state propaganda officials. Its remarkable economic accomplishments have led media theorists in China to conclude that commercialization is not incompatible with party control. As Huang argues,

“Marketized operation does not necessarily lead to a loss of political control; the existence of political control does not necessarily hinder the development of news organizations on their own terms.”<sup>13</sup> Lee views press conglomeration as a new scheme for state management of the emerging symmetry between media economics and politics:

In the Chinese context, the economic independence can weaken political control and enhance editorial autonomy. The irony is that the authority tolerates these conglomerates groups because they can serve as the means to control chaotic free competition and limit the proliferation of minor papers. So far, Chinese authorities satisfied that the communist party, not the capitalists, gains control of China’s press conglomerates. They seem to have found in press conglomeration a simplistic solution to the maintaining of state control and its unloading financial burdens. China’s media conglomerates will remain under the control of the party rather than “rotten capitalists”.<sup>14</sup>

Meanwhile, newspaper groups do not oppose the ideological premises of the party-state, but trade their political loyalty to the party for market privileges. Party and state favouritism in return can foreshadow enormous commercial gains. This prospect points to another state capitalism of conglomerates with Chinese characteristics.

*Guangzhou Daily*’s Li, for example, said famously:

Big premise: Newspaper must follow the party’s policy in order to survive.  
Small premise: Newspaper must attract readers in order to increase circulation.  
Conclusion: Newspaper can not survive and increase circulation without addressing both party’s policy and readers’ interest. <sup>15</sup>

As the earliest and most profitable press conglomerate in China, the *Guangzhou Daily Press Group* has skillfully maximized its fortune while carefully observing the party line. In turn, it successfully bargained with the state for preferential tax treatment.

## **Towards Depoliticization**

Market forces have been crowding out blunt political propaganda from newspaper pages for some time now. More than two decades of economic reform have transformed China's totalitarian regime into an authoritarian regime. But the erosion of the old system, Lee emphasizes, "has progressively depoliticized the state, economics and culture, thus creating considerable room for media liberalization in the social, but not in the political areas."<sup>16</sup> Pure and blatant political propaganda, which used to dominate the media landscape in China, has been greatly curtailed. In 1997, the state redefined the objectives of the press from the single-minded pursuit of "social impact" to "an optimal integration between social impact and economic impact, with social impact taking precedence".<sup>17</sup>

The state is still highly authoritarian, arbitrary and intrusive, as Lee noted.<sup>18</sup> But it has given the media freedom in areas that do not directly confront the party-state dominance. Many untouched taboos in the past including official corruption, social disorder, violence, sex, and AIDs have been widely reported in the media, most notably in some of the liberal Guangzhou newspapers such as *Southern Weekend* and *Southern Metropolis News*. Despite China's increasing press freedom, some areas remain off limits until they are reported by the official government news agency - for example, the struggle for positions in the ruling Politburo, breaking news of a political scandal, human rights, and Falungong.

Meanwhile the so called “repackaging of party propaganda”<sup>19</sup> and the “soft sell”<sup>20</sup> also found favour. As the currency of party propaganda became increasingly devalued, more refined forms for packaging, presenting, and selling the party line were developed. While depicting state controls over current Chinese cultural production, Baume recounts many stories of the adaptability of the propaganda machine to commercial styles of presentation. As a profit centre, “the press, instead of endowing most mundane issues with political significance, is making serious political topics lively and interesting enough to attract the consumer’s attention”.<sup>21</sup> New editorial policies of party newspapers have begun to emphasize “double targets” of both propaganda and audience appeal, “household entrance”, and “localization” of content.<sup>22</sup> For example, the *Guangzhou Daily* no longer fills its front page with boring, unedited speeches. The reports of political meetings are frequently shunted into narrower column strips. Government work reports are broken up into smaller, more readable paragraphs.<sup>23</sup> In terms of giving readers what they really wanted, *Guangzhou Daily* ran larger pictures, introduced colour printing, played up “neighbourhood” news stories and launched new sections catering to the desire of increasingly wealthy readers for information about international affairs, homes and cars.

Moreover, the rise of local power has added a new dimension to the old dynamic of media control. The media shift from concentration in the national capital to a more pronounced local presence places many of these newspapers beyond the scope of direct control by the central propaganda department. As Wu points out, the Central Propaganda Department must rely on local authorities to implement its political disciplines. The local authorities, in comparison with the central regime, are mainly concerned with economic

development, not ideological correctness.<sup>24</sup> While the local propaganda departments that control individual newspapers are fully aware of the games independent editors and journalists play, they are loath to intervene. According to Tom Mitchell, the reason is simple:

For the party something of a dilemma: good newspapers attract advertising, make profits and – here is the nub – pay taxes. Hence any desire by, say, the Guangzhou Party Committee to stifle the *Guangzhou Daily* must be balanced against the knowledge that the newspaper is also one of the city’s largest taxpayers. Of course the party is prepared to crack down when it feels it has to, but the overall pattern is clear: two steps forward, one step back.<sup>25</sup>

### **The “Fang /Shou Cycle”**

Throughout the initial decade of post-Mao reform, many in the media sector have seen the new-found flexibility immediately followed by disorder, and that disorder followed by control. The so-called “fang (loosen)/shou (tighten) cycle” refers to the existence of a recurrent pattern of reform and retrenchment of media control by the state. As mentioned in Chapter 2, led by Deng Xiaoping, the CCP wanted to achieve economic modernization without yielding political control.<sup>26</sup> Accordingly, the same principles were applied to media control. Deng instituted political purges when he viewed the political reforms to be a threat to the Communist Party. But purges stopped when they interfered with the continuation of economic reforms.

The party was particularly keen to maintain its authority over the media at the time of political transition following the death of Deng Xiaoping. As part of the campaign to promote “spiritual civilization”, China further tightened its grip on the media

with directives on how to write news. In his report to the party's 15<sup>th</sup> National Congress in September 1997, the former president Jiang Zemin stressed that the media have the responsibility to maintain correct guidance over public opinion while adhering to party principles.<sup>27</sup> Saich gives reasons why Jiang adopted a cautious approach to economic reform and ignored calls for more rapid economic transition and political reform. This lies in the future challenges the new generation of Chinese leaders will face.<sup>28</sup> Stability is the primary concern to Jiang. Similar to Deng, Jiang also believes that China needs to develop some sort of free market economy to avoid isolation and become a world power. However, it can not afford to fall into complete chaos.

The accession of President Hu Jintao and Premier Wen Jiabao in March 2003 and the first, daring reporting by the Chinese media over the government's initial cover-up of the SARS crisis in the summer of 2003, created new hope among some Western analysts about SARS' long-term effect on freedom of the press in China. Initially, President Hu appeared to favour the political faction advocating greater journalistic honesty. But that proved to be short-lived with a renewed media crackdown in June. Hope for looser control was planted last year by Li Changchun, the Chinese leader in charge of ideology and propaganda. He called on editors and journalists to "reflect popular sentiments".<sup>29</sup> President Hu reportedly told media officials that he disliked the format of China Central Television news broadcasts and publicly called for more real news coverage instead of focusing on officials at meetings and inspection tours.<sup>30</sup> Observers saw Hu Jintao and Li Changchun forming an alliance to bring important changes and a lighter hand when it comes to media regulation. However, a renewed

media crackdown in June made optimistic observers question Beijing's commitment to easing controls and opening up the media.<sup>31</sup>

Anecdotal evidence throughout 2003, showed a pattern of loosening then restriction, then loosening again. In May, Premier Wen announced new regulations for the media's coverage of public health emergencies in which he demanded "timely, accurate and comprehensive" coverage of events. The Chinese media responded not only in their coverage of the SARS crisis, but also reported extensively on a submarine disaster in May and broke several major corruption scandals. Finally, there were widely reported rumours that President Hu would advocate "intra-party" democracy in a July 1 speech marking the 82<sup>nd</sup> anniversary of the CCP's founding. In mid-June, however, the party abruptly switched course. The government issued new regulations banning discussion of political reform, of the early mismanagement of SARS, and of a series of recent scandals. "Intra-party democracy" was removed from President Hu's July speech, and a Beijing paper closed after publishing an unflattering account of the career of outgoing premier Zhu Rongji.

### **Media Manoeuvring**

After the state reduced subsidies, the media were forced to rely essentially on market competition for survival and prosperity. As a result of the drive for commercialization under tightened political control, a phenomenon of "duality"<sup>32</sup> characterized the Chinese media. Duality refers to the party's ideological control and

political supervision over the media that co-exists with the pursuit of market-oriented practices. Duality is reflected in the two contradictory value systems between the commandist planned system and the emerging competitive market system, as well as in the inherently conflicting institutional roles for newspapers as party mouthpieces and business enterprises. The rest of this chapter analyses how newspapers managed tensions and conflicts while coping with this duality.

Instead of challenging state ideology directly from 1989 onwards, the media learned to invent a set of more innovative and devious approaches for coping with political requirements and economic interests. Faced with the dilemma of having to please “two masters” (the party and the public), it has had to improvise with a variety of seemingly paradoxical strategies to stimulate readers’ interest without stepping out of political boundaries.<sup>33</sup> A popular saying maintains that policy (*zhengce*) issued by the political centre will be met with counter-measures (*duice*) in the local workplace.

One of the counter-measures adapted by the Guangdong press is what He called “ideological separation”.<sup>34</sup> This is what an editor-in-chief of an influential newspaper refers to as a “face” and “body” issue, where the “face” is the space, or time, devoted to communist party content, and the “body” represents audience-oriented news content.<sup>35</sup> The strategy is to separate overtly propagandist content from the rest and confine it to designated areas, mostly the front page or the “yao wen” (important news) sections. Filling the front page with the “important news” to fulfill the mission of reflecting the party’s interest gratified party officials. Meanwhile, providing diverse and rich

information on all politically insensitive issues caters to needs of readers. This strategy seems to work for most of the party-run national and provincial newspapers, including those in Guangdong.

As He points out, the effect of the ideological segregation of content in party papers is ephemeral when those papers have to compete with newspapers that do not have such political obligations. This obvious advantage for non-party publications has compelled party newspapers to launch their own affiliated metro papers.<sup>36</sup> For example, in the Southern Daily Press Group, the *Southern Metropolis News* serves as a vehicle through which the Southern Daily Press Group can give greater emphasis to stories readers are more interested in, while allowing its flagship, the *Southern Daily* to observe the party line and carry more "staid" news.<sup>37</sup> As He points out, this diversity within the news group eliminates the need for a single publication with a dual mission, and gives each paper more flexibility and competitive power.<sup>38</sup> Lee put it in this way: "The outer ideological limits remained to be set by the party, but within them the press has gained great room for manoeuvring".<sup>39</sup>

### **Journalists: Testing the Limit**

China's journalists keep testing the limit of party tolerance. Under fierce competition, reporters and editors are getting more aggressive in expanding and deepening news coverage. Reporters in Guangzhou know that to stand out from the rest of the pack they have to serve readers firsthand information and do some investigative reporting. There are no rules about what they can or cannot write and they learn from

experience not to repeat their mistakes, even though they do not know exactly how the lines are drawn.<sup>40</sup> They grope their way forward, as the Chinese proverb says, crossing a river by feeling for the stones beneath the current.

With eight years as the editor-in-chief of the liberal *Southern Wind Window*, Qin Shuo talked about how he skillfully “played the edge ball” (a table tennis term, meaning to “walk a tightrope”). He divides party rules into three parts. The first is what he called “holy taboo”. These essential topics including leadership of the CCP, its political policies, religion, and Falungong could never be touched and challenged by the press. The second is the “forbidden zone”. The press is not allowed to discuss some government policies regarding the national economy or interest rates while these economic policies are still in effect. However, scholars could participate in debate. Media could quote these views, but were not allowed to comment. The third is “sub-sanctions.” Every year media outlets receive a whole series of regulations, rules, and circulars from relevant party and state agencies. These sanctions serve to limit the right and the scope of coverage to protect local interests. Sometimes, media outlets ignore these rules by exposing the problems of individuals, businesses and low level governments. This kind of exposure may trigger warnings from government agencies but would not cause serious punishment. Qin Shuo explained, “You can scratch, or even scratch a little hard, but slapping in face is absolutely suicidal.”<sup>41</sup>

The shutting down of *21<sup>st</sup> Century World Herald*, an affiliate of the Southern Daily Group, was an illustration of crossing the party line. The paper was simply closed

on March 13 after publishing an interview with Li Rui, a liberal-minded party elder who was a former secretary of Mao Zedong. In a March 3 article, published to coincide with the National People's Congress meeting, Li called for more democracy within the Communist Party and criticized the leadership for not adequately promoting the rule of law.<sup>42</sup>

Lian Qingchuan, the deputy editor-in-chief of *21<sup>st</sup> Century World Herald* who currently studies at Columbia University in New York, said the newspaper had not expected any fallout from the Li interview. Senior editors thought that it was politically safe to print Mr. Li's views because the article echoed a previously published essay by Li in the January edition of *China Chronicle*, an official Communist Party publication. In an interview, Lian said the interview must have upset the government and inadvertently criticized Deng Xiaoping.<sup>43</sup> China's journalists have not been able to condemn the top leaders if they are alive or if they still exert great influence on Chinese politics. It is always left for history to evaluate their achievements and failures.

William A. Hachten, former professor emeritus at the School of Journalism and Mass Communication at the University of Wisconsin and a distinguished media scholar, underlined the principle of authoritarianism:

The press is always subject to direct or implied control by the state or sovereign. Under traditional authority, the government usually leaves the press alone as long as it does not criticize authority or challenge the leadership in any way. Editors and reporters exercise a good deal of self-censorship, but never know for sure just how far they can go without triggering official disfavor and interventions.<sup>44</sup>

This is particularly true in China. After commercialization, “the explosion of commercial news outlets is acting as a safety net for those journalists who get tripped up by politics. With reporters no longer dependent on the state for jobs, writing a politically taboo story is no longer fatal for a cub reporter's career,” writes Paul Mooney, a journalist working for *Newsweek*.<sup>45</sup> Right after the government suspended the *21<sup>st</sup> Century World Herald*, its deputy editor-in-chief was offered attractive jobs by several other news outlets across the country. He accepted the invitation of Columbia University to be a visiting scholar. The closure of his paper did not trigger a catastrophe but instead brought him some measure of fame.

## 4.2 The Changing Role of News Media

Since commercialization, conventional wisdom presents two different views on the role of the media. The first believes that in a truly mature market, the media shall fully reveal information and be an independent voice of the public. The other view is that China's media is nothing more than a government mouthpiece. Hu Shuli, editor-in-chief of China's best financial magazine, believes neither of the two views accurately reflects the true situation in China. She says, in transitional China, the media industry is also in a transition period, as it begins to play a watchdog role in promoting the development of a free market economy.<sup>46</sup>

Chinese journalists are beginning to embrace journalism which scrutinizes authority and delves into the failings of society. News content has started to shift from

propaganda to advocating the people's right to know. This change has had an enormous impact. Chinese journalists are advocating reporting promptly, objectively, and fully.<sup>47</sup>

### ***Southern Weekend: A Beacon of Investigative Journalism***

*Southern Weekend*, an affiliate of Southern Daily Press Group, has established a reputation for its investigative reporting on corruptions and social ills and is widely regarded by journalists and students as the nation's "only paper of conscience."<sup>48</sup> Its coverage ranges from legal reform to environmental issues to village AIDS epidemics.

In an interview of 39 journalists across the country, Professor Hugo De Burgh, a British scholar, asked them to name the news outlet they most admired. All 39 interviewees cited *Southern Weekend* as their "model".<sup>49</sup> It was praised as a paper that "reflects what people really think and care about". Thus, "every journalist wants to work with them, every journalist wants to be like their journalists."<sup>50</sup> As the *Washington Post* reported, it is "a beacon to many journalists and a sign of what could be accomplished even under the watchful eye of party censors."<sup>51</sup> It picks controversial social issues, conducts independent investigations, interviews a variety of sources, and invites lively debate from its readers. *Southern Weekend* has raised important questions about the future role of the country's key institutions and core values under the impact of a market economy. It was not uncommon for the newspaper to dispatch a reporter to a distant province to investigate a story. Reading *Southern Weekend* was regarded by many in China as part of the new order. For example, in 1998, with detailed reports, photos and first-hand information gathered by reporters, the paper extensively covered the counterfeit wine incident in Shuozhou, Shanxi, a bus explosion on Wuhan's Changjiang

Bridge, and so on. Those reports had widespread social repercussions. *Southern Weekend* has been criticized by the CCP Central Committee Propaganda Department for indulging in negative reporting. The Guangdong provincial CCP Propaganda Department also brought pressure to bear on *Southern Weekend*, saying that it would be banned if it refused to curb its reporting.<sup>52</sup> John Pomfret, *Washington Post*'s Beijing bureau chief, told communications students at Qinghua University that he was a frequent reader of the headline stories in *Southern Weekend* and often got story ideas from them. "The investigative stories dig very deep," he said.<sup>53</sup>

The paper has been in trouble in the past for exposing social problems or airing liberal views. But *Southern Weekend* persisted with its explosive reporting. In 2001, the *Washington Post* reported the removal of two top editors of *Southern Weekend* following an article on a Chinese criminal, Zhang Jun, who formed a criminal gang and killed 22 people, wounded 20 more and robbed banks and jewellery stores across central China.<sup>54</sup> Crime stories are unusual in the Chinese media. The article in *Southern Weekend* suggested something is wrong with the rural world in which Zhang grew up. Zhang's home province, Hunan province, complained to Beijing that the paper had painted too dark a picture of the province and had belittled the advances that socialism brought to China.<sup>55</sup> The paper blamed these crimes squarely on the social structure in Hunan: a depressed rural economy, an excessive tax burden on farmers and an urban-rural gap that was larger than in the pre-reform period. As Zhao pointed out, what *Southern Weekend* did was call attention to a social group at the margins of Chinese society – precisely one of those that the "socialist market economy" had failed to enfranchise – and used their

life stories to expose systemic social problems and warn against a potentially deadly threat to the existing social order.<sup>56</sup>

Over the years, *Southern Weekend* has been subjected to several crackdowns by the propaganda apparatchik in Beijing. Several of its editors have been removed for their handling of sensitive stories.<sup>57</sup> But the paper has never been shut down. The tension, as Pan noted, which is often played out publicly, has become a barometer of the party's approach to media control.<sup>58</sup> *Southern Weekend* has secured a large number of readers and it has become the largest-circulation weekly published in China. The CCP has to tolerate the paper because its influence became too great to ignore. Any change in the paper, from its layouts to its top editorial personnel, is closely watched and extensively discussed among journalists and audiences.

Clear evidence of *Southern Weekend*'s status was seen on March 22, 2002 when delivery of the paper was delayed to newsstands in major cities. It caused an immediate flurry of activity on the electronic bulletin boards of MediaChina.net, a website frequently used by journalists and journalism students. The flurry continued for weeks. The discussion focused on the party's crackdown on the paper, sadness over another assault on press freedom in China, and suggestions on how the paper could be more tactical to circumvent party control in the future.<sup>59</sup>

The *Southern Weekend* often goes right up to the edge of what is permissible. To survive, it rarely embarrassed its patrons on the Guangdong Party Committee by exposing scandal closer to home. Many of its front-page exposés have focused on the

central provinces. Therefore it continued to enjoy protection from the local authority. As a result, it is often praised by readers on the mainland for playing “edge ball”.<sup>60</sup>

While most newspapers in China have learned a trick or two from *Southern Weekend* and sharpened their coverage of distant provinces, *Southern Metropolis News*' intrepid exposure of the SARS outbreak in 2003 and police brutality in Guangdong apparently irritated provincial leaders. The charge against three editors for corruption and bribery was widely seen as a barometer of media controls in Guangdong.

Cheng Yizhong, editor-in-chief of *Southern Metropolis News*, spent five months in custody under suspicion of embezzlement, but was released without charge in August 2004.<sup>61</sup> Two other executives with *Southern Metropolitan News*, were jailed in late March 2004 for up to 12 years for alleged corruption. The judicial action was widely seen by human rights activists and dissidents as an example of the risks of reporting on sensitive subjects such as the outbreak of the SARS virus in China. They said that the arrest of Cheng Yizhong appeared to be part of a targeted campaign to silence one of China's most independent newspapers.<sup>62</sup> But in an interview with Cheng Yizhong in Guangzhou, he emphasized that none of the newspapers in Guangdong, including the *Southern Metropolis News*, could be called an independent paper or opposition paper. All these papers are within the CCP system. More than once he stressed, “We are just a group of journalists who have social responsibility and journalistic mission engaging in some reforms within the boundary of party permission.” From March 2004 to August 2004, he was imprisoned in a detention room with about 20 other criminal suspects and unable to

get in touch with his family and colleagues. After the ordeal, he said: “In our country, our party could not even tolerate these newspapers, let alone talk about listening to the voice from masses.” Public outrage led to his release without charge. He has not been able to return to his position and his phone has been monitored since the release.

Cheng got into trouble after *Southern Metropolis News* published a report in late December 2003 that revealed the discovery in Guangzhou of another case of SARS. The SARS case, which the provincial government had not announced despite pledges of openness in Beijing, was the first since the epidemic subsided in July 2003.<sup>63</sup> The newspaper angered the Guangdong propaganda department by not obtaining clearance to run the controversial material.<sup>64</sup> Guangzhou municipal authorities had already been embarrassed by a revelation in *Southern Metropolis News* in March 2003. It first covered the fatal beating of Sun Zhigang in the clinic of a detention centre in Guangzhou. Sun was arrested for not carrying an identification card and was beaten to death while in police custody. It was reported that Cheng snubbed a request from Guangzhou vice-party secretary Zhang Guifang and police chief Zhu Shuisheng to spike the expose on Sun’s death.<sup>65</sup> The report stimulated a wave of public outcry. This incident forced the government to abolish the vagrancy law under which Chinese police can arrest and hold people without proper residency papers.<sup>66</sup>

While the *Southern Metropolis News* revelation embarrassed local authorities and even endangered the careers of several local officials, journalists in Guangzhou celebrated their new watchdog role. “We have the new government responding to a report in the media”, a senior Chinese editor told *Washington Post*.<sup>67</sup> Public interest in the Sun

case led to the central government abolishing a decades-old rule that allowed migrants to be rounded up arbitrarily and sent home, often after suffering at the hands of police. As Zhao Yuezhi noted, “On a more practical level, watchdog journalism helps the central leadership to implement concrete reform initiatives and strengthen the state by making it more efficient, open and responsive”.<sup>68</sup>

It has to be noted that the local authorities were entirely responsible for the arrest of Chen Yizhong. The incident shocked the entire country and the international community but it had nothing to do with CCP’s central leadership. Given the intense pressure from the public, some former cadres in Guangdong reportedly started to interfere, warning the Guangdong authorities to deal with this case prudently.<sup>69</sup> As the *Southern Metropolis News* case went forward, the Chinese government published a white paper in Beijing hailing 2003 as a landmark year for progress in human rights, including freedom of the press.<sup>70</sup> As reported by the *Washington Post*, Cheng’s case has become an example of the frequent gap between liberalizing reforms announced by national leaders in Beijing and day-to-day experience of people who deal with provincial and municipal officials. Some journalists in Guangdong went even further, saying whether you break the law depends on what the local leaders believe, not what the law says.<sup>71</sup> To improve Guangzhou’s image as a city beset by SARS and police brutality, the Communist Party in Guangdong appointed a new propaganda chief to rein in the province’s freewheeling media in January 2004.<sup>72</sup>

Since he was put in custody, Cheng’s fate had been closely watched by the public, both inside and outside of China. Chinese intellectuals started an online debate, speaking

their minds on legal issues.<sup>73</sup> Influential foreign media such as the *New York Times* and the *Financial Times* all reported on the case. Foreign governments and the international community weighed in giving “sincere advice”. Ann Cooper, the executive director of the New York-based Committee to Protect Journalists says, China’s leaders must ensure that charges of corruption are not misused against journalists who expose official wrongdoing.<sup>74</sup> Despite the unusual case of local retaliation against a Guangzhou newspaper, Professor Yuan Weishi of the prestigious Sun Yat-sen University said that credit had to be given to a leadership that was enlightened enough to listen to its foreign partners and respect the rules of modern civilization. He told the Hong Kong-based *South China Morning Post*, “This is progress. It’s a small step, but it is a beginning when China’s intellectuals speak and its leaders are willing to listen.”<sup>75</sup>

### **Newspapers as Stabilizing Social Force**

The press is a stabilizing social force. A watchdog role for the media was promoted by the central party leadership as part of an attempt to “create a closer identity between the people and party”<sup>76</sup> and to expose elements of “bureaucratic capitalism”<sup>77</sup> that had become so ruthless they threatened the very existence of the state bureaucracy. Whether media exposure undermines the people’s confidence in the CCP or ensures its long-term survival has long been a controversial issue. The ruling elite, as Zhao points out, replace paranoid and paternalistic thinking with a more functionalist view that media exposure can act as a social safety valve.<sup>78</sup> The watchdog function has formed an important social coordinating power which is outside the state machinery.

Journalists have a strong sense of the importance of their role in securing a stable social order.<sup>79</sup> Many share the belief that China as a developing country is under enormous pressure to feed its people through continuous development. The press should act as a partner with the government in achieving that end. As well-educated people, journalists represent precisely opportunities now possible for China's new "middle" class, in a wealthy, coastal, urban area such as Guangzhou. This new middle class wants a stable society to help secure living standards. Although they may not be happy with all government policies, they don't want to see chaotic social changes that will create havoc for everyone.<sup>80</sup> As Zhao noted, journalists are comfortably situated within the reconstituted middle-class social strata in post-1989 China.<sup>81</sup> A majority believe the reforms have created opportunities for them and considered themselves beneficiaries of current social transformation.<sup>82</sup> Far from being politically alienated from the party-state or seeking their own political voice, members of the new middle class "appear to be operating in close proximity and through close cooperation with the party-state."<sup>83</sup>

Media reform in China reflects a gradualist approach to social and political reform.<sup>84</sup> There is a widespread belief that progressive reforms that bring gradual improvement are better than drastic changes that could potentially result in social chaos. Many sympathize with reform-minded party leaders at the top and sincerely want to "help find solutions to China's complex social problems".<sup>85</sup> But there is a profound difference between the investigative journalism of public intellectuals like Liu Binyan in the 1980s, and the professional journalists of the 1990s. As Joseph Fewsmith has outlined in his account of the intellectual debate since Tiananmen, many saw the attitudes of the leading figures of the 1980s reform period as overly idealistic, extreme, and placing too

much emphasis on discarding Chinese culture in favour of Westernization.<sup>86</sup> “Either exiled or marginalized”, Lee comments, “they have been irrelevant to the debates boiling over the post-1992 rise of commercial culture and China’s embrace of global capitalism.”<sup>87</sup> After 1989, most intellectuals echoed the government’s call for stability. New thinkers underlined differences in Chinese and Western culture, and if most professed the goal of an ultimate transition to democracy, they advocated a long period of transition and the strengthening of existing institutional foundations.

In summary, although market forces have pushed the three newspaper groups towards autonomy, the government still holds ultimate control over the press. On one hand, the state, in an attempt to fortify political control and consolidate the Chinese media industries, has explicitly promoted media conglomeration. On the other hand, it has played a role in disciplining these same newspaper groups. As Chan noted, since the state cannot afford to finance them all, it has to satisfy itself with harnessing rather than controlling the media. The emerging trend of depoliticization and decentralization of press content has appeared in Guangzhou and has nurtured liberal newspapers such as the *Southern Daily* and *Southern Metropolis News*. Meanwhile the cycle of intermittent control and relaxation has been a constant feature of Chinese politics and of the party press. Journalists are seen as a section of the middle class who have benefited from economic reform under the stable society. Like most Chinese, they are more inclined to incremental political changes rather than turning to capitalism overnight.

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## Chapter 5

### Conclusion

Among many factors contributing to the development of Guangdong's newspaper industry, economic growth and its political implications play a major role. In the past 25 years, the opening of China's doors to the outside world have resulted in phenomenal economic growth, averaging 9.4 per cent annually - the fastest growth rate of any major economy in history.<sup>1</sup> Guangdong has been at the forefront of an economic boom that has brought tremendous prosperity to the area. It was also the forerunner of government reform leading to more efficient government administration and increased local autonomy. Deng Xiaoping, the designer of China's reform, encouraged Guangdong to take a step ahead in reform because it could offer valuable lessons to the rest of China. To keep the momentum of openness, local provincial leaders, in the spirit of reform, have dealt with the central government effectively. The decentralization strategy has served the provinces well. As Lieung indicates, the continuous tenure of reform leaders in the 1980s emboldened local officials and contributed to the entrenchment of a norm among Guangdong officials: taking one step ahead of the nation in reform has become the rule rather than the exception.<sup>2</sup>

In addition, the province's geographic and cultural proximity to the region's two major international metropolises, Hong Kong and Macao, has been its unique endowment, which enables access to western culture and deflects influence from the strong central authority in northern China. Cantonese, the common dialect shared by people in both Guangdong and Hong Kong, has been the cultural tie connecting them. In modern China,

Guangzhou has been the major trading port with the western world. This international outlook which started in Guangdong, has created a “Guangdong model” that has expanded gradually to the rest of the country.

Guangdong’s economic achievement, the profound influence from Hong Kong and abroad, and its reform-minded government provided an ideal environment for its media revolution. Its booming economy has cultivated a huge advertising market, which guaranteed a stable source of income for Guangzhou’s newspapers. Mass media, considered to be political-ideological institutions, are generally the very last enterprises in an authoritarian regime to undergo reform.<sup>3</sup> To carry out experiments with market mechanisms, Guangdong was selected as a testing ground for the earliest media conglomerates in China. The pioneer spirit of “taking one step ahead” in economic reform has once again found its role in newspaper reform and expansion.

Eventually, the emerging market economy reversed the traditional media hierarchy, one based on subsidized financial resources. Before 1979, prestigious papers were allotted large resources, both money and materials, as part of the planned economy. They were free of advertising, completely subsidized by the state, small in size, purchased primarily at public expense for office reading, and distributed exclusively through the postal office. Today, as government financing plays a less significant role, the media’s survival and development depends more on advertising revenue. While national and provincial party organs continue to have higher political status, they are losing the circulation battle to mass appeal newspapers, which reach a desirable demographic of affluent urban consumers.

The increased production and distribution costs and a shrinking office subscription base put these party organs in an even more difficult position. Thus, as Zhao noted, a “reversal of fortune” in advertising income between central and provincial party organs and mass appeal papers was inevitable as market reforms intensified and urban residents emerged as the core of the consumer class.<sup>4</sup>

The prevalence of market logic in the newspaper sector caused a series of institutional changes. In order to help major newspapers achieve financial independence, the party allowed them to publish popular subsidiary papers and turn their non-editorial supporting departments into profit-making businesses.<sup>5</sup> Newspapers in Guangzhou were the forerunners of these changes, leading to the most advanced newspaper market in the country. Guangdong was able to lobby and persuade the central government to organize the first newspaper group in China. In the city of Guangzhou, three press conglomerates, Guangzhou Daily Group, Yangcheng Evening News Group, and Southern Daily Group have vigorously competed with each other. These “state engineered groups”<sup>6</sup> strive to serve both the party and the audience by trading political loyalty for market privileges. Party and state favouritism in turn guarantees enormous commercial gains.

The three groups are financially responsible for their own survival; thus, they operate in many ways more like business entities than party-funded organs. Initiated by Guangzhou Daily Group, the three groups have given up the traditional mode of distribution, under which the post office was the sole distributor of papers. These groups established their own distribution networks. Meanwhile, they upgraded their services and equipment by investing large sums of money to build sophisticated printing plants. They

were the first to take the advantage of the policy that allowed for larger newspapers in order to accommodate the rapid growth of advertising. In the area of management, as He noted, market forces are gaining momentum and are gradually creating a management system that is acutely aware of profitability.<sup>7</sup> In these three newspaper groups, a series of comprehensive western-style market mechanisms have been introduced into each newsroom. This free-market influence on newspaper management is particularly strong in areas such as personnel, compensation, management structure, and anti-corruption measures. With an increasingly competitive media environment, news organizations cannot simply churn out “paid journalism” and expect to earn credibility amongst their audiences.

The metropolitan newspapers targeting affluent urban readers have stood out among others in this new “open” market. Equipped with “new” theory and “new” operational methods, metropolitan newspapers such as *Southern Metropolis News*, have gone beyond the traditional functions of education and information and often venture into more thoughtful and provocative journalism. With the majority of a journalist’s income dependent not on job ranking, but on the quantity and quality of output, reporters and editors now have more options and a variety of ways to achieve professional satisfaction.<sup>8</sup> If they are unhappy with their current job, they can move to another as a contract worker – they no longer have to be on the state’s payroll and restricted by the state’s personnel system.<sup>9</sup>

As newspapers became more reliant on profit, they began to distance themselves from the party when economic considerations clash with ideological allegiance. Perhaps

nowhere in China is the struggle between serving readers and remaining faithful to the party line more evident than in Guangzhou. Journalists in Guangzhou continue to test the limits of party tolerance. It is widely believed press control is less aggressive in Guangdong than in inland provinces. To survive, journalists have learned not to embarrass the local governments and to segregate their coverage. In an interview, the former editor-in-chief of *Southern Metropolis News* Cheng Yizhong, said, “Guangdong’s economic richness is a necessary condition for its flourishing press conglomerates and liberal oriented newspapers, but it is not the only sufficient condition. Shanghai is also an economic and financial centre but its newspaper market is less mature than Guangdong.”<sup>10</sup> In his view, a group of Guangzhou journalists who have developed a strong sense of “social responsibility” and a “journalistic mission”, have continued pushing for better and wider coverage, thus leading to a revolutionary brand of reportage that’s attracting readers and advertisers. Qin Shuo shared this view: “To make calm some of our ‘violence’, what we dealt with the propaganda officials both in Beijing and in Guangzhou is an unimaginable experience that media players in Shanghai could not bear”.<sup>11</sup>

This type of reporting is not without risks. A dozen editors-in-chief at *Southern Weekend* have been removed from their position because they “mistakenly” handled some stories. At the time of this research, there were still a number of recent examples to remind optimists that this is still an authoritarian system of press control:

- In March, 2003, *21<sup>st</sup> Century World Herald*, launched just a year earlier by *21<sup>st</sup> Century Business Herald*, was suspended because it published an interview with

party elder Li Rui, who criticized the leadership for not adequately promoting the rule of law.<sup>12</sup> Suspension is a harsher punishment than self-criticism or reassignment of the editor responsible for the offending article. The reality is that *21<sup>st</sup> Century World Herald* was killed because 22 months later there is no sign operation will be resumed. Its main investor, *21<sup>st</sup> Century Business Herald*, lost 18 million yuan.<sup>13</sup>

- In March 2003, the in-depth coverage of out-going premier Zhu Rongji resulted in the replacement of the *Southern Weekend*'s youngest editor-in-chief, Xiangxi. It is said that the praise of Zhu overshadowed the accomplishment of former General Secretary of CCP, Jiang Zemin. Zhang Dongming, a vice - director of the Guangdong Propaganda Department of CCP was appointed as editor-in-chief of the *Southern Weekend*.<sup>14</sup> The appointment of a professional propaganda official symbolized the end of the liberal tradition at *Southern Weekend*.
- In April 2003, Guangzhou newspapers were forbidden to write stories critical of Guangdong's handling of the initial outbreak of SARS.<sup>15</sup> Ironically, nowhere was the muffling of the media stricter in this matter than in Guangdong. The reason is simple. Too much bad news of this outbreak could cause the loss of foreign investment and create instability in the region. Guangzhou newspapers strived to keep the public informed about the outbreak while struggling to work within the confines of government rules designed to keep public panic and media coverage to a minimum.

- In March 2004, Cheng Yizhong, the editor-in-chief who pioneered the *Southern Metropolis News*, was taken into custody while investigators looked for evidence to connect him to embezzlement charges.<sup>16</sup> Cheng's arrest triggered a public outcry and was widely condemned by the international community.

By and large, despite a quarter century of economic and social liberalization, and the apparent erosion of centralized control by market forces, the party state still plays a formidable role in the Chinese media system, as indicated by the experiences of Guangzhou newspapers. While the state continues to exercise tight control, market forces have permeated and transformed every aspect of the media system. Driven by the market force, the party opens some spaces, allows a degree of organizational autonomy, and gives limited sovereignty to media consumers. Journalism practices, represented by the three newspaper groups and their subsidiary publications, have led to the development of an elaborate press infrastructure and have made some parts of the system more responsive to public opinion. Nonetheless, the press still remains in the hands of the CCP. While encouraged to expose wrongdoings at the lower levels of government, journalists can not do the same at the top level. Thus, they are unable to exercise any form of watchdog role over high-level officials.<sup>17</sup> Xu and Shen, two former editors with *Southern Weekend*, expressed concern over their limited ability to execute this role. As far as they remember, none of the controversial stories first appeared in *Southern Weekend*. The exposure of official corruption appeared in the paper only after its disclosure by a central government agency such as Xinhua News Agency.<sup>18</sup> All of these limitations are far from the perceived ideal of western libertarian journalism.

### **Ownership and Privatization**

Like the three conglomerates, newspaper groups in China are typically owned by the state and are ultimately at the mercy of the Central Propaganda Department of CCP. The unique aspect of Chinese media transformation is that, rather than creating a new institutional structure, market relations have been adopted and contained by the existing party-controlled infrastructure.<sup>19</sup> Thus, the market-oriented transformation of the three newspaper groups occurred only with the blessing of the state. All Guangdong journalists interviewed for this research stressed that none of the newspapers in Guangdong, including the aggressive *Southern Metropolis News*, could be called an independent newspaper despite the fact that they have achieved financial independence. All these papers operate within the party's hegemonic framework. Their state ownership and their organizational and financial ties with traditional party organs mean there are still strict limits on how they operate.

Private and foreign ownership is another new development. Just a couple of years ago, private and foreign ownership of mass media was one of the most sensitive issues in China. Despite the bans, large chunks of "outside funds" had come from listed companies and enterprises. At the "the National Propaganda Conference" held in November 2001, Ding Guangen, then chief of the Central Propaganda Department, announced a new policy. Enterprises would be allowed to invest in state-owned newspaper groups and to share profits. But they would not be allowed to hold shares or be involved in the daily operation of the groups. Plus, these investors would still be prohibited from holding

controlling stakes.<sup>20</sup> Since 1998, China's media industry has been growing at the rate of 25 per cent per year. It has seen its tax turnover exceeding that of the tobacco industry to become the fourth-largest industry in the country.<sup>21</sup> The fast expansion and huge market potential have convinced many that China will eventually have one of the largest media industries in the world. Such optimism has led to an influx of foreign and domestic funds. The question is: in this new round of media development, will Guangdong push again to take the lead? Hu Zhidong, vice president of Megamedia, a subsidiary of Fuxing Group Ltd., a conglomerate controlling three listed companies and a major investor of *21<sup>st</sup> Century Business Herald*, says it is no longer interested in the Guangzhou market because the three existing groups represent the successful model within the CCP system. Investors are looking for an underserved region and the potential of future development.<sup>22</sup> From his point of view, Guangzhou's market is too mature and too big to enter. It represents the past of China's advanced newspaper market but not the future.<sup>23</sup> Using this logic, some of the less developed inland areas are more attractive to investors. In December, 2004, *Beijing Youth Daily*, a leading newspaper in Beijing floated a quarter of its shares to the public in Hong Kong.<sup>24</sup> This was the first media enterprise from inland China to sell its shares to overseas investors.

### **Trans-Regional Development**

In contrast to Hu's view, Shen believes that Guangdong will remain as the most advanced newspaper market because of its overall advantages. Guangdong was the first to open to the outside world. It has a talented workforce. Despite recent troubles,

Guangdong is still regarded as the most liberal region of the country and press control remains relatively flexible. As long as media operators skillfully follow the “rules”, the further development of Guangdong newspaper should not be a problem. Cross-regional development is one of the best choices for the expansion of Guangzhou newspapers.<sup>25</sup>

With the administrative boundaries in place, China’s newspaper market is divided along provincial and municipal lines. For even the most powerful groups, capturing market share beyond their hometowns is difficult. As Mitchell explains, this is because the party officially frowns on such expansionism. But the real barrier is local protectionism.<sup>26</sup> Local party committees are reluctant to tolerate the presence of newspapers they do not own, let alone sell the ones they do control to cash-rich outsiders. In November 2001, party state authorities announced that newspaper organizations currently operating within the confines of one province were allowed to expand into other provinces.<sup>27</sup> In November 2003, *Beijing News*, the product of the first cross-regional cooperation between newspaper groups made its debut in Beijing newspaper market. The paper is a joint venture between the *Southern Metropolis News* of Guangzhou and the Guangming Daily Group of Beijing. Analysts say the alliance is breaking the old regional franchise, enabling newspaper groups to pool resources and expand their geographic reach.<sup>28</sup> This configuration is seen a milestone for market expansion. The paper’s cross-regional status will allow it to evade the supervision of regional governments that other leading papers including *Southern Weekend* endure. In November 2004, the much-anticipated *China Business News* went on sale in Shanghai. It is a joint venture of Shanghai Wenguang Broadcasting Corporation, Guangzhou Daily Group, and Beijing

Youth Daily Group. The paper, built by three of the most dominant conglomerates from Shanghai, Guangzhou, and Beijing, is proof that cross-regional corporation has become an inevitable trend of China's press development.<sup>29</sup>

The enduring dilemma of the Chinese media system, the state versus the market, can only be managed rather than resolved. The long term trend towards greater relaxation of state control is inevitable both because of the economic pressures on the press and because of the role that information plays in a market economy. In China, as Wu points out, "given the co-existence of the party-state command and fresh market drive, gradual liberalization is more likely to occur than sweeping democratization. This gradual liberalization is economic in nature, but its effect may eventually spill over into the political arena."<sup>30</sup> The reforms of Guangdong's three newspaper groups provide a fascinating case in the context of transforming a communist press system into a promising industry.

For scholars and journalists alike, it is worth watching the ongoing press reform in China. The Chinese government is poised to deepen and widen commercialization by continuing to separate the media from the government and party system. Under new regulations introduced in 2003, newspapers must be financially independent from the central government.<sup>31</sup> Government departments will also no longer be forced to buy the papers. The reforms are aimed at bringing the industry more in line with a free market economy. This means newspapers have no alternative but to cater to various market and social demands if they are to survive in China's new reality.

This chapter concludes with cautious optimism about the possibility of Chinese newspapers gaining editorial independence following the achievement of financial self-sufficiency. But financial independence alone is not enough to guarantee this outcome. Perhaps, the crucial test will come when commercial survival is thrown into direct conflict with the political demands that still define China's media landscape.

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